



CoVest
Sourcing Network

Keys to Success

CONDUCTING A REQUEST FOR PROPOSAL PROCESS

Don't fall into the trap of using a
"boilerplate" RFP process. Include these
key steps to ensure an optimal outcome.

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Keys to Success in Conducting a Request for Proposal Process

While more and more companies are embracing third party solutions such as Group Purchasing Organizations for categories such as MRO and Office Supplies, many categories that are strategic to the business and unique to the company are often best controlled and sourced by the company's in-house resources.

Examples of categories that are likely best allocated to internal resources include:

- Raw materials
- Chemicals
- IT/Telecom
- Services
- Utilities
- Manufacturing/processing equipment


CoVest's white paper entitled "Creating The Right Balance of Sourcing Solutions for Your Organization" delves into the alternatives for establishing supply relationships.

For these types of categories, you may be faced with the task of leading a strategic sourcing team to conduct a Request for Proposal (RFP) process for a major materials or services category. This whitepaper is aimed at providing insights into approaches that will help ensure optimal results.

You probably have access to a company strategic sourcing methodology, a logical step wise process (See 6 Sigma based process example). You probably have access to electronic RFP software like Arriba or Determine. You may also have templates from previous sourcing activities or from the software providers. That is all you need to succeed, right?

6 Sigma Strategic Sourcing Process - Example

Define	Measure	Analyze	Improve	Control
<ul style="list-style-type: none">• Profile category• Develop supply market profile• Identify use requirements• Review the final scope and deliverable with leadership team and get agreement to move forward	<ul style="list-style-type: none">• Develop and profile global list of suppliers• Develop supplier evaluation criteria• Use eRFI to evaluate suppliers on measurement criteria	<ul style="list-style-type: none">• Develop sourcing strategies and tactics• Assess bargaining position• Clear understanding of the few "Vital Xs" and a full range of supplier options	<ul style="list-style-type: none">• Develop and send eRFP• Evaluate responses• Develop negotiating strategy, team and metrics• Recommend agreements• Develop implementation plan	<ul style="list-style-type: none">• Control the sourcing process to sustain gains• Select the right metrics to make sure that the process remains "stable and in control"• Embed and monitor compliance to the source plan



While these tools are valuable, the key to success is not in following a mechanical, “boiler plate” type process that may or may not lead to a successful outcome. It’s tempting to gather up spend data on a spread sheet, ask a bunch of questions from the templates, issue the RFP and see what comes back. Then basically “boil the ocean” to try to figure out what it all means. You will end up with a result, but not necessarily one that best fits your strategic needs or the strategic needs of your stakeholders.

There’s a better way. At a high level the key ingredients for a successful RFP process include:

- Developing a solid understanding of the current situation
- Understanding the supply base and state of the art best practices
- Developing a vision of the desired future state
- Engaging key stakeholders in the process
- Developing the RFP “backwards” from the vision, based on the data and information needed in the decision process
- Conducting a well-planned negotiation process

Understand the Current Situation

A key part of this is understanding the spend: collecting detail spend data by product, segment of the company, geography, supplier, subcategory, etc. Hopefully you have the purchasing systems to pull this data together easily and mechanically. Sometimes you don’t. Your best source in that case may be to get it from your suppliers – they have the data. You just need to ask for it, making sure you get the details you need.

It’s equally important to get the perspective of the stakeholders and what’s important to them. You will likely find that while your main objective is to save the company money, that may not be the highest priority on their list. Most stakeholders like their current suppliers or they would not be their suppliers. Understand what’s important to them, their attitudes towards current and potential new suppliers. Things like on-time delivery, stock management, quality, and technical assistance may be on their critical requirements list. They may have strong attitudes about certain potential suppliers based on past experiences. Listening and taking this into account in the process will pay dividends in implementation of the ultimate supply strategy.

Tap into the Supply Base

While you can research the supply base on-line, you will never be able to know it as well as the companies in the base. This is obvious on the face of it, but often tapping into their knowledge of the industry, best practices and perspectives on your situation is overlooked. Invite the top three or four suppliers to meet with you face to face, not to put on a sales pitch, but to impart their knowledge of the industry, including emerging value propositions, best sourcing practices and Total Cost of Ownership (TCO) opportunities. You will learn more in an hour or so with them than you can imagine. And it will help you understand the competitors in ways that don’t come through the RFP process documents.

Develop Your Vision of the Future

You need to know where you want to end, at least the boundaries of it, to develop the information needed to get there. With the knowledge you have gained so far from data collection, stakeholder discussions, research and supplier input, define the future supply strategy, not a ridged single outcome, but the general shape of the outcome. Obviously, cost reduction is likely high on the list, but it may also include things like:

