RFP or not to RFP? That is the Question.

When embarking upon an outsourcing journey, most advisors in the market today will suggest putting the bid out to tender amongst suppliers. Request for Proposals (RFPs) can be an efficient way of comparing vendors in terms of commercials and agreement to contractual terms. But it is also an efficient way of making sourcing advisors healthy margins, delaying the business case by up to a year, and of disconnecting the solution from the original strategic intent. Whilst the RFP process certainly has a time and a place, it should not be the default journey companies embark upon. Indeed, often it is simply the wrong commercial decision.

The RFP Dilemma

There is a school of thought that teaches that outsourcing deals should always be put out to tender, in order to leverage a company's negotiating ability and purchasing power with suppliers and thereby obtain the most competitive bid. This school of thought currently has a plethora of followers, and is very much in vogue in today's world. As with most popular things, RFPs are in place because people have used them before and they have been successful. If the RFP process did not work over time, they would not exist – simple Darwinism. However, just because they have 'worked' and produced a 'successful' outcome, it does not necessarily mean it is an optimal outcome – in a commercial, strategic, or operational sense. An analogy to make this point might be as follows. Motorbikes are popular. They are used in vast quantities and many people swear by them. However, whilst it would be possible to get from Lands' End to John O'Groats on a motorbike successfully, and the motorbike will (hopefully!) work, it is not necessarily the optimal way of doing it. There are other modes of transport which do it more quickly, cheaply, easily and efficiently. Motorbikes are certainly an option, but not necessarily the optimal choice in this instance. The same applies with RFPs – they certainly work and are successful in navigating a client along an outsourcing journey, but they are not necessarily the optimal choice in each instance. The assertion of this paper is that perhaps client executives are too readily donning their motorbike helmets when beginning the outsourcing journey, before thoroughly thinking through the steps involved. And here's why.

RFP – Not All Bad

It is well documented that the RFP process has particular benefits. Typing "RFP Benefits" into Google produces the Wikipedia entry for 'Request for Proposals' as the top hit. Within this article, the key benefits are as follows:

- It informs suppliers that your company is looking to procure and encourages them to make their best effort
- It requires the company to specify what it proposes to purchase. If the requirements analysis has been prepared properly, it can be incorporated quite easily into the Request document
- It alerts suppliers that the selection process is competitive
- It allows for wide distribution and response
- It ensures that suppliers respond factually to the identified requirements
- By following a structured evaluation and selection procedure an organisation can demonstrate impartiality - a crucial factor in public sector procurement

This is all very useful and does not include anything too contentious, but perhaps is a little incomplete. Further benefits include the fact that by asking for a standard response, it is very easy to compare responses from different suppliers. This is a good way of ensuring that clients (and advisors) are comparing “apples to apples”, in terms of both the solution and the business case, and thus empowering a considered decision. The RFP process should also ensure that suppliers submit their most competitive bids, in full knowledge that it is a competition, and that if they do not submit a price and terms that have a chance of winning the deal, they will not be invited to the next round of submissions.

This list of benefits is by no means exhaustive, but should hopefully acknowledge that there are certain benefits associated with the RFP process. But to cut to the chase, these tend to be outweighed by the disadvantages.

Lowest Price + Good Commercial Terms ≠ Best Deal

More often than not the RFP process can result in the selection of a supplier for the wrong reasons. For example, a supplier might be discounted in the RFP process for submitting too many mark-ups to original documentation, or for being too expensive. However, often the suppliers who are chosen due to a perceived ‘ease of working together’ (i.e. few mark-ups) will change control themselves out of the original agreements. This is a common trait amongst certain suppliers and it is important that your sourcing advisor can recognise the likely candidates. The net effect is that delivery and associated savings end up being a world away from where the client’s vision and business case were at the outset. Further, those suppliers chosen on having the cheapest solution will often be delivering to such a tight margin that the engagement has a lack of senior attention within the supplier, resulting in second-rate delivery and a client team that is regarded internally by the supplier as the ‘B’ team. The ‘A’ team is reserved for highly profitable, mainstream clients. Again, something your advisor should know as a matter of course.

