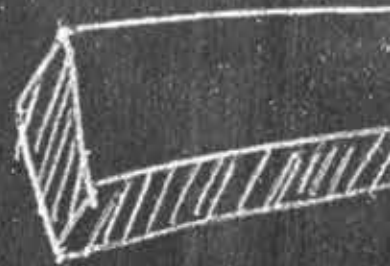


Collaborative Bidding can

# transform

the competitive process

by Kate Vitasek



Every day, hundreds of organizations conduct competitive bids to pick the best supplier to meet their needs, and in their efforts to streamline the request for proposals (RFP) process, many organizations establish a rigid, standardized, “one-size-fits-all” RFP process.

One major cause of frustration stems from organizations using the wrong bidding tools for the wrong job. This can result in selecting the wrong supplier or developing a contract that is misaligned with the organization’s objectives. Simply put, using the wrong competitive bidding method is like putting a square peg in a round hole. It’s myopic and inefficient.

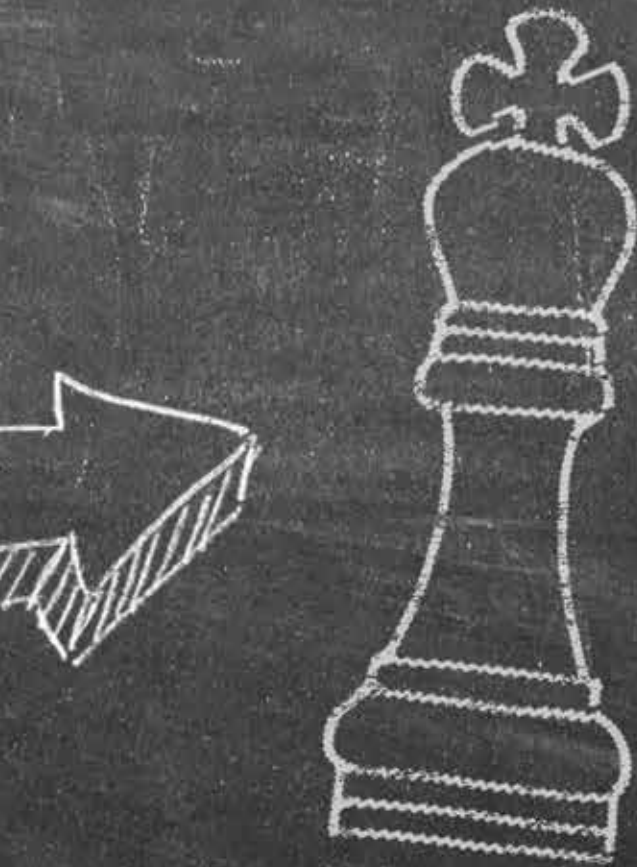
This article delves into the changing landscape of strategic sourcing by exploring some of the recent trends that impact strategic sourcing and why procurement professionals need to challenge their thinking and embrace more collaborative techniques.<sup>1</sup>

## The Changing Landscape of Strategic Sourcing

Traditionally, organizations think of procurement as a “make vs. buy” decision. (Refer to **FIGURE 1** on page 50.) This is especially true as organizations begin to explore outsourcing. Many incorrectly assume if they “buy,” they should use competitive “market” forces to ensure they are getting the best possible deal. This is evident in organizations where procurement professionals are measured and earn their bonuses for achieving year-over-year cost savings.

As organizations seek to get the best price within the market, the default approach is to use a transaction-based model where the buying organization can “test the market” by easily comparing prices across transactions—such as price per hour, per widget, per mile, per kilogram, etc. This approach works well for simple commodity-type transactions with abundant supply options and low complexity, where the “market” self-corrects with competition.

However, the transactional approach is not very efficient in larger, complex, and/or strategic situations. Too many procurement organizations use conventional “buy-sell” transaction-based competitive bidding approaches for buying complex and strategic outsourcing deals. That’s why procurement professionals should consider sourcing solutions along a continuum of possible options, as illustrated in **FIGURE 2** on page 52.





Leaders in outsourcing—such as Microsoft, P&G, and McDonald’s—have shown that highly collaborative “win-win” relationships yield significant value for both the buying organization and the service provider. Forward-thinking organizations are starting to shift their sourcing efforts to strategic, performance-based, and “Vested”<sup>2</sup> outcome-based supplier solutions.

