



## **Vendor Selection | Get Your Own House In Order**

8 Common Mistakes & Ways to Overcome Them



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## **Executive Summary**

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With the rapid evolution of technology solutions, the ongoing debate of off-shore/on-shore/near-shore strategies, and the unpredictable swirl of government regulations and its effects on employee costs, companies are looking at every step of the value stream to reduce costs, speed innovation and grow their businesses.

One area CIOs, procurement offices and other 'buyers' within the organization have to address is in their procurement or vendor selection processes. Your vendors have a tremendous impact on the success of your business and all too often, you don't have sight or control into the details of their operation(s). With so much on the line, it is crucial that your organization put in place effective, repeatable vendor selection processes because these processes can have direct effect on the costs of your products or service, your customers' experience or legal aspects of your operations that could result in irreparable damage to your brand recognition.

The good news is that implementing an effective, standardized procurement or vendor selection process can be done quickly, with little technical implementation, and inexpensively. This white paper will introduce a high-level vendor selection process, identify a few of the common mistakes organizations make in these processes, and provide guidance on how to overcome those mistakes.

## **Overview: 5 Step Vendor Selection Process**

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The following five steps will provide an overview of an effective vendor selection process. For many, even this will be a major shift in how they do business today.

1. **Analyze Business Needs:** As businesses find new areas of opportunity to capture or challenges to overcome, they must go through a process of introspection. Do they have the skills, tools, facilities and time to complete the project or initiative? These are often referred to as a 'make' or 'buy' decision. Will the organization do this or bring someone in to do it?
2. **Identify Vendors:** Assuming the organization has made the decision to bring in external assistance, it will need to identify potential partners

in the respective space. This may be done through a current vendor pool, basic Internet searches or recommendations from others. At this point, the potential pool of candidates is large and you should expect that some folks will drop out quickly in the process.

3. Create an RFX Exercise and Shortlist: Working with several folks from your internal organization, you need to create a Request for Information (RFI) or Request for Proposal to publish to the participating vendors. An RFI is used when you do not know much about the space you are moving into. It is designed for two purposes: To weed out vendors and do a basic capabilities match, and for organizations to share high-level needs and vendors to share basic approaches and capabilities. This is a great learning step for the buyer.

The RFP will be used when you are fairly confident the participating vendors meet your needs and you know enough about the space to provide detailed requirements to the participating vendors. As vendors respond, the team should review the responses and score them according to the approved criteria, with the goal to get the vendor pool to a shortlist of strong potential partners.

4. Identify Proof of Concept, Pilot, and Audits: Now that you have vetted the shortlist and identified potential partners, it is time to get past the PowerPoint presentations and fancy models. Depending on the services or products you are looking to procure, you will want to go onsite to audit the processing facility or ask the vendor to conduct a pilot. This is the buyers chance to validate a potential vendors claims. Considering the investment made to partner and integrate with a vendor, this step is crucial to validating a vendors claims and ensure long-term success of your business.
5. Establish Negotiations and Contracts: Finally, you have been through the process and the team has settled on the vendor(s) it believes can best execute for the firm. Now it is time to ensure the pricing, volumes, indemnification, service levels and other details are hammered out. Sign the contracts and implement.

## **Common Mistakes & Strategies to Overcome Them**

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### **Issue No. 1: No Process**

It is astounding the number of organizations that do not have a vendor selection process. Maybe it's because this is not a daily operational event or that some organizations truly don't appreciate the competitive advantage this step plays in the value stream of their business. Unfortunately, the lack of a standardized process does not allow an organization to understand where to start, how to efficiently execute, or how improve moving forward.

**Solution:** Document the key roles and responsibilities of the functions within your organization so people know who to engage for various procurement activities. Document the process and criteria framework with some direction on how to use the documents. Finally, host a training session and store the document where everyone can access it as needed.

### **Issue No. 2 - Missed Requirements**

As with any new project or initiative, procurement exercises are often riddled with change requests or follow-on addendums. This is usually the result of entering a new market or discipline and simply not knowing what you don't know. One example might include a product manufacturer entering into the services space and not fully understanding the tax implications on where they can do business globally. It isn't until they get deep into the solution, that they realize they cannot do business in a European or ASIA Pacific country, because they are not registered appropriately in that country. As a result, they may need a vendor with facilities in another country or their ability to deliver in a timely manner is affected. Some other culprits include lack of time to do your due diligence, unclear ownership of the final decision, and not engaging a comprehensive set of stakeholders that will be affected by the buying decision.

