

THE RFP WILL NEVER BE THE SAME

Emerging Approaches to Innovative Sourcing



INTRODUCTION

Clients today clamor for “innovation” from their service providers, yet frequently complain that they don’t get the fresh ideas and new approaches needed to drive ambitious transformative business agendas.

One fundamental obstacle to innovation may be what clients are asking for and the manner in which they ask for it. Specifically, the highly prescriptive nature of the traditional Request for Proposal is by definition anathema to true innovation and ill-suited to address the complex requirements faced by many clients today. Increasingly, ISG sees clients turning to a more open-ended and flexible approach that gives sourcing organizations leeway to focus on the what of the desired end state, rather than on the how of service delivery.

This ISG white paper examines traditional approaches to outsourcing negotiation and their limitations in the context of current business challenges, as well as emerging solution-based strategies characterized by general objectives rather than specific requirements. A case study of an ongoing client engagement is included to illustrate key success factors in implementing such strategies.



VACATION PLANS

Consider this scenario: A family asks a travel agent to find the cheapest package for a family of four to fly from New York to a hotel room within five miles of Disneyworld for five days at the end of June. Under the circumstances, the family can expect good rates and reasonable accommodations, but their vacation experience will be limited to the specific parameters they've defined.

As an alternative, let's say the family provides the travel agent with a set of broad criteria: a five-night vacation that includes a mix of activities for a budget of \$4000 or less. In this scenario, the agent has the leeway to be creative and offer a variety of solutions – a cruise, a camping trip, a European tour, or Disney. Here, the family assesses the alternatives and chooses the one that best matches their objectives for the vacation, and benefits from the agent's creativity, expertise and experience in the travel industry. And, if they've communicated those objectives to the agent (quiet get-away or big-city excitement), then the travel agent will be in a better position to deliver on expectations.

The first scenario is analogous to a traditional RFP process, under which service providers compete to deliver an optimal solution within a narrowly defined context. The process is designed to enable apples-to-apples comparison to determine which proposal best fits the specific criteria defined. By default, this approach constrains innovation since the client has dictated the terms of the solution and is asking for the best tactical approach to achieve an already prescribed end state.



The "Request for Solution" (RFS) is a collaborative process characterized by broad criteria, assessment of multiple options and open-ended dialogue rather than specific checklists that require precise answers.

The second scenario reflects the dynamics of an emerging trend in outsourcing – termed the "Request for Solution (RFS)." Designed to address complex requirements and problems, the RFS is a collaborative process characterized by broad criteria, assessment of multiple options and open-ended dialogue rather than specific checklists that require precise answers.

CHARACTERISTICS OF THE RFS

Under an RFS sourcing model, the customer describes the general characteristics of their IT or operational environment, overriding objectives, major concerns, and vision of the desired future state. Rather than dictate the specific terms to be adhered to, clients provide potential suppliers the flexibility to propose unique solutions.

This shift fundamentally alters the dynamics of the process. First off, by *asking* providers for a solution rather than *telling* them what's required, clients encourage a different set of behaviors – behaviors that facilitate fresh thinking and the innovation that clients are seeking.

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The RFS opens the field to a broader pool of players -- and potentially to innovative solutions that the client had not considered.

With a traditional RFP, moreover, a few select providers invest significant time and resources to develop thorough responses; suppliers are either vetted or self-select before undertaking the response. The RFS, meanwhile, opens the field to a broader pool of players – and potentially to innovative solutions that the client had not considered. And by lowering the cost of entry, the RFS is attractive for tier-two, offshore providers, and business consulting-focused providers who may lack the resources to pursue major deals through the traditional RFP process.

BENEFITS

One key benefit of the RFS model is to allow clients to better communicate complex outsourcing requirements to vendors. Clients today increasingly aim to transform and standardize existing IT environments that are constrained by legacy systems and unnecessary custom requirements. These complex agendas often raise questions that don't have a single right answer; indeed, clients often don't know what many of the questions should be. In such instances, the RFS can reveal new and innovative options and address the ambiguity of the initiative.

The RFS approach may also be a significantly more cost-efficient way to approach a transformative or standardized sourcing initiative. An ISG survey of service providers found that prices are at least 10 percent higher when responding to complex RFPs. By simplifying the sales process up front, the RFS therefore potentially eliminates a key cost driver of the provider's solution.

CHALLENGES AND SUCCESS FACTORS

These benefits notwithstanding, the RFS model poses significant challenges – challenges that require a change in mindset on the part of clients. One fundamental issue is assessing proposals. The traditional RFP model is geared to enable apples-to-apples comparison of service provider offerings. While this quantifies the review and selection process, it limits innovation by prescribing the offered solution. Under an RFS model, each proposal will likely be dramatically different, thereby widening the range of options. This means that clients need to view the selection process differently. Since the RFS involves selection criteria that are more qualitative and right-brain focused, soft benefits such as “cultural fit” can trump traditional quantitative measures.

Another potential obstacle is the desire – ingrained through the traditional RFP process – to get the best possible deal. Clients negotiate service levels and price points in excruciating detail, aiming for perfection. This approach is not only time-consuming, but it also often leads clients to lose sight of the initiative's broader objectives. An inordinate focus on contract details, moreover, can create the illusion of protection, and tempt a client into neglecting governance after the contract signing.

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An effective RFS requires communication, collaboration and transparency, and, to an extent, a leap of faith.

With an RFS, the “perfect is the enemy of the good, and clients must convince themselves that “good is good enough.” While seemingly counterintuitive, this attitude is essential in order to tackle the substantive big-picture issues that need to be addressed. Ultimately, the focus has to be on managing the relationship, not on writing the contract.

