

# *eRFX Strategies for Success*

Getting the most out of your  
eSourcing events



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*With significant contributions from our talented  
SafeSourcing team both past and present.*

Every sourcing project is different, from the data you start with to the results you hope to achieve and how to get there in a way that delivers great results and great participation. Knowing where to start and the path to travel is key to achieving both of these goals.

SAFE SOURCING



## ***eRFX Strategies for Success – Getting the most out of your eSourcing events***

The world of procurement is continually changing, and this includes the world of eProcurement when it comes to the request for information, a proposal, or a quote. The differences between the three requests, what expectations are when receiving the requests back, and how to make a sound business decision with what has been submitted are what separate each stage in giving procurement professionals the blueprint as to where to begin in the process.

### **The Request for Information (RFI)**

A Request for Information (RFI) is a request made typically during the project planning phase where a buyer cannot clearly identify product requirements, specifications, and purchase options. RFIs clearly indicate that award of a contract will not automatically follow.<sup>1</sup>



An example for use of an RFI would be if a company acquired a used warehouse that needed to be turned into a distribution center. The facility has some racking installed but needs more. There has not been a defined idea of what layout will be needed to improve the warehouse for DC use, nor what types of rack are needed, how much material is needed, nor how long it will take to install the racking. The existing racking is in adequate shape but it is unknown whether it is safe, placed appropriately, outdated, or even needed in any way. A situation like this is often a good time to rely on experts to provide feedback as to these needs. The best practice would be to get a minimum of 3 sets of data submissions, but I'd recommend getting 4 to 6 submissions from your request for information from racking manufactures, distributors, and/or installers.

The higher supplier count, in an area where you have no knowledge, provides the necessary data to begin to make more informed decisions. With at least 3 submissions it becomes clearer if there are major differences between suppliers and how they operate. Lead time, outsourcing, and geographical coverage are all very important pieces of information to gather from the suppliers at this stage of a sourcing project.

The application of an RFI can be used on new goods for use, re-sale, packaging design, any and all services, software, hardware, equipment of any kind, actually it is limitless as to what you can utilize an RFI for in business.



## The Request for Proposal (RFP)

A Request for Proposal (RFP) is a document used in sealed or electronic bid procurement procedures through which a purchaser advises the potential suppliers of (1) statement and scope of work, (2) specifications, (3) schedules or timelines, (4) contract type, (5) data requirements, (6) terms and conditions, (7) description of goods and/or services to be procured, and (8) instructions for preparation of technical, management, and/or cost proposals. As an example, government RFPs are publicly advertised and suppliers respond with a detailed proposal, not with only a price quotation. They provide clearly quoted specifications for negotiations after sealed proposals are opened, and the award of contract may not necessarily go to the lowest bidder.<sup>2</sup>

Breaking down each of these 8 pieces of information will help to form an understanding as to whether there is enough detail to move straight to an RFP, thus skipping the Request for Information altogether.

**Scope of Work:** This refers to all of the elements that should be included in the proposal for the project and is generally specific to each customer along with the data and metrics provided to shape it. Simply, this is the definition of the needs and expectations for the work needing to be completed.

**Specifications:** “An exact statement of the particular needs to be satisfied, or essential characteristics that a customer requires (in a good, material, method, process, service, system, or work) and which a vendor must deliver. Specifications are written usually in a manner that enables both parties (and/or an independent certifier) to measure the degree of conformance. They are, however, not the same as control limits (which allow fluctuations within a range), and conformance to them does not necessarily mean quality (which is a predictable degree of dependability and uniformity).”<sup>3</sup>



Generally, specifications will be broken into either performance or technical specifications that define the types of goods or services needed from the vendor community. Developing strong specifications ensures proposals containing exactly what is needed. As a result, vendors will know not to over bid or under bid.

**Schedules or Timelines:** This is the time frame of the expectation of when the RFP is sent to the vendors, when questions (about the specifications or the RFP process) are due from the vendors, when



the vendors can expect the questions with answers to be returned, and when the RFP is due to be completed.

**Contract Type:** This defines to the vendor if the contract is a spot buy, a one year, two year, or longer contract. There may also be additional special contractual requirements added within this area.

**Data Requirements:** This can vary from RFP to RFP, but every project should collect basic information about the vendors such as, their name, address, primary business, who the primary contact will be with their specific contact and other related information, usually a list of 3-5 references and a list of current businesses that are similar in size to the company running the RFP.

**Terms and Conditions:** General and special arrangements, provisions, requirements, rules, specifications, and standards that form an integral part of an agreement or contract.

**Description of Goods and/or Services to Be Procured:** This description defines what is being requested. It is a bridge between the scope of work and the specifications. This area is typically where vendors are asked to give their proposal of price based on the needs defined and within the guidelines of the specifications.