As organizations shift to more complex sourcing business models, it follows that they should use more sophisticated and collaborative approaches that buy:

- Solutions.**
- Strategic partnerships,** or
- Alliances.**

As a result, organizations need a menu of more collaborative types of approaches designed to help buyers and suppliers evaluate “solutions”—not just based on a supplier’s bid price for a standard commodity or service specification. These more-collaborative techniques are essential when an organization strategically moves to more value-based sourcing business models.

### “RFx” Methods

The term *RFx* is a generic term to describe a competitive bidding event. There are several types of competitive bidding methods. Every RFx type is a solicitation for some sort of submittal or “quote” from a potential supplier. The quote may be for a price, a proposal, a solution, or some other offering in response to an organization’s business requirements and specifications.

Confusion occurs because there are no standard definitions for the various types of RFx methods. For example, the term request for quote is commonly used for a variety of solicitation types. In 2015, an initiative began to clearly define each method and provide clarity around when to use each one.<sup>3</sup> The following list provides an overview of each method. While there are many different names/terms for various RFx methods, the vast majority of RFx methods fall into the following five categories.

### 1. Request for Information (RFI)

Also referred to as a “request for qualification,” the RFI is used to obtain general information about products, services, or suppliers. An RFI is sometimes used to gather benchmark information and general market data from the marketplace. Buyers rarely, if ever, pick a supplier based on RFI information and in many organizations are actually prohibited from doing so. Rather, they use the information to help further refine their RFx approach. As such, an RFI typically precedes other RFx processes and often is used to help a buyer create bid lists.

An RFI can be used with any of the RFx processes, but it is almost always used with a “request for proposed solution” and a “request for partner” process. An RFI is not binding for either buyer or supplier. They range from simple requests aimed at gathering market intelligence to more comprehensive requests asking suppliers to answer detailed questions about their

qualifications. Organizations that seek to understand supplier qualifications from an RFI will often use it to down-select suppliers to a smaller list that will then be asked to move to a more comprehensive stage of the competitive bidding process.

### 2. Electronic Auction (e-Auction)

This is an online, price-centric auction where purchasers specify what they are interested in buying and prospective suppliers respond by entering competing bids. Often, suppliers are prequalified to participate in an e-auction so that terms and conditions, statements of work, and service level agreements are comparable and buyers can focus almost exclusively on price.

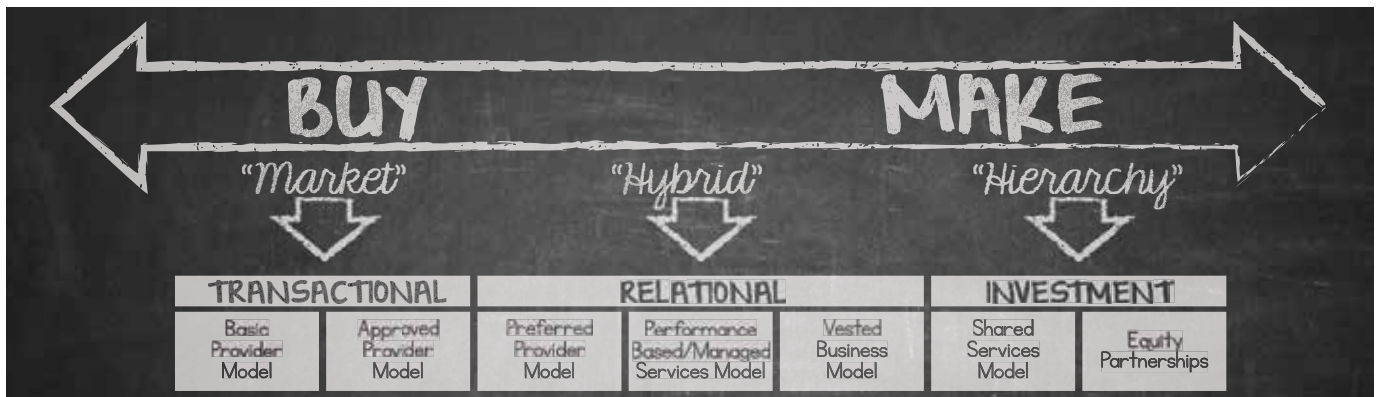
There are various types of e-auctions, including a “reverse auction” where a single buyer uses a fixed-duration bidding event in which multiple prequalified and invited suppliers compete for business. Potential suppliers review the requirements, choose to bid, and enter their selling price(s) and other qualifying criteria as requested. Suppliers’ prices are visible to other competitive bidders, often resulting in successively lower prices for commodity products and services.

