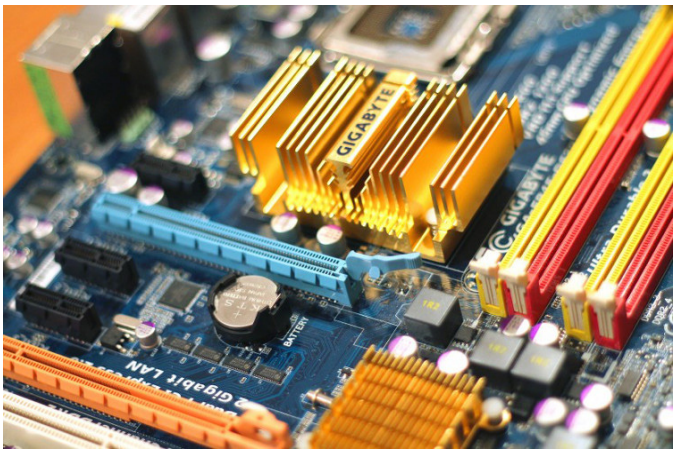
Technology RFPs: Are You Wasting Time and Money?

By Thomas Kase

Technology selections are an often overlooked but serious topic, especially given not just the time and effort involve, but also how long you'll live with the results of your decision. This article describes many cost/benefit aspects of the RFP process when it comes to technology solutions and shares some insider "secret" provider insights. We will also share how to avoid allocating inordinate amounts of time and resources in return for a suboptimal outcome. More importantly, and this might sound like a bold statement, sometimes (maybe even most of the time) it just doesn't make sense to go to RFP! Sourcing practitioners might scoff at this, but read on as we challenge the notion that an RFP is the best path to a successful outcome.

Consider This...
First of all, based on our observations and direct conversations with senior sales leads and executives with decades of experience selling and delivering procurement solutions (from e-sourcing to e-procurement and the gamut of acronym solutions), few buyers take the time to prepare themselves sufficiently before going to market. For example, consider how you would answer these questions that you should ask yourself:

- Are you a good prospective customer, one that providers will get excited about working with?
- Do you know your own processes?
- Do you understand your shortlisted solution providers' business model?
- Do you resemble most of the other cli ents of your preferred solution provider?
- Do you have any metrics that support why you would be a good fit with the provider?
- Do you have a clear picture of how you define success?



In this article, we detail both why these questions and the answers are important. Note that we use the "RFP" label as an all-encompassing tag for any kind of tender with an expected price tag - not just the "proposal" aspect or upstream supplier discovery and RFI activity.

Actually, it is questionable if some entire categories should be sourced by any "normal" large company, and instead piggy-back sourced off a GPO contract (e.g., office supplies might be a good example). But let's focus on procurement solution RFPs first.

A New Sourcing Solution

How about when you source a new sourcing solution? Tricky proposition. You can't really use your current sourcing solution as a platform to source a different provider - more seasoned solution providers will likely refuse to agree with any competitor's EULA or T&C equivalent, and in the case of SaaS solutions there is always the suspicion that the incumbent competitor will take a sneak peek at any competitor's proposal. No, you have to be more old-school in your approach. This is where traditional RFP approaches/tools (i.e., lengthy spreadsheet

questionnaires and other document gathering) feels tempting.

Off to the races you go, whipping up your wish lists, ahem spreadsheets, with all the features you can think of, and then some - especially after you shared your initial spreadsheet with a few consultants who then promptly added a couple hundred lines with their "must-have" features. Then you scour web sites for potential suppliers to include on your list of candidates and find several new prospects, probably even many that you have never heard of (don't equate a big marketing budget with the best functionality!). Armed with names and contact addresses, you email the RFP package to the list of candidates. And then you wait. Ultimately, and much to your surprise, far fewer (than you had expected) choose to respond. What happened?

Provider secret No. 1: The best suppliers out there might choose to simply ignore your RFP request.

They don't know you, you may haven't even talked with them, and if you've never engaged directly with anyone on their sales team beyond just the "dialing for dollars" outside sales associate, your outreach immediately screams "RFP fodder" (i.e., you've been added to the list to "compete" against their incumbent provider to help negotiations in a game that you were never really in).

Especially of late, as the industry is heating up (look at all the M&A deals and the high multipliers), the better solution providers are busy. Very busy. The time it would take to respond to you carries opportunity costs (i.e. time that could have been spent on warmer leads) for suppliers. Soft costs aside, the direct expense associated with going through an RFP process can easily top $10,000 for a supplier - and meeting the RFP needs of a demanding Fortune 500 firm can even exceed $50,000 if you factor in all resources a supplier needs to bring to the effort. It's no wonder we see RFP disclaimers stating that suppliers are on their own regarding the expense of preparing a response.

How do suppliers complete RFP responses?

Let's look at what actually takes place at solution providers after they receive an RFP of substance. Note again that suppliers know the RFP will consume numerous scarce and expensive resources: sales rep, customer support manager, technical lead (can reach the CTO/CIO level), proposal manager, legal resources (not always available in house), the "demo jock," project manager, pricing review committee, marketing assistants, finance and other executives, client references and so on.

Some of this is obviously the cost of doing business for a supplier, but this doesn't change the fact that the process does use up substantial resources that could have been put to use more productively. Some resources (client references) are particularly precious as they really can't be used more than once in awhile, and this is a fact always mentioned to us at Spend Matters when we too ask for references like the IT industry analysts do.