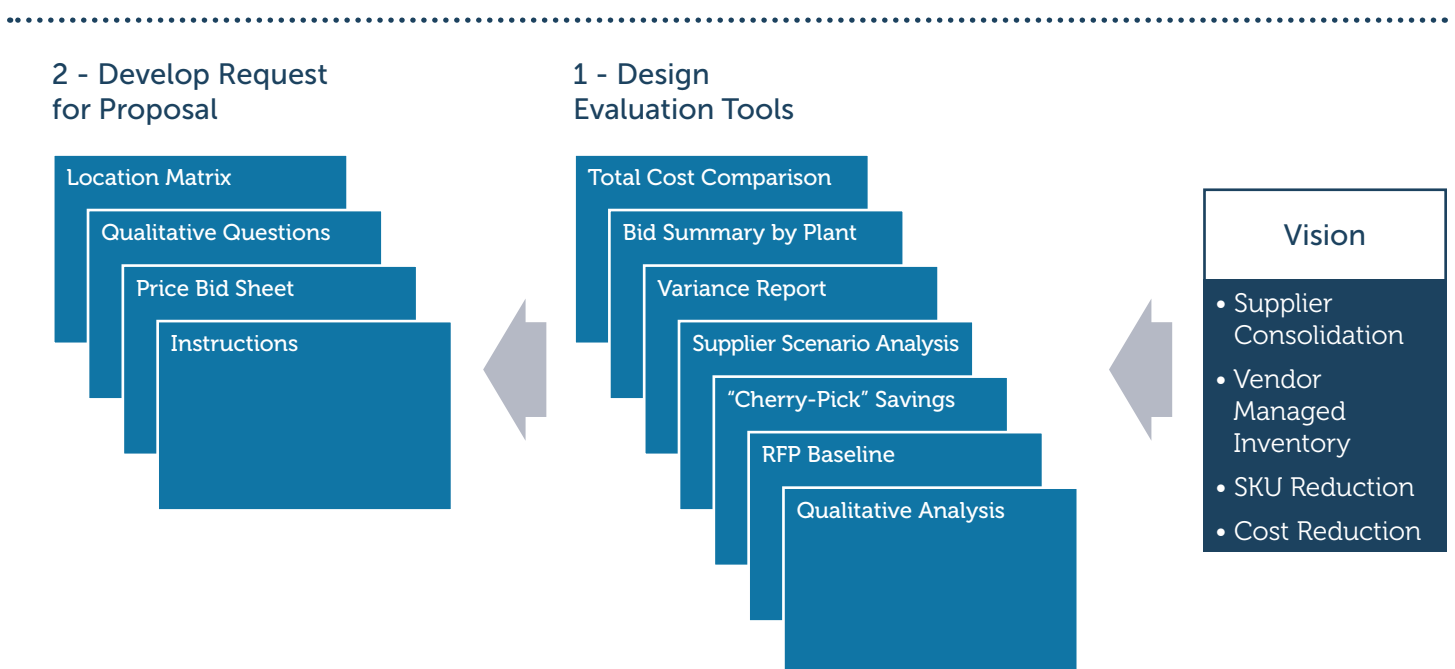
- Consolidation of the supply base
- Process improvements
- Safety improvement
- Inventory management
- Rationalization of the products purchased
- Access to technology/expertise
- TCO improvement

Engage Key Stakeholders

Early in the process, and at key milestones along the way, it is important to get the involvement of key stakeholders, those individuals who will be critical in making the implementation of the ultimate strategy successful. This might take the form of a formal “steering committee” or just an informal set of stakeholders that are kept abreast of the progress and can weigh in on it. It should include those who have to approve your recommendations, likely senior functional management. It should also include those on the front line that will be involved in implementing the recommendations.

Design the RFP Backwards

The RFP should be a focused process to get the data needed, not a “boil the ocean” process asking a lot of questions and seeking data that will never be used in the decision process. So the first step should be to envision the analyses, both quantitative and qualitative, that will be needed to develop the supply strategy and select the suppliers to support that strategy. Literally mock up the tables, graphs and ratings that you will need to make decisions. Then it’s easy to develop the RFP spread sheets to get supplier data and answers to questions needed to create the analysis. The following exhibit illustrates this concept.



Also, it is a good idea to run the RFP past one or two of the suppliers as a sanity check, to make sure there are no “clinkers” that would require a recall and reissuing or an amendment. That slows the process down and creates a loss of credibility with the suppliers. Remember, the RFP process is as much the supplier selecting you as a partner, as you selecting the supplier.

You should also build in flexibility to allow suppliers to put their best foot forward. They may have suggestions on pricing structure, process, systems integration and alternate solutions that did not come to light even if you did a bang up job covering all the bases in the RFP design.

After issuing the RFP, there will be a wait for the responses to come in. You can use this time to develop the tools to analyze and summarize.

Conduct a Well-Planned Negotiation

The negotiation process needs to be well planned and executed. It starts with giving feedback to the suppliers and giving them a chance to provide additional information that may be missing in their response, and also feedback on their general competitiveness to give them a chance to respond. It is not unusual for a misinterpretation of things as simple as unit of measure or pack size making a significant difference in the savings numbers.

The negotiation process is basically an exercise to find a mutually beneficial outcome, an outcome that brings you as close to the supplier’s acceptable result and your target, i.e., the best they are willing do that meets your objectives, which may be price or other considerations. The following exhibit shows the negotiation envelope, the “range of acceptable outcomes” that the negotiation process is designed to optimize.



“Downward Auctions” can serve a role, but are not generally a way to start a productive supply partnership. You may want to consider an auction as a first pass negotiation process where there are numerous bidders and a wide variance in price responses. An auction can serve to rationalize outliers and normalize the results. But the auction should be followed with direct negotiations with a handful of short-listed suppliers.

Look for a future CoVest whitepaper that provides more details on conducting successful negotiations.



Summary

Following these suggestions in your RFP process will no doubt add somewhat to the time required but will pay significant dividends in the quality of the results. So don't be tempted to find an RFP template for your category, populate it, and send it out to the world, and hope for a good result. Take the time to develop the vision for the future of the category and then craft the RFP as a path to get you there.

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