Global IT Outsourcing, Selecting Providers - The RFP and Vendor Selection

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OVERVIEW - SELECTING PROVIDERS, THE RFP AND VENDOR SELECTION

This paper looks at next step is Global IT outsourcing process – selecting providers and details in-depth process involved in RFP and vendor selection process. Paper will explore, analyze and explains following areas of Global IT Outsourcing- Selecting providers, RFP and Vendor selection:-

1. Outsourcing feasibility study and describes the use of the screen types in the feasibility process.

2. Explore and explain uses for an RFP. How is it developed and why? Include the benefits of using an RFP in your discussion. Identify some important attributes placed in the RFP.

3. Explore and explain key factors in constructing service level agreements. Identify and explain other measures that are used to ensure that vendor performance is at expected levels.

4. Identify and explain five criteria that are highly important in selecting an outsource vendor.

OUTSOURCING FEASIBILITY STUDY AND USE OF SCREEN TYPES IN THE FEASIBILITY PROCESS

In a typical IT Outsourcing process has Strategy phase, Scope phase, Negotiation phase, Implementation phase, Management phase and Completion or termination phase. As explained in our book by D. Brown and S. Wilson (2005, p. 25), in Strategy phase we "define the objectives and scope of the outsourcing concept and determine the "feasibility" of outsourcing before making the decision to proceed". A feasibility study is an important stepping stone when business is thinking about IT outsourcing. A outsourcing feasibility study is a controlled process for identifying problems and opportunities, determining objectives, describing situations, defining successful outcomes and assessing the range of costs and benefits associated with

several alternatives. It is estimated that only one in fifty business ideas are actually commercially viable. Therefore a Business Feasibility Study is an effective way to safeguard against wastage of further investment or resources (Gofton 1997; Bickerdyke et al. 2000).

Conduct the Feasibility Study

As per book by D. Brown and S. Wilson (2005, pp 73-75), "The outsourcing feasibility study is composed of a series of four screens through which every outsourcing idea should pass before you conduct a more detailed evaluation".

1. "Core Competency Screen" – In the first screen business identifies core competency, if the function or functions under consideration for outsourcing are central to the organization's competitive success, those core functions are not strong candidates for outsourcing.

2. "Cost of Control Screen –The second feasibility screen is the cost of controlling a vendor. Service providers are controlled through governance mechanisms that are part and parcel of the vendor relationship. The contract is a critical part of control and of the relationship. If complete contracts can't be written to anticipate all future contingencies, other means will be needed to control the vendor, to guarantee that the outsourced work will be successfully completed."

3. "Goals Screen – Companies that rush into outsourcing without fully understanding what they hope to gain soon find themselves mired in a contractual battle and, worse, without the improved services they signed on for. Sensible reasons to consider outsourcing are both strategic and tactical. Outsourcing is never a way to "wash management's hands" of a poorly managed, misunderstood function. Understand the costs, problems, and potential of a function before deciding whether to outsource it."

4. "Scope Screen – Outsourcing can be divided into two general categories: *total* and *selective.* Total outsourcing involves contracting out 80 percent or more of the function. Selective outsourcing involves outsourcing a few functions that total less than 80 percent of the whole.

Methods for identifying functions that might be selectively outsourced include opportunistic, problem-focused approaches and more methodical planning approaches. There is a framework for determining the kind of vendor relationship most appropriate to various circumstances."

REQUEST FOR PROPOSAL (RFP) – USE, HOW TO DEVELOP, BENEFIT AND ATTRIBUTES

As per the book, RFP is "document detailing a customer's outsourcing requirements and the evaluation criteria that will be used for selecting a provider. An RFP is typically sent to a limited number of potential providers (around three to five), that have been previously qualified as capable of delivering the needed services (Brown and Wilson, 2005, p. 351)".

