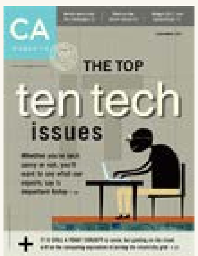

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A decent proposal

By Cal Harrison
Illustration: Mike Constable

The RFP method is supposed to objectively select and hire the best professional services for a particular job. But does it accomplish this? The evidence says no

As a CA, are you aware of what the most commonly used method of professional service procurement is costing you? As purchasers and vendors of professional services, CAs need to be well-informed of the deficiencies and costs hidden within the request for proposal (RFP) method. It is increasingly characterized as inaccurate and expensive by experts across North America.

The RFP process has long been touted as a way for buyers to objectively evaluate and select from multiple professional service providers while keeping a lid on costs. Unfortunately, far too many RFPs issued by private sector, nonprofit, or government buyers fail to achieve these desirable goals. That's because using the RFP process actually increases the cost of buying professional services — such as accounting and management consulting — while decreasing the likelihood of selecting the right service provider.

In fact, while vendors and purchasers may still believe that an RFP is the most comprehensive method of procuring suitable professional services, it is actually an unsophisticated and inefficient process based on questionable science.

There are three premiums that must be paid by every RFP user that those using other selection processes do not pay, or pay to a much lesser degree: the lawsuit premium, the inaccuracy premium and the inefficiency premium.

The lawsuit premium
A cost built into in every RFP is the cost of avoiding a lawsuit by a participant challenging the accuracy and integrity of a selection process.

In 1981, a Supreme Court of Canada decision known as the Ron Engineering case illustrated that "competitive procurement, whether by way of an RFP, RFQ, Invitation to Tender or otherwise, can have serious legal ramifications."

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This means that additional resources must be allocated when writing an RFP document to ensure its accuracy. These resources can range from engaging a lawyer to write or review the document to the lesser cost of using a tool like the Purchasing Management Association of Canada RFP Creator, marketed as a CD-ROM compilation by lawyers featuring more than 1,000 sample legal clauses for purchasing professionals to use when drafting RFPs. Not included in this premium is the potential cost of defending, and possibly losing, a lawsuit based on the clarity of language within an RFP document and process.

Although all selection processes (soliciting referrals, multiple firm interviews, sourcing thought leaders or subject matter experts, etc.) must define the criteria by which to choose a professional services partner, an RFP document and process has a significantly increased obligation to avoid legal issues.

The inaccuracy premium

Imagine engaging an entry-level mutual-fund salesperson to manage your personal investments, even though you could have hired Warren Buffett for the same cost.

In both cases, your funds would still be managed, but it would be reasonable to argue that Buffett could achieve significantly more than the junior salesperson. This opportunity cost would never be documented and would never show up on the financial statements, but as intangible as it is, the cost is real. It would have a significant and direct impact on your quality of life. Too many RFPs incur that type of opportunity cost because of the reliance on irrelevant selection criteria.

In most professional services RFPs, there should only be two equally weighted evaluation criteria: sector expertise and functional expertise. Sector expertise illustrates how well a potential adviser understands your industry, while functional expertise demonstrates his or her understanding of your unique challenges. After all, the primary reason you hire an outside adviser is to create, manage, or fix some challenge or opportunity that you do not have the internal expertise to address within your organization.

Although issues such as service levels, hourly rates and timelines are important, they are criteria that must be met simply to win the opportunity to be evaluated, but they should not be evaluated as part of an RFP. When we allow irrelevant criteria to dilute the evaluation, obvious losers can score higher than obvious winners.

In the previous example, Buffett may have won hands down on expertise, but against an eager, new mutual-fund salesperson, Buffett would likely come up short in the areas of customer service, hourly rate and colourfully illustrated processes.

In a similar real-life example, the purchasing department of a regional health authority issued an RFP for communications services. Although it had included a total project budget (a good thing), it heavily weighted the vendors' hourly rate in the evaluation process (always a bad thing). The vendor that scored dead last in the area of expertise also scored first in the area of hourly rate (meaning it was the cheapest).

Obviously, this is consistent with natural market forces — we would expect the least desirable competitor to have the lowest cost. Unfortunately, because of the skewed weighting of irrelevant criteria (hourly rate), the least-qualified vendor was selected over all others.

The irony is that, as the Buffett example demonstrated, the buyer could have had the best-qualified vendor for the same total project budget that it had stated in the RFP. Hourly rate was irrelevant. When this was pointed out to the procurement group it commented that it "had to measure something" in order to differentiate the potential vendors. This anecdote is not to blame purchasing professionals, but simply to point out how difficult it can be to differentiate intangibles such as professional services and how the use of irrelevant versus relevant selection criteria can serve to thwart the objectives of an RFP while seeming to serve them. Therefore, it is critical that procurement professionals understand which selection criteria truly matter when selecting professional services partners.

Hourly rates and total project price are irrelevant in the selection of a professional services firm and neither should ever be requested in an RFP.

This is because there are usually several potential approaches to the scale and scope of a professional services project and it would be futile for a procurement group to attempt to define them — which would have to be done, in order for any firm to provide a reasonably accurate price for the project.