A seller-driven e-auction is an electronic, online auction where suppliers post items for sale and buyers bid on the items.

### 3. Request for Quotation (RFQ)

Also referred to as a “request for quote” or “request for price,” the RFQ is used to ob-

FIGURE 1.





What Can an  
**NCMA CERTIFICATION**  
Do For You?

**IT WILL INCREASE YOUR CREDIBILITY BY:**



Validating your knowledge of the contract management field,



Instantly distinguishing you from your peers, and



Clearly identifying your experience and expertise to employers.

NCMA's nationally recognized certifications have set the standards of excellence in the contract management field since 1975. With five different designations to choose from, there is something for everyone. Increase your professional value today!

Visit [www.ncmahq.org/certification](http://www.ncmahq.org/certification) to find out more.

FIGURE 2. Continuum of RFx Approaches



Source: Vitasek, et al, Strategic Sourcing in the New Economy.

tain price offers for a specified product or service. An RFQ is used for more standard sourcing initiatives where cost consideration is the key decision criteria. Buyers using an RFQ must be sure to properly define the requirements, often through a pre-established contract, so there is no ambiguity for the supplier or buyer. The law may or may not treat a quotation as a binding offer.

#### 4. Request for Proposal (RFP)

Also referred to as an “invitation for proposal,” the RFP is used to obtain pricing as well as detailed descriptions of services, methodologies, program management, cost basis, quality assurance, and other support provided by the supplier. RFPs are used for larger, more complex and technical sourcing initiatives when supplier selection is based on factors beyond just price or cost, such as technical capability or capacity.

Certain factors often play a role in award decisions, including, but not limited to:

**Technical factors**—e.g., statements of work, service level agreements, security, process maturity, etc.;

**Financial factors**—e.g., price, budget, impact of the total cost of ownership, etc.;

**Factors related to terms and conditions**—e.g., compliance/risk evaluations, etc.; and

**Strategic alignment factors**—e.g., cultural compatibility, corporate social responsibility values, etc.

An RFP is often a follow-up to an earlier RFI. An RFP allows a buyer to specify requirements and allows suppliers to define some of the “how.” For example, a buyer may ask a supplier to outline how it proposes to manage quality. The RFP is a primary way the organizations conduct competitive bid situations for outsourcing initiatives. Because requirements are mandated, bidders differentiate on how competitively they can achieve the specified need.

#### 5. Request for Solution (RFS)

Also known as a “request for proposed solution,” the RFS is an emerging competitive bidding methodology popularized by the outsourcing advisory firm Information Services Group (ISG) and later promoted by Gartner, another outsourcing advisory firm. The RFS methodology uses a more open approach in which a buying organization has a dialogue with potential down-selected suppliers with the intent of collaborating to determine the best solution to meet the buyer’s needs.

An RFS is different than an RFP because the buyer does not know the optimal solution. And it is different than an RFI—if a satisfactory deal can be achieved, the

buyer is ready to buy, not just down-select and launch an RFP.

In an RFS, the buyer asks bidders to propose the most appropriate solution bound by any critical constraints (e.g., scope, scale, interoperability with existing solutions, security requirements, etc.). The buyer gives limited direction that is primarily focused on the existing environment and what the success criteria may be. Then, the buyer requests the suppliers involved to design a solution to best meet its business needs. Because requirements are not mandated, bidders differentiate on how much value and innovation they can bring to the table.

