

EXPERT SERIES

The “Expert Series” is a collection of articles, papers and writings by PM Solutions’ associates and other industry experts that provides insight into the practice and value of project management.

Working with Vendors

Finding the right partners and nurturing the relationship

by John Casey

Just as Clint Eastwood philosophized in the “Dirty Harry” movies, “A man’s got to realize his limitations,” resourceful organizations realize that sometimes it makes sense to look for outside assistance when tasks or projects need to be done. You may consider outsourcing some of the tasks and projects or purchasing goods and services to meet objectives.

Whether you go outside your organization to outsource or to buy goods and services, you will deal with a vendor - or perhaps several vendors. This article examines establishing and maintaining vendor relationships during the various procurement stages.

To Outsource or Not To Outsource?

Prime candidates for outsourcing include a wide range of functions, from back office operational activities to corporate services. Examples of the range of outsourced items and services range from and include telecommunications, data/video communications and network management to managing entire operations.

Software application management activities, including development, maintenance, and support are frequently outsourced. Professional organizations are often contracted to manage projects and provide program management services.

Candidates for purchasing. You might decide to purchase finished products to help meet your organization’s goals and objectives. In many cases, the purchasing decision is made over other alternatives, such as building the product within your organization. Examples of products include infrastructure, equipment, hardware, and packaged, “off the shelf” software products.

Assessment and evaluation. It’s important to know the strengths and weaknesses of your organization. There are a variety of tools and methods available to perform assessments. You may discover you need help performing an assessment and interpreting the results and coming up with a plan for improvements.

Part of the evaluation and assessment includes a review of core competencies. From that list of core competencies, determine which tasks and services an outside vendor might better provide. List the goals you want to achieve from outsourcing or purchasing goods and services. Determine from the assessment if there are barriers to outsourcing or purchasing products and services within your corporate culture and what is needed to overcome them. Determine the most appropriate kind of vendor relationship.

Analyze current expenses. Another consideration for use of outside resources is reducing costs to perform specific functions or to acquire certain products. Many organizations do not realize the total impact on internal costs of performing a business function. In order to evaluate outsourcing or purchasing as a strategic tool, a cost analysis is required. Full-Time Employee count (FTE) is usually the most significant cost. Additional costs to consider include recruitment, employee benefits, training, management time, communication, office expenses, equipment, and employee turnover.

Typical signs of need. Included among the most common reasons tasks are outsourced or purchased are the need to focus on core business activities and the realization that your organization does not have the skills needed to perform specific tasks and that there is no long-term need for the missing skill set. Outsourcing and purchasing provide effective methods of quickly adding valuable skills, scarce resources, and finished products.

Contract labor vs. consultant vs. service provider. There are a couple of different approaches you can take to meet outsourcing needs and fill any identified resource gap. Your selected approach should complement both your immediate outsourcing strategic goals and reinforce the type of vendor relationship you want to establish and maintain.

At one extreme, you can contract labor to perform just about any task. With staff augmentation, you hire a resource to perform a specific task or job for a specific hourly rate or rate for the job. At the other end of the spectrum, you can engage a full service provider that will oversee the management and operation of an entire program. You can also select any point along the continuum and contract for any level of service that meets your goals.

The RFx (RFI/RFP/RFQ) Process

The Request for Information (RFI), Proposal (RFP), and Quotation (RFQ) are different methods used to gather information, evaluate available options, and select vendors and their products. In general, an RFx is needed when a predetermined dollar or effort threshold would be exceeded. The RFx process is used for both outsourcing and purchasing. Each of these methods use a standardized format limited to specific topics and explicit areas of interest, and each is an effective information gathering tool. Within the context of this article, RFP and RFQ are treated the same. The differences between the RFI and the RFP/RFQ are important.

RFI or RFP/RFQ—Which to use? An RFI is merely a request that implies you may have an interest in a topic, project, or product and that you are merely gathering data that may potentially be used for further evaluation. No commitment or intent is implied or conveyed. RFIs are likely to be wide-ranging. They result in uncontrolled responses that are difficult to compare. RFIs are often used to find a suitable set of vendors to which you subsequently issue an RFP/RFQ. For example, you may issue an RFI to 10 vendors to reduce the RFP/RFQ list to a few. An RFP and an RFQ imply you are probably going to make a commitment to one of the vendors you are contacting. The RFP and RFQ specify a required format for responses, standards to be used in the evaluation process, acceptance criteria, expectations of confidentiality, and so on.