Instead, an RFP should always clearly state a total project budget. Appropriate vendors will self-select in, or out, of an RFP process based primarily on the project size as defined by the budget and clearly stated project outcomes. They can then define the scope and scale of their deliverables within their proposal, using the budget as the constraint.

An RFP without a budget stated is a red flag to vendors, and many professional services firms now refuse to participate in an RFP if no budget is provided. This means purchasers not willing to disclose budgets will increasingly find it difficult to attract proposals from the best professional services firms.

Several years ago at a purchasing seminar, I stated that the worst thing a purchasing person can do when using an RFP to buy professional services is to exclude a project budget. Immediately, a rebuttal was offered. “But if I give them the budget,” stated the attendee, “they are all just going to come in at that budget.” He was right. But he failed to recognize that as a distinct advantage for both the vendor and the purchaser. When everyone’s price is the same, the buyer can compare expertise and value across a consistent price spectrum and purchase the services of the best expert they can afford.

From the vendor’s perspective, the proposal writing process can focus on driving value into a clearly defined budget, instead of trying to guess what makes sense for the client to invest in a solution.

While it’s important that firms have a well-defined process for solving their clients’ challenges, all professional services firm processes boil down to being substantially the same based upon the Bounded Rationality Model of decision-making, as proposed by 1978 Nobel Prize winner and decision theorist Herbert Simon.

Within the constraints of limited information processing, judgemental heuristics and satisficing, professional services firms go through a four-step process to assist their clients: identify the problem, generate solutions, select a solution and finally, implement and evaluate the solution.

Although vendors may customize this basic process by extending or consolidating steps (in an attempt to brand it as their own unique process), almost none will ever achieve a truly proprietary process based on unique primary research. For this reason, process is an unreliable differentiator of suppliers.

To totally discount people and service would be irresponsible because a horrible deficiency in either could compromise the success of a consulting project. However, having appropriate people and service levels is simply the cost of entry to the dance for a professional services firm — all firms must have people, as well as some reasonable level of service, simply in order to be in business.

Contrary to the popular belief that your most important resources go up and down the elevator each night, people in professional services firms are entities that have similar skills, education and experience and are also quite mobile.

Therefore, buyers should focus their evaluation on the expertise of the firm, not the individuals within it. The worst reason to hire a firm is because you feel a special connection to its staff. This is a sign that no meaningful or relevant criteria have been evaluated in the RFP or that they have been ignored altogether.

Unfortunately, too many professional service providers still hear that their competitors were selected because the purchasing committee felt more comfortable with the people in the other firm. Uttering any version of this sentiment should be an embarrassment to anyone in a professional procurement role.

Although service standards may be a reasonable mandatory criterion in an RFP (must be able to meet in person upon six hours notice, etc.), attempting to evaluate and objectively score claims of superior service in an effort to differentiate professional advisers will be of limited or no value.

Most firms will not be able to supply any meaningful, objective proof of their own service standards. Therefore, proposals will be rife with biased clichés such as “for over 20 years, our firm has exceeded clients’ expectations,” and “we have a reputation as a provider of superior service and value,” etc. People and service levels are reasons to fire a professional services firm, not reasons to hire them.

A professional services firm is hired to solve a problem or optimize an opportunity that the client does not have the expertise to address internally. Buyers must therefore focus on proof of expertise in their selection process.

In his book The Cult of the Amateur: How Today’s Internet Is Killing Our Culture, author Andrew Keen suggests that the Internet has permitted amateurs with questionable credentials to position themselves as professionals simply because they now have the medium to do so.

Others argue that the Internet enables us to identify experts without having to rely on traditional networks. For example, 10 years ago, if a firm required the assistance of a throughput process optimization expert in the area of vehicle manufacturing, it would have gone to a large consulting firm that would then have tried to source that expertise internally from its network of thousands of consultants.

Today, that buyer can simply type its request into Google to find several experts in only a few seconds. This access to expertise means that the procuring organization now takes a more direct role in the search for, evaluation and selection of an expert. Procurement professionals need to become more familiar with finding and assessing expertise versus simply evaluating cost.

So how does a buyer differentiate an expert from an amateur who simply hangs out a shingle? There are a few fundamentals:

- Focus In professional services, expertise is always clustered around a subject area (functional expertise) or an industry (sector expertise), preferably both.
- Credentials Professional designations, relevant project experience, degrees, industry reputation and legitimate certification collectively support the claim of expertise but are not expertise in and of themselves.
- Profile Although not all experts cultivate a public profile, most either have one simply because of reputation within their circles of influence or create one to drive traffic to their door. Profile can be divided into the meaningless and meaningful. A meaningless profile is based on empty announcements such as new hires, new clients or speeches to the local chamber of commerce. A meaningful profile is one that announces speaking invitations to universities, out-of-province organizations and national or international industry events. It is content-heavy and includes professional research or white papers, published articles and media interviews on events of significance.

While measuring the wrong indicators is a critical failure of many RFPs, equally devastating is measuring the right ones with flawed methodology.