#### Limitations of Existing RFx Methods

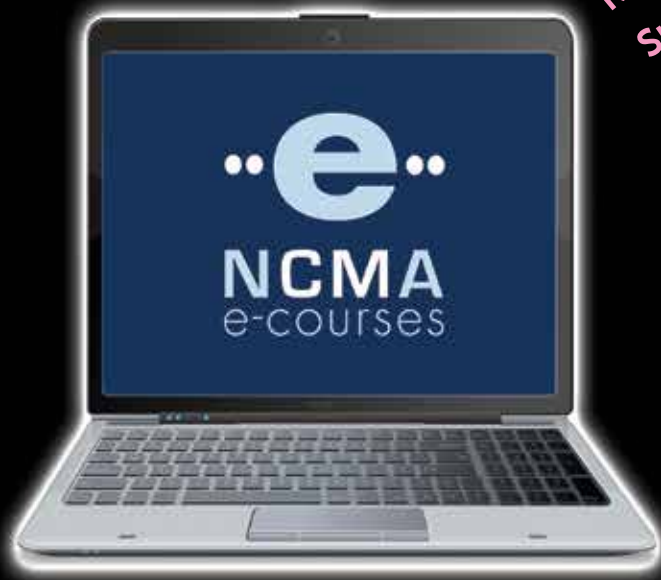
While many organizations are shifting to more collaborative supplier relationships, much of the consulting and academic community is not keeping pace. Industry organizations are lacking in support for collaborative processes for competitive bidding.

A limited number of advisory firms are actively promoting the concept of collaborative bidding methods. The most referenced is ISG’s methodology, which shares insights into why the conventional RFP process is “dead” and promotes the

# REBOOT

on the

# BASICS



**NEW! Professional Ethics**

**Subcontract Administration**

**Competitive and Collaborative Negotiations**

**Contract Modifications and Options**

**Performance-Based Acquisition**

**Introduction to the FAR**

**Contract Administration**

**Laws and Regulations**

**Intellectual Property**

**Contract Types**

NCMA offers a full **spectrum** of e-courses so you can get the knowledge you need, right now! These courses are **convenient, affordable**, and worth 1 continuing professional education (CPE) hour. It's never been easier to power up your team.

Visit [www.ncmahq.org/ecourses](http://www.ncmahq.org/ecourses)

to find out more and to sign up for a FREE demo!





FIGURE 3.

METHOD	PROS	CONS
<i>Request for Information</i>	<ul style="list-style-type: none"> <li>Widely known and used process.</li> <li>Great way to get basic market intelligence about supply base capabilities.</li> <li>Allows for easy access to basic information to identify a capable bid list.</li> </ul>	<ul style="list-style-type: none"> <li>Adds a step/time in the procurement cycle.</li> <li>A traditional request for information is arms-length, with suppliers simply responding with a formal written response to pre-defined questions that does not allow for more open dialogue.</li> <li>May be seen by suppliers as a buyer "fishing exercise" as a benchmark and, thus reduces the number of potential respondents or breadth of information received.</li> <li>Responses are usually standard solutions with rough order of magnitude pricing and may not fit the actual business need or reflect innovation that could be brought to bear.</li> </ul>
<i>eAuctions</i>	<ul style="list-style-type: none"> <li>Good for a pure "commodity" with clear specifications and no anticipated variation or changes in needs.</li> <li>Involves buying software or having a consultant run the auction.</li> <li>Leverages a competitive marketplace to quickly achieve the low-price bid.</li> </ul>	<ul style="list-style-type: none"> <li>Losing popularity.</li> <li>Not a good fit for more complex outsourcing services.</li> <li>Does not factor criteria like service levels, quality, or delivery.</li> <li>Assumes all items quoted are equal when, in fact, there may be differences.</li> <li>Over time there can be price creep as suppliers learn bidding patterns, enabling them to "game" the process to incrementally raise submitted bids across the bidding community of suppliers.</li> <li>Technology requirements or restrictions on response cycles can eliminate or discourage participation by valid, competitive suppliers based on the level of effort to respond.</li> <li>Often, the low bid in the near term is not the optimal solution over the long run.</li> </ul>
<i>Request for Price</i>	<ul style="list-style-type: none"> <li>Good for standardized goods or services with clear specifications and no anticipated variation or changes in needs.</li> </ul>	<ul style="list-style-type: none"> <li>Does not allow for selection criteria other than price.</li> <li>Does not allow for visibility to price/cost drivers that may inflate the total cost impact to the buyer.</li> <li>Often, the low bid in the near term is not the optimal solution over the long run.</li> </ul>
<i>Request for Proposal</i>	<ul style="list-style-type: none"> <li>Allows for additional criteria beyond price.</li> <li>Enables a supplier to expand their offering to include additional value add differentiators.</li> <li>Positions the buyer and supplier to have an expanded dialogue.</li> <li>A mature process that is well known to buyers and suppliers alike, which results in apples-to-apples comparison that facilitates buyer's ability to easily pick a winner.</li> </ul>	<ul style="list-style-type: none"> <li>Does not encourage innovation beyond the buyer's requirements.</li> <li>Does not gain full advantage of expertise for fear of margin erosion by the supplier.</li> </ul>
<i>Request for Solution</i>	<ul style="list-style-type: none"> <li>Allows buyers to work collaboratively with suppliers on more complex sourcing initiatives that may not have a single "right" answer.</li> <li>Challenges suppliers to come up with innovative solutions that can best meet a buyer's needs.</li> <li>With a mature buyer and seller, the RFS can set a foundation that will ensure success not only at contract signing, but also enable flexibility to achieve innovation throughout the life of the resultant deal.</li> </ul>	<ul style="list-style-type: none"> <li>Relatively new methodology; not formally recognized by procurement associations such as Institute of Supply Management.</li> <li>No "clear" best practice on what or how; consulting literature tends to "sell" the concept.</li> <li>Limited exposure in existing textbooks which openly shares advice on how the methodology works.</li> <li>Collaboration is typically used when selecting the supplier and not during negotiations, often causing frustration post supplier selection.</li> <li>Requires far more transparency than an RFP, which necessitates a great deal of trust on both sides of the table.</li> <li>Bids are not apples-to-apples, so buyer must have the maturity and process integrity to differentiate.</li> </ul>