As a result, better solution providers (especially in the services industry) simply can't be bothered by an ice cold RFP that lands in their lap. There is simply too much uncertainty. Hint: Buyers aren't the only ones that engage in risk management; suppliers apply a similar line of thinking toward prospective clients.

The less experienced suppliers (and those in dire need of any wins) might have more rose-colored glasses on, but a seasoned (and already successful) supplier will always try to figure out if you, the buyer, are truly worth their time - or if you are just another buyer looking to get a third "reference" bid. Or even worse, like we mentioned before, maybe you are just a buyer "exploring the marketplace" with no serious need, no sense of urgency and definitely no budget. Ding!

Provider secret No. 2: It's often a seller's market.

Suppliers have more options now than a few years ago, so we argue that it has become more of a seller's market these days. Another way of looking at it is to say that solution providers have matured and are now more aggressively managing their pipeline by weeding out the less serious and less likely prospects. They are qualifying potential clients, in other words - just like a buyer qualifies possible suppliers. They are applying a "reverse Kraljic" model on you in terms of potential financial impact versus the complexity (and cost) of responding to your RFP. How do you like them apples? The lesson should be that now is the time to become a good (or better) "prospect of choice!"

How can you be a better prospective customer of choice and improve your odds of success?

(This means having providers participate, willingly, happily and aggressively.) You can start by following our mini "buyer boot camp" recommendations to lower total costs, improve your selection success and even start to smell like roses to solution providers (and become a customer of choice) by sticking to a handful of key strategies. Some of these are likely to be highly intuitive – others less so. But following as many of these steps as possible is key. Understanding your business – both the carrot side (cost containment, innovation) and the sticks (risk mitigation, compliance) as well as the processes that you follow.

Particularly clarifying the latter can be hugely beneficial when talking with suppliers – if you can share the process that defines what you do, the stakeholders involved, the decision points and criteria, outcomes, etc., you will be significantly farther ahead than most other buying organizations. You may want to hold a few cards close to the vest in reserve, but "helping the supplier help you" does signal to the supplier your organizational maturity, readiness and willingness to take action.

Understanding your solution provider's business model – how do they make money?

From your point of view they might look similar, but under the hood the differences can be staggering. Do they have patient (owner-operated) or impatient (VC money) funding? This, in turn, will impact their outlook on the mix of services versus subscription and licensing revenue. Investor-funded companies looking for an exit generally do not like services (waters down the valuation model), so firms like this are likely to clamp down on services over time. If you don't need any services, this doesn't matter to you. Conversely, if you are a DIY kind of company, talking to suppliers that are mainly interested in building recurring services revenue makes less sense (e.g., trying to buy on-demand market content/intelligence from a large procurement BPO firm). Understanding how a supplier makes money helps you determine not just whether there is a fit, but also how much leverage you should be able to get out of what you bring to the table.

Understanding your solution provider's other clients – do they look like you?

Or more importantly, do you look like them? The verticals involved, the size, the complexity and maturity in their processes, the geographical footprint – there is a lot to be learned by simply assessing how well you conform to the supplier's other client profiles. Both the existing solution and future revisions are likely to be built for their current audience, and if you don't align much with the other clients, your unique needs are not likely to be addressed quickly. This isn't to say that being different is bad. In fact, you might represent a new target industry to a supplier, but you'll have to manage this situation very specifically to ensure that you are close enough to its core, that you aren't funding its product development and so on.

Understanding metrics that matter to you

Wwe've listed below a few relatively basic metrics that few, if any, buyers ever ask for prior to selecting a sourcing solution, but they can tell you a lot about how well a solution provider will be a good fit:

- The number of registered (and active) users (suppliers and buyers) in a tool (shows adoption) normalized in relation to organizational headcount
- Categories sourced (indicates capabil ities) - particularly if you will rely on outside services for success
- The number of sourcing projects per year and number of sourcing events (e.g. RFI, RFP, RA) per project (both indicate organizational maturity)
- The number of people associated with any given sourcing project (specialist versus collaborative tool)

There are few rights and wrongs here – what one company craves another can't stand. Which metrics make most sense to you is likely to be something you have to figure out – but defining your needs as "expected percentage savings in category X" or a weighted spreadsheet score from 500 questions is likely to disappoint. All solutions can save money, the challenge is to match up your needs with a provider's capabilities - and those include much more than what can be easily quantified in a spreadsheet, or magic quadrant. This leads us to your definition of success.

Understanding how you define success – perhaps the most important point to be able to articulate to prospective providers. This goes for all sourcing activities of course, but especially so for procurement solutions. Some solution providers will bluntly stand up and say, "Thank you very much for your consideration, but we respectfully decline to propose a solution," if you cannot state how you define success. This story varies across companies – think through yours.

Notice how we haven't talked about any features and functions yet?

This is something you should hold off on until you have figured out the other issues. Then you know whether you need to take this to the RFP stage, or if you have already (through this discovery phase) figured out that there really is just one or two suppliers out there where there is a mutual fit.

In that case, forget about an RFP, time to engage with the remaining supplier(s) – have them show you how they can help you succeed through the use of their solution (and services, if that is on your list). Note that a good RFI can really help set the tone as you investigate solutions and gain prospective supplier input on your requirements as well. Sure, they might try to "stack the cards" in their favor, but it's always better to ask for input and perform Market Informed Sourcing in the RFI and the RFP process.