**Solution:** You must conduct a stakeholder analysis to understand every person, team or business unit that will be affected by the pending partnership or purchase. From there, you will need to interview those stakeholders to fully understand their stake in the initiative and ask for their requirements. Not only will this help ensure a successful 'buy,' but it will also help with the implementation and adoption of the new product or service.

Once you have engaged the right people, you will want to conduct a RFI with potential vendors. Not only does this allow you to vet vendors that clearly don't meet your needs, it is a significant learning opportunity for the folks in your organization to see how the 'experts' in their field approach and execute in the respective space.

### Issue No. 3 - Poor RFx Documents

Missing or unclear requirements will sink even the best of vendors. Without fully understanding your needs, the two parties will be out of sync. The relationship will quickly grow strained and the benefits to all involved will never be realized.

Unfortunately, many organizations do not leverage the various RFx (RFI, RFP and Request for Quote) in a proper or efficient manner. Internally, non-standardized documents can be very frustrating to your team as they review potentially a dozen responses of 50 plus-pages. While some will need to read every page, others will want to go to specific sections to review and/or compare responses across respondents.

**Solution:** Create a few templates for each document type that include a cover page for usage directions and section headers with directions to help guide the RFx author and standardize the approach.

Common sections include:

- **Welcome:** Thank the potential partners for their efforts to participate in the RFx process.
- **How To Read and Respond:** Explain the process if you are going from RFI to RFP and so on. Also, vendors are famous for inserting their marketing material and using your specific RFI or RFP to sell you their entire set of services. Be clear if you want them to respond in-line to your document, a separate spreadsheet, and how or if they can include additional information. Lastly, tell them how to submit their responses. Do you use an online repository or should they email it to a group or specific person?
- **Timeline for RFx Process:** Provide the dates you will publish the RFI, a deadline for when they have to submit questions and the document, when a decision will be made, etc.
- **About Us:** Standard content about your organization here.
- **Initiative Overview:** Explain what your project is about. How does it support your business? What are the main goals of the project and how does this RFx exercise support it?
- **Requirements and Capabilities:** This section will vary greatly, but is progressively elaborate as you move from RFI to RFP. This will eventually be used to write up the contracts, so be as clear as possible about your needs, SLA expectations, volume, locations, hours, expected support and management, reports, etc.

- **Appendices:** If you have specific schemas, diagrams or charts that will be useful to the participating vendors, include them here.
- **Confidentiality and Thank You:** At some point early on, you will want to sign a Nondisclosure Agreement with the participating vendors, so they don't talk about your ideas or develop their own in this space. However, you will also want a closing thank you and statement of expected confidentiality.

#### **Issue No. 4 - Cost-Based Focus**

A colleague walks in the office and says, "Guys, listen to this deal. My mobile phone service provider has been horrible! I can barely make any calls and I've had enough. I called them yesterday and told them I was going to switch providers and asked about the fee to cancel my contract. Long story short, they gave me an extra 500 minutes per month for free. Oh yeah!" A few of us looked at each other and someone said, "So now you have 500 more minutes that you can never use because of their poor service."

While this doesn't reach the scale of most business cases, it certainly illustrates a scenario in which someone allowed their focus on the bottom line to cloak the provider's ability to deliver the service effectively. This happens in business all the time. Decision-makers often look beyond quality or performance issues, in favor of a more cost advantageous vendor. Considering the long-term costs associated with customer service efforts, lost customers, and a tarnished reputation that is a huge mistake.

**Solution:** There is no denying that even outside of the recent economic squeeze, costs eats away at profit and is one of the major decision points in any decision.

What we want you to do is to also consider quality, ease of doing business, reliability and risk when selecting your potential partner(s). If the provider is cheap but can't consistently meet your demand, it isn't worth it? How much will it cost you in legal fees if an IT vendor loses equipment that ends up in a third-world country and your name is splashed all over the front page of local and national newspapers?

Make sure you identify the success factors and measurements, as well as the risk opportunities to ensure the potential vendor can achieve and or mitigate those.

### **Issue No. 5 - Skipping Vendor Q&A**

Everyone is busy and the litany of meetings in today's corporate environment is amazing. In turn, many organizations don't think to host a Q&A session with the participating vendors.