alternative RFS methodology in a white paper titled “The RFP Will Never Be the Same.”<sup>4</sup>

While existing RFX methodologies offer benefits, many fall short for various reasons. (See **FIGURE 3** on page 54.) The following are several limitations of existing RFX methods.

### Proprietary Solutions

While some consulting firms are beginning to promote more collaborative approaches, their methodologies are proprietary. Proprietary solutions prevent buying organizations that choose to not use a consulting firm from learning and using sound methodologies. In addition, many buying organizations have smaller projects that do not warrant the budget for advisory services. In both cases, organizations do not have good options for learning how to successfully build collaborative procurements.

### Limited Focus on “Cultural Fit”

Existing methodologies focus heavily on how suppliers develop the “expert solution.” While the solution is essential, there is a need for the collaborative process to not just obtain “free consulting” from the supplier. Instead, there should be a desire to foster a spirit of collaboration designed to build trust and create a high-performing team. The collaboration process itself should be used as input for determining cultural compatibility and fit with the various suppliers.

### Ethics

Suppliers are reluctant to participate in collaborative procurement methodologies if they believe that the buyer is looking for “free consulting” or is likely to take a proprietary solution identified in an RFS and subsequently re-compete it to multiple bidders. The buyer’s goal is to achieve best price via an RFP rather than signing a deal with the company that proposes the optimal solution. In order to be successful, the buying organization must have:

**Strong processes,**

**A reputation for integrity,** and  
**Credibility with its supply base.**

### “Throw It Over the Wall” Mentality

Even a collaborative RFP process can go sour in the execution of the RFP when the interpretation is not clearly understood during negotiations. Too often, a collaborative RFP proposal will suddenly “disappear” because once the negotiation phase commences, the buyers turn to non-collaborative means, tactics, and discussions. The result? A traditional purchasing contract, focused on the wrong measures, desired end results, etc. This is especially true if the negotiation team is not the same as the procurement team.

### The Collaborative “Request for Partner” Bidding Method

There is a sixth RFX method—*request for partner* is a term coined by University of Tennessee researchers to describe a highly collaborative competitive bidding process used for strategic and complex sourcing initiatives. A “request for partner” process uses some of the key concepts found in the various RFX methodologies, but formalizes them into an open source methodology.

A key goal is to identify a supplier that is not only innovative and able to provide transformation through outsourcing, but which is a good “fit” for the organization. For this reason, the competitive bid process is very transparent and encourages collaboration—all the way from developing requirements through contract development and established governance mechanisms the parties will use after the contract signing. This highly collaborative methodology allows the buyer and supplier to not only develop the “solution” during the bidding process, but also to establish a working knowledge of how well the organizations work together.

