

Creating an Effective Request for Proposal (RFP)

Expert Advice from AMC

Summary

Once a company has made the decision to outsource, the company then finds itself in the position of describing the services to be outsourced in such a way as to allow prospective outsourcing providers to estimate what they will charge to provide the services. The most common vehicle for describing the services is the Request for Proposal (RFP). A well-written RFP will allow the company to maintain the maximum control of the procurement process. A poorly written RFP will put the company at the mercy of the outsourcing provider and will most likely result in a less than optimal contract.

Closing Loopholes

Companies that have never outsourced or have only outsourced a small set of services have no real idea as to how complex the creation of a RFP is. Companies should always remember that outsourcing providers see many RFPs. These providers have developed honed responses to RFPs that enable them to find loopholes in the RFP, gaining leverage in the procurement process. They may use undefined or missing information as a tool to adjust their pricing for services that should have been defined clearly in the RFP, but were not so defined. The only protection that any company has is to anticipate the tricks that the outsourcing providers will play and close as many loopholes as possible.

Internal Due Diligence

Another point that companies embarking on an outsourcing transaction should keep in mind is that a well-written RFP requires a lot of information about the current environment and expectations for the future. Most companies do not have this information assembled at the time they start writing their RFPs. Those companies that perform a feasibility type of assessment will have collected a lot

of the necessary data during their process. Still, companies do need to keep in mind that they must build in some time for data gathering into the RFP construction process.

RFP Basics

There is no right or wrong way to structure a RFP. However, every RFP should have certain basic information. The basics include the following:

- The rules by which respondents must abide during the procurement process.
- The procurement schedule.
- A complete description of the services to be outsourced.
- Responsibility matrices that identify which components of the services must be provide by the outsourcer and which components will be retained by the company.
- The performance levels at which the winning outsourcer must provide services.
- Current and projected volumes associated with the services.
- Consequences for failure to meet performance levels.
- The pricing scheme for the services.

Provide Consistent and Fair Communication Process

The importance of publishing the rules under which the procurement will be managed is to ensure that all potential respondents will play by the same rules. Outsourcers will seek every opportunity to gain an edge. Whoever is tasked with managing the procurement should want all communication from the outsourcers to go through him or her. The outsourcers will seek to bypass the procurement manager and speak with as a high a level executive in the company as possible, especially if they, or someone in their organization, have a previous

relationship with the executive. Multiple communications channels will ensure that the outsourcers are not getting the same information. The resulting confusion will make the RFP response evaluation process significantly more difficult if communication is not controlled.

Provide Additional Key Information

It should be fairly apparent why the rest of the basic information listed above should be included in the RFP. But a smart company will include many other elements in a RFP, again in order to maintain control of the overall process. Among the additional items that a company should include in a RFP are the following:

- Other business opportunities that might be available to the winning outsourcer.
- Request for recent outsourcer financial data (preferably for the last three years).
- Outsourcer references (both current and past references in the same industry and for which the outsourcer provided comparable services).
- Specific questions that the outsourcer must answer to satisfy the company that the outsourcer can indeed provide the requested services.
- The outsourcer's approach to governance.
- The contract with provisions to protect the company and outline expectations
- The required format for responses to the RFP.

Paper of Choice

The item that might surprise a company building a RFP is the inclusion of the contract from which it wants to negotiate. A company must understand that the outsourcer has dedicated teams that will respond to the RFP. These teams

consist of specialists that are charged with responding to each section of the RFP. The teams are highly experienced at protecting the rights of the outsourcer. One of the best protections that the teams can negotiate is a standardized outsourcer contract. Such contracts provide the maximum protection to the outsourcer and reduce or remove as much as possible the remedies available to the company in the event of performance failures by the outsourcer. By providing a contract that provides the maximum protection to the company as a starting point for contract negotiations in the RFP, a company ensures that the final contract will not be tilted in favor of the outsourcer. Companies should engage counsel with experience in writing and negotiating outsourcing contracts. With considerable company assets at risk, an outsourcing attorney will not only have a strategy to protect those assets, but outsourcing industry experience to write and negotiate.

Require a Standard Response Format

The required response format might be an item that some companies would not think about including in the RFP. The major reason for describing this format is to ensure that all respondents to the RFP provide their information in such a way that allows for the easiest comparison by the company's RFP response evaluation team.

Role of Outsourcing Advisors

A company that has outsourced service before might be in a position to manage an outsourcing procurement without outside assistance. The company will have learned all of the hard lessons necessary to protect itself the second time around. However, a company that has never outsourced should never try to create a RFP without the assistance of outsourcing advisors. Such advisors keep up with the outsourcing marketplace and are aware of the techniques used by outsourcers to maximize contract value at the company's expense. These advisors are skilled at creating well-crafted RFPs in relatively short periods of time. However, no company should think that it can relegate all accountability for creating a RFP to

consultants. Much of the information used to create the RFP must be provided by company representatives. A company can reduce the costs necessary to create a RFP by providing sufficient dedicated staff to contribute to the writing of the document under the supervision of outsourcing advisors. The staff personnel must truly be dedicated and must treat the writing of the RFP as their primary jobs until the RFP is released. Of course, companies that cannot provide dedicated resources to assist with the creation of the RFP can allow outsourcing advisors to assume the bulk of the work necessary to write the document.

Conclusion

Most companies have developed and honed their procurement processes into an area of expertise, but most would consider the transition of human resources, company assets and internal processes to a supplier a process to take with caution, and rightfully so. A solid RFP can be achieved as a good start into the outsourcing process with some practical expert advice:

- Close loopholes by providing well-defined scope of services
- Make time for internal due diligence before writing your RFP
- Include descriptive elements of the services to be outsourced and the process to do so
- Provide a consistent and fair communication process for outsourcers
- Include a contract that represents your company's best interests
- Standardize response formats for consistent evaluation of responses
- Fast-track the RFP process through the use of outsourcing advisors