Unfortunately, this leads to countless emails from you to various vendors and colleagues that are duplicated and forwarded throughout the organization. Tracking responses, chasing answers, and simply responding becomes a part-time job for some. In addition to wasting time, some great questions that may help all the vendors often fall through the cracks.

**Solution:** Host a Q&A session for your vendors—build it into the timeline. You can do this as an open call for all vendors, but many will withhold questions as to not 'show their hand' to their competition. Depending on the number of potential respondents, you could do these sessions individually and inform the vendors that a consolidated list of Q&As will be shared with everyone.

Of course, any unique identifiers of solution, price and approach will be neutralized. This will set expectations and significantly reduce email churn and orphaned questions, increasing your odds of a fair, apples-to-apples comparison across all vendors.

### **Issue No. 6 - Poor Communication**

What is self-evident to one person is not to another. For example, sometimes you don't write as well as you think you do. Even the most diligently prepared documents are often interpreted incorrectly and unfortunately, are not completely read by everyone. One might think that if a vendor wants your business, it will take the time to comb through the details. But common sense is not common and while vendors are trying to earn your business, one of them will become a piece of your value stream to customers of which you are trying to win their business.

**Solution:** When you publish the RFI and/or RFP, call out a few key items in the email. Make sure everyone knows when questions are due, when their response is due, how to respond to the RFx, and who to contact for issues. Change happens, so make sure you use version control in the file-naming standard, and that changes to dates and/or requirements are communicated to everyone involved. Do your best not to communicate individually on these sorts of items, as it could inadvertently create an unfair advantage for one or more of the vendors. Additionally, individual responses often results in different responses from the vendors vs. an apples-to-apples comparison. Also,



make sure your team knows who the mouthpiece is for your company so they can direct vendor follow-ups to the appropriate person.

### **Issue No. 7 - No Selection Criteria**

Too any companies spend the time to document their needs, conduct the reviews and go through a solid process, only to let the decision come down to emotional responses, like “Vendor Y’s facility was amazing!” All that effort and no one understands how to actually score the responses.

**Solution:** Go back to Issue No. 4 and consider the success factors and risks. Put them in a list and try to group them by category and function. Now think about additional criteria that may feed into those items, such as approach to deliver or experience to deliver.

Now that you have a comprehensive list, you can simply put together a 1-5 scoring and have them tally at the end. For example,

- 1 - Doesn’t meet requirements
- 2 - Meets some requirements
- 3 - Meets needs
- 4 - Exceeds requirements
- 5 - Industry leader (*automation, innovation, etc*)

You can get fancy and weight the categories by importance to provide a more robust scoring model (i.e. price can be weighed more heavily than ease of doing business). This allows you to measure the respondents based some level playing field within your team.

### **Issue No. 8 - Set It and Forget It**

A lot of companies have well-established relationships with their vendor(s) and this is a great thing—we are not advocating change for the sake of change. It is our experience that many firms lose out on opportunities because they are complacent with their vendor(s). Innovation slows, efficiency suffers and the ‘we don’t know what we don’t know’ creeps back into the firm because folks take the position that if it isn’t broke to don’t fix it.

**Solution:** Trust and partnerships are crucial to the vendor relationship, but that doesn’t not mean you owe them anything outside of what’s in that contract.

At the outset of the relationship, it is your job to set the expectation that your company will conduct an RFI and/or RFP every year, or three months, three years, etc. to ensure that your firm is partnering with

the most efficient, cost effective and innovate partners in the industry. Let them know that there is a line item in your selection criteria for incumbent business, so they feel rewarded for their efforts and investment in your business. In the end, however, you must occasionally conduct an RFX exercise to learn about market trends, innovative products and services, as well as validate costs with regards to the vendor pool.

## **Conclusion**

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We have heard it said that the world is flat and shrinking. Global competition, efficient supply chains, crowdsourcing and technology are challenging organizations more than ever to ensure every step of their value chain is optimized.

Vendor selection is often one of those areas of the organization that is underutilized as a competitive advantage. Considering the opportunity to expand capability and/or reduce costs, as well as the potential risk introduced from such relationships must become a focal point of the organization. The good news is it does not require extensive investment and drawn out implementation projects. Significant benefits can be realized with standardized templates, organizational awareness and planning for such activity. Of course, Kelly Project Solutions, LLC would be honored to assist you in establishing such best practices in your organization. Contact us today!

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