RFPs and RFQs are specific in detail. Responses from multiple vendors are easy to objectively evaluate and compare. RFPs and RFQs should be constructed so that they can be included as a part of the final vendor contract.

How to approach the RFx process. As you decide to enter the RFx process, you will need to go through the following steps:

- Develop a quality RFx, focused on your requirements.
- Use each RFx method with an understanding that the responding party will consider the degree of commitment. You may assume they will provide the appropriate level of effort required to articulate a response. Vendors know the difference between an RFI and an RFP/RFQ.
- When reviewing responses, focus on your requirements, not the vendor's strengths. Create a tool that enables comparisons among vendor responses. Online services such as Gantthead provide basic information-gathering templates that can be easily modified to meet your needs; see examples at www.gantthead.com/, search keywords vendor and vendor templates).

Beyond RFx

In addition to the RFx process, it is important to include other activities as part of your due diligence; background checks, networking with peers and following up with existing customers, including vendor references. Information gathered through the RFx processes can be combined with the results of your other vendor research as part of your basic information-gathering template.

Background checks. In the 1 July 2001 issue, CIO points out that “due diligence means taking the time to conduct background checks on the vendor and its management team, and thoroughly investigating its financial position.” The financial reviews call for close examination of reported actual and anticipated revenues. Look for other than financial signs of stress, including turnover at the executive level, downsizing, restructuring, and rumors of organizational disruption. You want to do everything you can to ensure that you’re doing business with a vendor that is likely to survive and be around to fulfill its obligations.

Networking with peers. Business professionals solicit first-person accounts of vendor experiences from peers and acquaintances who hold similar positions in other organizations. In the August 1, 2002 issue, CIO references results of a study conducted by IT Services Marketing Association that finds 52% of IT buyers make purchase decisions based on referrals from colleagues.

Existing customers and vendor references. An important source of information is the experience of current customers. Most vendors have a list of customers they routinely use as references. Customers serving as references are often rewarded for doing so. That may influence opinions.

When conducting inquiries at existing vendor customers, speak with both the individuals who negotiated the contract with the vendor and those who use the vendor’s service and products on a day-to-day basis. Be prepared to ask questions related specifically to your needs and ask for examples of how similar situations were handled by the vendor.

You may also want to request a list of references made up of those who decided not to use the vendor. These reference checks will provide insights to reasons for alternate selections. They will also confirm whether or not information provided by the vendor is reliable.

Subjective analysis. With all the combined information from the RFx process and other checks listed above, you still need to feel good about the prospect of working with the vendor and its support staff. Your impressions and opinions about what it will be like to do business with the vendor must be considered as part of the final analysis. That’s not criteria that can be quantified, but it is a basic ingredient required to establish a meaningful relationship.

Contract Negotiations

After completing the initial assessment and needs analysis, RFx process, comparison of RFx results and side-by-side vendor evaluations, and final vendor selection, you need to capture key elements in a vendor agreement (contract). The legal department will come up with the legalese officially spelling out the details, but you need to make sure several items are included in the formal agreement. Acceptance criteria, support, and the problem escalation process are areas that must be clearly defined and agreed to in any vendor agreement.

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Acceptance criteria. Acceptance criteria are used to define what it takes to make sure you are satisfied with the services or products provided. Acceptance criteria typically focus on measurable deliverables, such as performance and compatibility with your existing processes and methods of doing business. Be certain your quality standards and criteria are included. Support, service level agreements, and problem escalation process. The vendor usually outlines support and Service Level Agreements (SLA) in the initially offered contract. An SLA must meet your expectations and needs. The initially offered SLA must be modified to satisfy your needs. Definitions describing different levels of the severity of reported problems or incidents must be clear and unambiguous. Time frames for problem resolution must be clearly spelled out and leave no doubt about when unresolved issues are escalated to the next level. SLAs must be measurable and enforceable.

The April 16, 2002 issue of Network Computing offers an article by Kevin Murray, titled “Managing Your Vendor” (www.networkcomputing.com/1208/1208ws2.html), that provides several suggestions to effectively construct a solid SLA that demonstrates a vendor’s commitment to provide a quantitative level of service.