Another important aspect of the “request for partner” process is the ability to select the supplier with a good “cultural fit.” Organizations that are using a “request

for partner” process are doing so because they want to create a highly strategic, long-term relationship—often purposefully created to drive transformation or innovation. Purposely picking a supplier with a strong cultural compatibility is an essential difference to a more “classic” way of sourcing.

The “request for partner” methodology is well-suited when a buying organization needs to develop a contract with a strategic supplier for a highly complex and strategic outsourcing initiative. It is also ideal when the buying organization is seeking a supplier who will play a major role in transformation or innovation. A key intent of the “request for partner” methodology is to create a highly collaborative, longer-term relationship where innovation, cultural fit, and a win-win mindset are embraced as essential to engage a dynamic environment. The process is purposefully designed to be used by buyers and suppliers that seek to contract using a more advanced performance-based/managed services or a Vested sourcing business model.

Due to the time and resources involved, a “request for partner” should be used for strategic outsourcing initiatives. A “request for partner” process requires a significant amount of stakeholder involvement from both the buyer and supplier’s organizations. As such, organizations that simply want a service provider to provide a commodity type service with low risk and a limited need for innovation should use a more conventional approach.

The “request for partner” uses a cross-functional team representing key business stakeholders and users that have responsibility for creating supplier down-select criteria. Subject matter expert stakeholders participate in:

**Proposal review,**

**Solution development,**

**Negotiations** and

**Transition planning.**

The “request for partner” also involves site visits to assess supplier capabilities and meetings with one or more of the poten-



tial supplier’s clients as references. Due diligence meetings include discussions on performance, and often involve validation of information from the RFP about capabilities and observation of the supplier “in action.”

Compared to other RFX methodologies, the “request for partner” requires the highest amount of supplier involvement. Like most complex sourcing initiatives, the “request for partner” methodology uses a multi-stage selection process. Suppliers making each “cut” have increased responsibility and involvement in the process, so that buyers can get comfortable with how potential suppliers will “fit” into their organizations. Suppliers that are shortlisted should expect to spend time in site visits and stakeholder workshops that will help develop their proposed solutions. These collaborative sessions are designed for a high degree of supplier interaction where the buyer and supplier develop operational knowledge of each other’s team and

how well the parties work together.

Five phases comprise the implementation of the “request for partner” methodology, as shown in **FIGURE 4** below.

Canada’s Vancouver Coastal Health, one of the six health authorities in British Columbia, employed this bidding methodology—which it called the “mutual value solution process”—when it chose Compass Canada as a partner for a public/private Vested relationship. This was a first of its kind for the Canadian government.<sup>5</sup>

### Conclusion

As organizations mature and their approaches to sourcing become more sophisticated, new bidding methods are needed to address the need to incorporate innovation into complex sourcing initiatives. A key trend that is proving successful is the shift to more collaborative approaches with suppliers. This means not only turning to more collabora-

tive sourcing business models, such as performance-based or Vested, but also includes incorporating more collaborative approaches into the competitive bidding process as well. Bringing collaboration into the bidding process enables buyers to work with suppliers to find both “solutions” and potential “partners”—not just on providing a “price” for a specification.

The “request for partner” methodology offers a promising approach that enables buyers to tap into the creativity and innovation of potential suppliers while still allowing for a competitive environment. The process allows suppliers to authentically create better solutions that are purpose-built for adding value and driving innovation for buyers. **CM**

**FIGURE 4.** The Phases of the Request for Partner Methodology

Phase 1	Phase 2		Phase 3	Phase 4	Phase 5
<i>Qualify Potential Suppliers</i>	<i>Discovery / Concept Solution</i>	<i>Solution Definition</i>	<i>Due Diligence and Validation</i>	<i>Contract Development</i>	<i>Implementation and Ongoing Governance</i>
Many suppliers	2-6 suppliers	2-3 suppliers	1 supplier (2 <sup>nd</sup> supplier in waiting)	1 supplier	1 supplier
1. Link sourcing initiative to Business Objective	5. Refine supplier selection criteria and prepare data to share with suppliers	10. Refine supplier selection criteria and prepare data to share with suppliers	15. Due diligence and validation of solution (by both buyer and supplier)	17. Contract drafting (negotiations conducted during drafting)	19. Onboarding of resources
2. Define selection criteria	6. Release Request for Partner to qualified suppliers	11. Supplier Stakeholder Workshops	16. Final solution confirmed	18. Final Contract signoff	20. Implementation of solution and governance structure
3. Develop Request for Information and / Request for Qualification	7. Supplier Discovery <ul style="list-style-type: none"> <li>▪ site tours</li> <li>▪ supplier accesses</li> <li>▪ stakeholder workshops</li> </ul>	12. Supplier Solution Synthesis Workshops			
4. Qualify potential suppliers for Phase 2	8. Supplier Concept Presentations (1 - 3 iterations)	13. Supplier Solution Proposal and Presentation			
	9. Concept evaluation and supplier down selection	14. Solution evaluation and supplier down selection			
Timeframe	4 weeks to 4 months	6 weeks to 4 months	1 week - 1 month	2 weeks - 6 months	
	13 weeks - 15 months				
	11 weeks - 9 months				