The second phase in IT outsourcing process is 'Scope phase', in this phase "You establish baselines and specify the service levels required of vendors. You clarify relationships between the function(s) to be outsourced and those functions that remain in house, to include proper interfaces. You develop the '*request for proposal (RFP)*', collect and analyze responses from vendors; and, finally, choose a vendor (Brown and Wilson, 2005, p. 25)," During RFP preparation process, business develops a responsibility matrix and communicates it to service provider. Also it is important to include expected Service Level Agreement (SLA) in RFP document. Over the past 20 years, the outsourcing request for proposal (RFP) process fueled the growth of IT outsourcing on a global basis. It served as a framework for organizations to evaluate service providers and their proposed solutions. Overall, it provided buyers with the details to reduce the risk related to large global IT outsourcing initiatives and led to identification of best practices, templates, and processes that leveled the playing field for unsophisticated buyers. For service providers, the RFP process initially provided a structured platform to present their solutions and differentiate their services.

As explained in the book by D. Brown and S. Wilson (2005, pp. 137 - 138), "A well-developed RFP accurately describes:

- "Scope of the service"

- "Human, equipment, data, and other resources currently used"

- "Financial base"

- "Preferred service levels"

- "Desired pricing methodology"

- "Exclusive requirements regarding affected buyer's staff"

- "Key legal provisions governing the relationship"

The most important aspect of an RFP is clarity. It avoids the waste of time caused by uncertainty and the resultant tendency for PPs to submit their usual and general claims for excellence. The time spent up front developing the key elements will result in more PPs responding to the RFP. And the more responses you get, the more choices you will have in choosing a provider.

There are many benefits to writing an RFP, RFP is to inform suppliers what your company is looking from business outsourcing and it encourages these companies to make their best effort in meeting your requirements. In an RFP for business outsourcing you will be specific to the products you would like to use in your project. For instance, if you want to upgrade your file servers and you would like to use IBM servers then you should specify this requirement. The more specific you are with your requirements and your budget, the better bids you will receive. An RFP also forces suppliers to be realistic and factual identify your requirements when they come back with an offer on your RFP. It also allows for a larger response to your request for business outsourcing. It also gives you the opportunity to let the suppliers know that the process

of selection is competitive. A closed bid selection is the best way to go when you are looking at suppliers bids on your project.

SERVICE LEVEL AGREEMENTS – KEY FACTORS AND VENDOR PERFORMANCE

Defining your company's service level requirements is a critical step in IT outsourcing. This includes describing the services and desired availability of services, along with support, performance, reliability, and security requirements.

Key Factors - SLAs

As explained in book by D. Brown and S. Wilson (2005, pp. 122-123), "A practical outsourcing SLA structure begins by describing standard requirements such as start and end dates for the service, the schedule for reviewing performance, and documentation to be used in measuring the service. The SLA should then carefully outline the scope of services, including":

- "Assets, equipment, and infrastructure to be serviced"

- "Types of services to be provided"

- "Decisions to be made by the provider"

- "Decisions to be made by the client"

"Equally important is a breakdown of fees, with both penalty and incentive provisions clearly outlined":

- "Amounts period by period"

- "Volume of work covered"

- "Quality of work to be provided"

- "Provision for over- and underperformance"

Guidelines for selecting specific outsourcing metrics include:

- "Aligning metrics with the business goals of the service"

- "Selecting metrics that enhance the ability to diagnose problems, escalate attention, and remedy performance issues"

- Limiting the metrics for each service to one or two encompassing measurements"

"In outsourcing relationships, the tightest service definitions produce the most successful situations. Effective service level agreements (SLAs) identify the expected results and the measures by which both parties can assess performance. As binding covenants with the influence of standard agreements, SLAs for outsourcing frequently require sophisticated legal and technical expertise because of their complexity and scope. Importantly, most outsourcing failures occur because neither side has expressed how to evaluate the progress made against a specific target. Accordingly, clear performance areas and consistent, effective measurements are essential to outsourcing success for buyers".