Among the recommendations:

- Demand a lot from vendors and hold them accountable for poor service.
- Challenge them to be efficient and to pass along those savings to you.
- Challenge them to be innovative and to help you deliver better service to your organization.
- Include the names of key service employees, documented acceptable service delivery levels and negotiated commitments on key service metrics.
- Identify and clearly communicate unique business requirements and set service level expectations.

Once negotiations are completed and the contract is signed, it must be actively managed. Terms and conditions, commitments to specified deliverables and delivery dates must be aggressively controlled. The agreement must be enforced to ensure reaching your goals and obtaining the value identified in your earlier justification analysis.

Going for the Win-Win

The website of the Outsourcing Institute (www.outsourcing.com) provides outsourcing guidelines and services to buyers, providers, and influencers on outsourcing propositions. In a set of guidelines titled “Effectively Managing the Outsourcing Relationship,” they recommend “emphasis from the outset should not be on who wins the best deal, but rather on negotiating a fair and reasonable contract for both parties.

Because each aspect of the outsourcing relationship is governed by the contract, both the organization and the outsourcing vendor need to agree on everything.” The same principle applies to purchases.

The legalities. Bierce & Kenerson (www.outsourcing-law.com), a law firm that advises on outsourcing decision making and business process from the customer’s standpoint, offers the following recommendations about outsourcing contracts: The vendor’s compliance with the outsourcing client’s goals will be governed by contract. The vendor’s responsibilities under the contract, therefore, should be described in detail. Often, the contract presented by the vendor describes its responsibilities only in general terms, making it difficult to determine what the vendor is required to provide. The outsourcing client’s contract, on the other hand, should detail performance requirements and time frames pursuant to which each performance milestone must be completed. These milestones may be tied to payment schedules and act as incentives for the vendor’s timely completion of the project. The client should also expect to describe in the contract what it would need to provide to the vendor (in terms of staff, equipment, and know-how) to enable the vendor to perform its services. The contract should also describe how quickly the vendor would respond to any request for support services and how long it will take to initiate the corrective action. Again, the same principles apply to purchases.

Relationship management

The customer/vendor relationship should strive to be mutually beneficial and be built on respect, commitment, communication, and give and take. The relationship should be two-way. All parties deserve respect from the other. The relationship should be consistent and comfortably predictable.

Partners, not adversaries. There are many comparisons between the evolution and maturity of customer/vendor relationships and relationships among individuals.

There is a “courtship” phase, an establishing-and-maintaining-the-relationship phase, and a phase where the relationship is no longer mutually beneficial and should be terminated.

During the courtship phase, both the customer and the vendor build a strong foundation. The customer should strive to be explicit and upfront in describing the products and services they intend to buy. The customer and vendor may want to establish a method to set price to match or be based on performance criteria. A set of metrics should be established early on that provides day-to-day accountability for service delivery.

Both parties should strive to exceed obligations, going beyond the strict interpretation of the contract. The customer and the vendor need to work collaboratively to ensure success.

When the relationship is going well. As the relationship matures, it should be managed and reviewed on an ongoing basis. Each party should explore ways to improve the relationship and improve the overall health of the relationship. The vendor should make an effort to understand its customer’s critical business issues and opportunities. The vendor should examine additional products and service that may help the customer follow their strategic path and reach established goals. The customer should examine the products and services being delivered by the vendor and constantly let them know their level of customer satisfaction.

How to maintain the relationship beyond the specific contract. There should be constant evaluation and adjustment by both parties. Both should focus on cooperating with each other to create value over time. Pursuing this relationship will help develop trust and result in a mutually beneficial long-term relationship. Ongoing, open and frank communications is critical.

How to graciously end it. Relationships do not always work out as planned. If the goals of the customer and vendor are not in sync and do not complement each other, plans to terminate the relationship should be developed and implemented. Do not try to force a bad relationship to work. When things are not working out, neither party should be afraid to confront the other.

The escalation process defined in the contract should be invoked when necessary. Fines and penalties for noncompliance should be invoked.

When ending a relationship, think through all of the implications. Move slower than you would like to in this situation, as self-protection.

REMEMBER THE GOALS you set when pursuing outsourcing or purchasing as a strategic initiative. Many companies struggle along in bad vendor relationships for lack of a way to measure whether or not such arrangements are meeting their requirements.

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