Chris Jones is a fellow of the Canadian Association of Management Consultants and an expert in the RFP process as it relates to management consulting. In a March 2006 article in Summit Magazine, he lists a series of changes buyers can make to improve the evaluation process to save time and money for both vendors and buyers.

Throughout his recommendations, Jones encourages procurement staff to shift from general statements to explicit statements in an effort to increase measurability and objectivity in RFPs. Although it may seem obvious that all selection criteria must be objectively measurable, the intangible nature of professional services makes this a greater challenge — and an area in which RFPs have been sorely lacking.

Jones argues that a simple switch to more explicit language provides greater direction to the vendor and the selection committee. Instead of stating “the project manager should have strong experience in managing projects of this type," Jones recommends asking "does the project manager have five or more years experience in managing projects of this type?" This example is typical of an immediate and costless change that can significantly streamline the selection process.

Other experts support Jones' concerns about the measurement process. Alex Zhykharyev, a PhD in applied decision theory and operations research in Toronto and author of "Weigh the Scales: the Constraints of Measurement Theory on the Proposal Evaluation and Selection Process," argues that advanced decision-support software products used by many government departments to evaluate proposals may in fact provide arbitrary scoring based on meaningless statements.

Simply shifting between measurement scales (interval versus ratio) in an RFP scoring scheme can potentially generate opposite evaluation results. Zhykharyev substantiates the concern that a seemingly scientific process may be far more random than it appears.

The inefficiency premium

Blair Enns, president of Enmark Performance Development, one of the world's leading sales and marketing advisers dedicated to advertising agencies, likes to remind his audiences that there is no such thing as the cost of selling, only the cost of buying. Nowhere is this statement more accurate than when using an RFP process to purchase professional services. The reasons why are obvious, yet rarely discussed.

First, in most for-profit professional services firms, countless hours are spent responding to RFPs — most of which are not won by the firm. These unpaid hours are factored into the rates subsequently charged to other paying clients, meaning that every professional services client is paying a premium to support the buying processes of other potential clients.

If the standard RFP process is inefficient, vendor rates will be higher than if the standard buying process is efficient and consumes less of their time.

Profit-oriented vendor firms will not take a loss to absorb the inefficient practices of their potential clients. It's ironic that most RFP documents include a statement indicating that all costs associated with the preparation of a response to the RFP must be borne by the vendor when, in fact, they are always borne by the purchaser.

Second, Enns says that professional services firms' managing partners are aware that their billable hours factor in compensation for the inefficiency of responding to RFPs and therefore are willing to adjust their rates downward if that inefficiency is removed.

Although one of the basic premises of an RFP is to increase competition in order to drive down the prices, it actually succeeds in achieving the opposite. Buyers are more likely to receive a reduced rate if they avoid the RFP process and negotiate exclusively with one vendor. Not only can the vendor eliminate the RFP premium from the price, it can more easily optimize proposed solutions because of access to buyer information that it would not normally have in an RFP process.

Time to change how professional services are purchased

Buyers have the opportunity to create strategic advantage for their organizations when procuring a professional services firm. However, they must first abandon their reliance on the constraints of the traditional RFP process.

An organization can achieve better value and reduce the cost of procurement by meeting with the top two or three expert firms in the industry and functional area of need (accounting, consulting, advertising, insurance, etc.). After gathering some basic information, it can invite one firm to propose an agreement for services — a collaborative instead of adversarial approach that generates a more valuable proposal. In other words, instead of wasting time and money with RFPs providing faint hope to firms that could do the work, only engage experts that should do the work.

While such a change may seem like a great leap of faith in terms of accountability, transparency and objectivity, this becomes a nonissue when we acknowledge that the current RFP process does not ensure integrity. The process is, in fact, malleable enough to shroud inappropriate actions in a veil of legitimacy. Many would agree that it was the easy manipulation of the RFP process that enabled the Canadian government's massive sponsorship scandal, even though significant resources are allocated within that organization to maintain the integrity of that process.

Imagine if a fraction of the millions of hours spent writing meaningless proposals for professional services RFPs in Canada was instead shifted to productive consulting, accounting or other advisory efforts. Canada's sharpest minds could increase the profits of our companies and drive social improvements for our communities instead of droning on about their people and process.

Traditional RFPs have demonstrated limited usefulness in procuring professional services. It's time for purchasers to radically change or abandon this archaic process, and use more accurate and cost-effective means of finding, evaluating and hiring the firms that are right for them.

IF YOU MUST PARTICIPATE IN AN RFP

CAs who must write an RFP should utilize the guidelines below. Conversely, if you are a CA who must respond to an RFP, check to ensure these guidelines have been respected. If not, there is a good chance the result will be more expensive and random than you think.

Always

- Use objective, measurable and specific language.
- Include a project budget.
- Evaluate and score sector and functional expertise only (use a mandatory criteria category for all other relevant criteria).
- Provide complete, substantial and candid responses to questions from the vendors.

Never

- Request any sort of solution as part of the proposal.
- Evaluate or score people, process or service levels.
- Share your responses to vendor questions with other vendors.
- Evaluate or score price or hourly rate.

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