## ENDNOTES

1. This article is based in part on the 2016 white paper released by University of Tennessee researchers, "Unpacking Collaborative Bidding: Harnessing the Potential of Supplier Collaboration While Still Using a Competitive Bid Process," available at [www.vestedway.com/vested-library/](http://www.vestedway.com/vested-library/).
2. Vested is an outcomes-based sourcing business model developed by the University of Tennessee that establishes highly collaborative, win-win contracts designed to create and expand value over the long term. For more information on the Vested outsourcing methodology, see, generally, Kate Vitasek and Mike Ledyard, "Vested Outsourcing: A Better Approach for Better Results," *Contract Management Magazine* (November 2010); Kate Vitasek and Jeanette Nyden, "Vested Outsourcing: The Path to a Long-Term, Win-Win Contract," *Contract Management Magazine* (July 2012); Kate Vitasek and Karl Manrodt, "Contract Management the Vested Way," *Contract Management Magazine* (August 2012); Kate Vitasek, "Finding the Right Sourcing Business Model," *Contract Management Magazine* (July 2016); Kate Vitasek, "A Prescription for Collaborative Healthcare Outsourcing," *Contract Management Magazine* (October 2016); or [www.vestedway.com](http://www.vestedway.com).
3. University of Tennessee, "Unpacking Competitive Bidding Methods: The Essential ABCs of the Various RFX Methods" (2015), available at [www.vestedway.com/vested-library/](http://www.vestedway.com/vested-library/). The overviews of each RFX method that follows are derived from this white paper.
4. Thomas Young, "The RFP Will Never Be The Same: Emerging Approaches to Innovative Sourcing," available at [www.isg-one.com/knowledgecenter/whitepapers/private/papers/White\\_paper\\_-\\_RFS\\_Innovation.pdf](http://www.isg-one.com/knowledgecenter/whitepapers/private/papers/White_paper_-_RFS_Innovation.pdf).
5. The partnership of Vancouver Coastal Health and Compass Canada was examined in last month's issue of *Contract Management Magazine*—see Kate Vitasek, "A Prescription for Collaborative Healthcare Outsourcing," *Contract Management Magazine* (October 2016): 50-60.

## ABOUT KATE VITASEK

- ▶ International authority on outsourcing for her award-winning research and Vested business model for highly collaborative relationships
  - ▶ Author of six books on the Vested business model
  - ▶ Faculty member for the University of Tennessee's Graduate and Executive Education Program
  - ▶ Named by World Trade Magazine as one of the "Fabulous 50+1" most influential people impacting global commerce
- [www.vestedway.com](http://www.vestedway.com)  
[www.vestedway.com/category/from-the-blog](http://www.vestedway.com/category/from-the-blog)  
[@VestedWay](https://twitter.com/VestedWay)  
[/in/katevitasek](https://www.linkedin.com/in/katevitasek)

## 90 Minutes of Expert Education

NCMA Webinars offer professional development for you or your entire office from the comfort of home or work!

### Missed a live event?

Purchase the recording at [www.ncmahq.org/wod](http://www.ncmahq.org/wod).



## 100%

of surveyed NCMA webinar attendees said they would attend future NCMA Webinars.

**November 10:** Cost Accounting Standards and Consequences of Noncompliance

**December 1:** The New Mentor-Protégé Program: What Federal Contractors Need to Know

Earn 1.5 CLPs/CPE hours for each webinar you attend.

[www.ncmahq.org/webinars](http://www.ncmahq.org/webinars)