**Instructions for Preparation of Technical, Management, and/or Cost Proposals:** These are the details on how to complete the RFP. Typically the supplier will be given a deadline to complete the RFP, to complete training on how to enter Responses and Pricing, and the additional information the customer may need as supplemental documentation and how to submit that information.

In the example I used in the RFI section, (Owning a new or used facility and turning it into a Distribution Center) It may be known where the racking should be located, how much racking is required (this would include a set materials listing), the details of labor to install new materials and remove and re-rack another area. All of these details are required for the suppliers to bid the job appropriately. Within a very detailed RFP there are fewer chances for over or under bidding from the suppliers. The quality of an RFP is very important to successful project management because it clearly delineates the deliverables that will be required.

The details received from an RFI can be used to build the specifications for an RFP. Multiple suppliers have verified and provided details needed to complete the project. The RFI may also produce details not previously known, for instance in the racking project: if the location is in California or other geographic areas prone to seismic activity a seismic analysis will also be required to complete the work. This can be completed, but for an additional charge from the supplier. Suppliers may all have similar products, but they may not be compatible to other supplier's materials. In other words, their product will be proprietary and not interchangeable if a repair is required in the future. These details and more need to be inserted into the new RFP.





So how can an RFI be combined with an RFP? If there needs to be a high level of knowledge about a product, project, or service, but the same supplier has been used exclusively for a long period of time and it is unclear as to whom additional sources of supply might be. An RFI could be combined by asking the questions specifically related to the new potential suppliers; who are they, where are they located, what is their business structure, who the contacts are, what areas or locations can they service, what are their references, etc. Along with the specifications and details of the RFP, an overall picture will develop of who the company is, what they can or cannot provide, and what their pricing structure will be.

With an idea of how to collect information on a project with little initial data through an RFI and details on collecting RFP responses with the known information, the next step is ensure understanding relative to the best value, data and price from the suppliers that can handle the opportunity.

### **The Request for Quote (RFQ)**

A Request for Quote is typically used to solicit price and price related details such as freight, that meet minimum quality specifications for a specific quantity of specific goods and/or services. “RFQs are usually not advertised publicly, and are used commonly for (1) standard, off-the-shelf items, (2) items built to known specifications, (3) items required in small quantities, or (4) items whose purchase price falls below sealed-bidding threshold. Suppliers respond to an RFQ with firm quotations, and generally the lowest-priced quotation is awarded the contract.”<sup>4</sup>

Though the above historically represented the industry standard as to what an RFQ was, it is important to expand on each of the points and understand the pieces from a historical and practical standpoint. With online eProcurement tools suppliers have an indication of where they stand and an opportunity to adjust their pricing should they choose. In standard practice this is done by phone calls or e-mails and one at a time. As such it is very time consuming and does show some savings, but not nearly the rate of success online tools have historically provided.

**Standard, Off-the-Shelf Items.** This is a standard misconception of procurement departments everywhere. The fact is that virtually any product or service can be taken through the eRF process. Strategic Sourcing solutions providers with extensive global supplier databases can invite a number of new suppliers to participate in the bidding process on whatever items or service may be required. Many will have some level of experience in successfully participating in eRF events in a variety of functional areas within the organization such as HR, Marketing, Construction and IT to name a few.

**Items Built to Known Specifications.** While this is a valid concern, it is also the biggest reason why projects are never taken out to bid; not having specifications or having the time to assemble them. Working with 3<sup>rd</sup> party procurement solution providers companies are more able to cover all of their needs, taking into consideration all of the moving parts that affect these items. Such as freight, fuel surcharges, additional fees and hourly rates. Results can be achieved that are comprehensive enough to allow strong decisions once the project has been completed.



**Items Required in Small Quantities.** Another misconception about RFQs are the quantities of items that can be sourced and duration of time for which those quantities are needed. There should be no limits at all, including number of items to have the suppliers bid on. With that established, however, there are always unique strategies to every RFQ so that the host company can end up with the most complete set of information while allowing suppliers to focus on those areas that need the most attention. This is part of the service that needs time to be considered as sourcing projects are strategized and developed.

**Items Whose Purchase Price Falls Below Sealed-Bidding Thresholds.** The recommended approach for pricing within the RFQ should be analyzed based on the historical spend, also taking into account

any price indexes that can affect future pricing increases. Using historical spends and any additional information available, a max quote is often established that the suppliers must meet prior to participation. Setting a price decrement is also strongly recommended, and often plays a key role in the strategy as to how you would like to have the suppliers act, giving them the flexibility to make price adjustments they are comfortable with while driving savings as part of the process.



Understanding the differences between historical RFQ strategies and changes that are resulting in stronger results is the beginning of assembling the right strategy for your project. Strategies that have proven successful in the past generally have similar features in common and drive the two most important aspects of every project; valuable results and supplier participation.