An effective RFS requires communication, collaboration and transparency, and, to an extent, a leap of faith. Specifically, the client has to trust that the provider won’t gouge on pricing, and to have confidence in the process and be willing to change internal processes and constraints in order to drive the desired end state. The provider, meanwhile has to believe that the client will be reasonable in defining the scope of the agreement.

The nature of the RFS can by definition facilitate trust by forcing both parties to work together to solve problems, rather than micro-managing or haggling over pricing or service level details. Shared goals can also enhance flexibility and adaptability as requirements change.

THE RIGHT FIT

While the potential benefits are significant, the RFS isn’t optimal or even applicable in all circumstances. Generally, the approach is better suited to solutions requiring innovation and transformation, or to situations that raise questions that have more than one right answer.

By way of contrast, the agenda of a straightforward optimization project would likely not include transformation and innovation, and would be better suited to a traditional RFP approach that included components such as benchmarking against market standards and implementation of process improvement and best practices.

GETTING STARTED

Organizations interested in piloting an RFS approach would be well-advised to start with a discrete project that has no clear-cut solution. For example, if one faction favors offshoring, while another argues for a cloud solution, and a third wants re-engineering, an RFS can define the options and clarify the implications – positive and negative – of each course of action.

The basic process of preparing for an RFS initiative typically begins with a data gathering exercise characterized by “Environmental Triage” -- ???. The outcome is a broad scope description of the business landscape, one that encompasses financial information (including resource units and consumption levels), service level and quality measurements, business terms and legal requirements.

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Clients can, and should, begin the data collection phase on their own. There are no templates per se, just categories of information needed to communicate what is to be considered. By asking yourself, “what would I need to develop a solution for this environment?”, you guide yourself as to the breadth and depth of information required. However, it is not necessary to get lost in the weeds – the Service Providers are developing **indicative** solutions and **indicative** economics.

The next step is to define business goals and objectives and articulate the desired end state in the context of perceived and real constraints. At this point, the involvement of a third-party advisor is essential. First off, service providers will take the process more seriously if the client has taken the time to get professional process support. Absent a third party advisor, potential vendors may interpret the exercise as a tire kicking exercise.

Moreover, the third-party advisor can and will bring market insight; effective structuring to the data collection; provide comprehensive communication and instructions to Service Providers; and finally help the client interpret fiction from reality when assessing the RFS presentations.

CASE STUDY

ISG recently helped a client select an ERP solution for a newly formed business unit. The initiative was ideal for an RFS approach: Since no existing systems or solutions were in place, potential suppliers had a truly “green field” opportunity and could address a broadly defined need, rather than respond to specific requirements that constrained innovation.

ISG utilized its offshore market research resources to identify potential suppliers that were a good match for the client’s industry (heavy construction and manufacturing) and business system needs, which included human resources, finance and accounting, supply chain management, and materials resource planning. ISG was also able to leverage templates and intellectual property from an earlier RFS projects.

The RFS enabled vendors to propose innovative solutions and indicative investments designed to help the client assess options and costs of implementing new business systems for the new unit. ISG is also assisted the existing IT team in defining and managing the rapid selection process.

ISG’s experience in this engagement identified several key success factors for an effective RFS response. One is the ability to act quickly – several suppliers dropped out of the running because they were unable to meet aggressive response schedules.

The process also revealed that flexibility to be creative and innovative does not preclude the need for detailed and relevant pricing. While ISG provided a pricing template that enabled comparison and normalization, the RFS did not provide the detailed pricing matrix typically found in a standard RFP, but instead called for vendors to apply their own commercial pricing constructs. Several vendors struggled with this requirement and their responses were found to be lacking in terms of rigor and formal pricing structures.

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Since an RFS initiative is likely to be a business rather than a commodity IT solution, vertical specialization is also essential. ISG leveraged its human resources outsourcing expertise, and supply chain management, product life cycle management and materials resource planning experience was similarly critical.

An aggressive schedule presented a challenge. Nonetheless, the entire process – from helping the client define their requirements, to investigating potential suppliers, to writing the RFS, to down-selecting to two finalists – was completed in ten weeks. At present, ISG is working with the client to negotiate final contracts and define a statement of work. The current schedule calls for the new systems to be selected, implemented and operational in one year's time.



As client organizations mature and their approaches to sourcing become increasingly sophisticated and ambitious, new models are needed to allow for innovation and creativity.

CONCLUSION

Sourcing strategies continue to evolve in response to changing business requirements. The traditional RFP has been an effective tool in enabling competitive pricing and efficient oversight of service delivery. But as client organizations mature and their approaches to sourcing become increasingly sophisticated and ambitious, new models are needed to allow for innovation and creativity. The Request for Solution offers a promising approach to enable service providers to leverage their expertise and capabilities to address the business challenges of their clients.

ABOUT ISG

Information Services Group (ISG) (NASDAQ: III) is a leading technology insights, market intelligence and advisory services company, serving more than 500 clients around the world to help them achieve operational excellence. ISG supports private and public sector organizations to transform and optimize their operational environments through research, benchmarking, consulting and managed services, with a focus on information technology, business process transformation, program management services and enterprise resource planning. Clients look to ISG for unique insights and innovative solutions for leveraging technology, the deepest data source in the industry, and more than five decades of experience and global leadership in information and advisory services. Based in Stamford, Connecticut, the company has more than 900 employees and operates in 21 countries. For additional information, visit www.isg-one.com.

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