Establish an oversight process to monitor vendor performance during the life of the contract is very important to get long term benefit of IT outsourcing relationship. After the PP has been selected and the contract signed, it is important to manage and monitor the relationship. The author, Rushton and Walker (2007) four key stages for vendor performance monitor are:-

1. "Set goals/establish key performance indicators (KPI)"

2. "Track performance"

3. "Identify improvement opportunities"

4. "Review and refine"

As per web page http://www.philadelphiafed.org/bank-resources/publications/consumer-compliance-outlook/2011/first-quarter/vendor-risk-management.cfm, performance monitoring controls include:

- "Periodically analyzing the vendor's financial condition and performing on-site quality assurance reviews"

- "Regularly reviewing metrics for the vendor's performance relative to service level agreements"

- "Reviewing complaints for services or products handled by the vendor and conducting anonymous testing if applicable"

- "Assessing whether contract terms are being complied with"

- "Testing the vendor's business contingency planning"

- "Evaluating adequacy of the vendor's training to its employees" and

- "Periodically meeting with the vendor to review contract performance and operational issues"

SELECTING AN OUTSOURCE VENDOR - CRITERIA

Paul Walsh, Chairman and CEO, eFunds Corporation once said and published in our textbook (Brown and Wilson, 2005, p 111), "selecting an outsourcing provider is a critical business decision that is about much more than just wage arbitrage. You should select a provider that offers a flexible delivery model, has the domain expertise in your industry and has the process transformation capabilities that will help you meet your strategic initiatives and add to your bottom line".

Below diagram (D. Brown and S. Wilson, 2005, p117) explains key criteria's while selecting vendors are:-
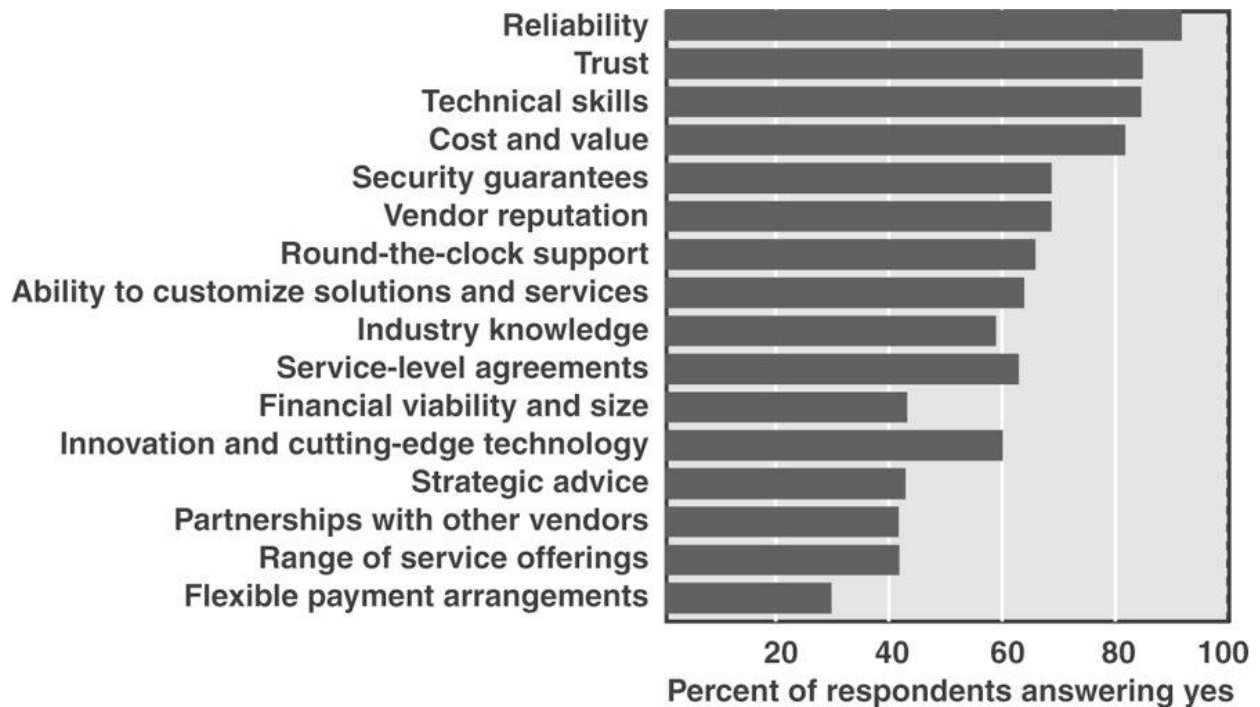
Data: InformationWeek research analyzing the outsourcers' study of 700 business technology professionals, November 2002. (Screenshot from D. Brown and S. Wilson, 2005, p. 117)