**Details, Details, Details.** In the RFQ, send an invitation to potential suppliers containing a detailed list or description of all relevant parameters of the intended purchase, such as:

- Personnel skills, training level or competencies
- Part descriptions/specifications or numbers
- Quantities/Volumes
- Description or drawings
- Quality levels
- Delivery requirements
- Term of contract
- Terms and conditions
- Other value added requirements or terms
- Draft contract

An RFQ event can have many suppliers participating in your project. They will all be actively participating during the RFQ in a preset timeframe, which is usually 20 minutes, but can be adjusted when the line item count grows over 25 items. Within the 20 minutes, suppliers can lower their bid



pricing an unlimited amount of times. Like sealed bidding, suppliers cannot see one another's pricing. Suppliers see whether or not their quote is the low quote through the use of a low quote indicator when they achieve that milestone by fishing for it. Suppliers may also see their ranking at a predetermined point in the RFQ process if the strategic decision to use that feature has been made.

**Missing Pieces.** An easy way to establish specifications and develop base pricing is from the RFP responses submitted earlier. Many times a list of suppliers is established that has already been educated on entering pricing through an online sourcing or bidding tool. The RFQ gives the supplier the opportunity within the live RFQ to view whether or not if they have any low quotes and to “sharpen their pencils” in order to lower their pricing if they wish to do so. From this RFQ, an award of business based on the results can be made.



**Training and Communication.** Suppliers should be trained as to how to use the eProcurement system, how to place their bids, how to look for the low quote indicator, and also be communicated with relative to questions, pricing, and products and services you are looking for. The overall goal is to drive the best overall value, so suppliers should have an opportunity to enter notes during the RFQ. This additional information often offers additional hidden savings opportunity, i.e. if 1,000 cases are purchased rather than 900 cases, additional discounts, or other value added services such as freight waived for the first 6 months of a 1 year contract if awarded the business. These additional notes can provide and overall benefit, rather than just a low price wins.

Returning to our original RFI example of a company owning a building they intend to repurpose as a Distribution Center, the process began as an RFI in order to understand what was needed so it could be followed by an RFP in order to collect further detailed information and base pricing. These two steps were then followed by an RFQ in order to compress the pricing from suppliers who participated in the RFP and were invited to this final stage. In this last stage running the line items as a complete list of materials rather than an item by item list, total cost of freight, total installation pricing- which could include teardown pricing which could also be listed as its own line item can have great value and provide the opportunity for the suppliers to keep their focus where it is needed rather than on 100's of individual line items submitted during the RFP. The four items mentioned here represent the largest spend items of the proposal and have the opportunity to lower pricing by 20% or greater from the original RFP pricing.

Determining what stage of the eRFx process to begin with and how to assemble those pieces can be a difficult puzzle to put together especially if a procurement team is already engaged in a myriad of other daily activities. A good Strategic Sourcing solution provider can help put these pieces together in a way that requires less of your company's time and resources.



## **ABOUT SAFESOURCING**

SafeSourcing Inc. provides innovative eProcurement tools through its SafeSourceIt™ family of procure to pay tools that can increase efficiency and improve profitability for our customers, and provide superior value for all stakeholders. In addition to providing information, tools and services, SafeSourcing proactively supports consumer safety and environmental standards throughout the global supply chain management process. To learn more, visit [safesourcing.com](http://safesourcing.com) or contact [marketing@safesourcing.com](mailto:marketing@safesourcing.com), 866-623-9006.

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## About The Founder



Ron is the founder and CEO of SafeSourcing Inc. with more than 40 years of experience working in a number of industries. Ron was formerly the President and CEO of Intesource, an internet based Spend Management Company. In prior roles, Ron served as the Executive Vice President at Trax Retail Solutions. After leaving the U.S. Air Force as an inventory management specialist, Ron began his career at NCR Corporation where he eventually served as the Vice President and General Manager of an NCR Global Software business unit.

Ron holds a Bachelor of Arts degree and Bachelor of Science degree from Bridgewater State University in History and Psychology, respectively, and has also completed certificate programs at the American School of International Management. Ron is also a U.S. Air Force certified inventory management specialist AFSC 645XO.

A well-known industry speaker and writer on a variety of subjects including technology, operations, risk management, the supply chain, and Sarbanes Oxley; Ron is also a proud US Air Force Veteran.

Ron was a featured guest on “World News Review” CNBC, Sky Radio and has been honored on multiple occasions as one of the industry’s “Pro’s to Know” by Supply & Demand Chain Executive Magazine. He is an author of over 1,000 posts at The SafeSourcing Blog on a wide range of subjects regarding Spend Management, Cost Reduction and Optimization and eProcurement including the entire Procure to Pay process. Ron has published a number of white papers, including “Reimagining Procurement”, “4 Tips and 3 Pitfalls to Avoid when Sourcing Professional Services”, “Safety in the Supply Chain, An Irony”, and “Construction Sourcing with eProcurement Tools” amongst others.

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