Another characteristic of the RFP process is that it often results in the selection of a supplier whose capabilities were well known at the outset – essentially the RFP process is used to facilitate a foregone conclusion and merely adhere to internal procurement policies. Worse, sourcing advisors often already have an idea of a supplier in mind (an effect of having a limited knowledge of the supplier environment), and therefore use the RFP process to make a lot of money to help make a decision that has already been ‘decided’. They will then steer their client towards making the same decision – wasting valuable time and money in the process. This leads to possible friction for the client project lead with the project sponsor, who will want to know why there has been a delay choosing a supplier and why have the promises made in the business case not yet been achieved. Reduced time to full benefits realisation is certainly not something that is facilitated by the RFP process. One interesting point here is that suppliers, by nature of the RFP process, do not get paid for the time they spend responding to them. Therefore the more RFP processes suppliers respond to, and the longer that they take, the more money they have to recover by baking this cost into the solution price curve. This clearly hurts the business case. Suppliers are waking up to this fact too, and some would rather not respond to an RFP unless they are of a certain size, because the time it takes to earn an acceptable return on their investment outweighs the lifetime value of the deal. They instead prefer to concentrate on the high value, high return deals, even if this means responding to an RFP.

Perhaps even more worryingly than this, the RFP process often leads the selection process down a path that ends up purely concentrating on price, process and terms. The RFP is essentially a draft contract that is written by people who often have no operational experience of actually outsourcing – from both the client perspective and the advisors themselves. They are writing from a point of view where they have read in books ‘what good looks like’, and try to force-fit this ‘best practice’ into a situation that is not necessarily receptive to it. RFPs need to be written by people who know how outsourcing engagements work on the ground, who have ‘been there, done that’, who recognise the interactions and hand-offs between operations and processes, who fully understand the commercial risk associated with large engagements, and who understand how to spread this risk fairly amongst the parties involved. They should not be drawn up (if they are to be drawn up at all!) by clever people who have clever thoughts, but unfortunately do not have clever experience. Doing this loses sight of key strategic and commercial levers like value creation, vision, strategy, transparency and governance.

The ‘right’ advisor will be able to keep all these aspects at the forefront of all supplier discussions, whether within the RFP process or not. The traditional RFP argument states that the RFP process will get the best price and contractual terms. However, this is actually a reflection on the advisor – the ‘right’ advisor will ensure this whatever the tender process, as well as securing optimal agreements on the other aspects of outsourcing engagements.

The final argument as to why the RFP process is not necessarily the correct decision revolves around relationships. The relationship that a client has with their supplier is essentially a marriage – both parties are inextricably linked together, live together every day, and the better they get on without hurting the other (emotionally, commercially, politically or rationally), the better the relationship will be going forward. The RFP process is analogous to those reality dating programmes you find on TV. One person is presented with 8-10 potential partners, and these potential partners spend the next 12 weeks each trying to persuade the person in question that they are the right partner for them and that life with them would be amazing. Week after week, the potential suitors are whittled down to one, having had to present a case each week for why they should be kept in the competition. Now, once the partner has been chosen the dynamic changes between the chosen partner and the main star of the show, given the footing that they started from. No-one likes to be compared for 12 weeks to others and to be selected in a ‘close-call’ at the end – emotions, politics, rationality etc will all kick in.

Whilst this analogy might be slightly tenuous, the point is that RFP processes start relationships off on the wrong footing. They are secretive, often confrontational, and in terms of how to start a relationship, against good practice. They also do not promote much interaction – time would be far better spent working day-to-day with your sourcing advisor and one chosen supplier, strengthening the vision together, improving the businesses case etc, rather than a prolonged, protracted ‘courting’ period. There will obviously need to be a selection procedure to choose the ‘right’ supplier, but there is no need for a several month-long RFP process to do this. Working closely with your sourcing advisor, looking at the strategic intent for outsourcing, the scope of work and the desired business case will enable the right supplier to be asked to submit thoughts/ offers/ proposals in far less time than an official RFP.

Conclusion – Trusted Advisor Is Key

Obtaining a trusted sourcing advisor is fundamental to a successful outsourcing journey. Your advisor should have experience and deep understanding of all aspects of an outsourcing journey – buying, selling, advising, and legal considerations. They need to have ‘been there, done that’. Without these four aspects the contracts signed with the chosen supplier will almost certainly be suboptimal.

RFPs do work in certain situations, especially for smaller deals, but be mindful of all the negative points they bring. Ensure your advisor is not using the RFP process as a way for them to make a few months of healthy consulting fees. The ‘right’ advisor will not need to do this. Indeed, they will not want to.

Finally, ensure that you work closely with your advisor to shape the initial vision and business case. The reasons to outsource need to be strong and make commercial sense. If they do not, then the decision to outsource is incorrect. The ‘right’ advisor will look to uncover the intent in the outsourcing decision, and if the decision does not make sense for the business, they will not be afraid to advise against it, even if this results in a lot less fees for the advisor in question. These are the traits of an advisor you can trust.

About the Author
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