Choosing an appropriate vendor is a crucial step when get on an IT outsourcing project. As explained in webpage, http://www.infotech.com/research/key-criteria-for-selecting-an-application-outsourcing-vendor?c=unlock1, following key criteria should be taken into consideration when selecting an application outsourcing vendor:-

1. "Strong Governance and Project Management - Strong governance and project management, both internally and externally, are key predictors of success in application outsourcing. It is important to choose a vendor that will help establish good governance and project management through strategies such as:

   a. Assigning a resource to manage the outsourcing project.

   b. Establishing strong communication.

   c. Sticking to a solid contract. The vendor should be open to a contractual agreement that outlines key milestones, deadlines, and deliverables, as well as the inclusion, tracking, and enforcement of service level agreements (SLAs) and metrics".

2. "Strong References - It is important to take the time to look into vendor references. These references often hold crucial information about vendors that has been gained through actual experience".

3. "Industry and Technology Experience - Choose a vendor that has the knowledge base required for the project at hand. Organizations that emphasize vendor industry experience in their selection process report high levels of satisfaction with their application outsourcing projects".

4. "Experience Dealing with Same Size Enterprises".

5. "Flexibility - Changes in technology, business priorities, project scope, budget, and expectations can occur throughout the outsourcing project. It is important to choose a vendor that can adjust to and handle future needs"

6. "Strong Development Methodology - It is important to ensure that the vendor employs a mature development methodology that can produce high quality deliverables, particularly when outsourcing custom application development".

7. "Stability - When application outsourcing is used as a long-term strategy, it involves a partnership with a vendor that spans multiple projects. Choosing a vendor with staying power is important in these cases in order to maintain high quality deliverables over time".

8. "Competitive Pricing - The total cost of application outsourcing is an important factor to consider, particularly when the outsourcing relationship involves multiple long-term projects".

SUMMARY OR CONCLUSION

Base on the above research and 15 plus years of Global IT consulting experience my understanding on selecting provider during an IT outsourcing process as detailed in previous sections helps me to conclude that outsourcing initiative is complex time depended process, especially for a company thinking about outsourcing initiative for first time. Considering outsourcing feasibility study explained and described in section "outsourcing feasibility study and use of screen types in the feasibility process", it is important to do a feasibility study before making decision on outsourcing initiative. Feasibility study is an important stepping stone when business is thinking about IT outsourcing. Request for proposal (RFP) is Information technology advancements as detailed in section "impact of IT globalization on the business strategy" played a very important role in betterment of organization across the world. Companies like Amazon, Microsoft are able to offer their product and services to other countries due to innovation like internet, VOIP. IT has helped CEO, CIO and CFO to refine and rethink their corporate strategy considering they can monitor and reports global operations.

Insourcing is unnoticed aspect of globalization, it is very important for U.S economy. As per the graph in section "insourcing phenomenon and its effect on personnel employment", in recent years the insourcing process is increasing and it is creating jobs in U.S economy.

Once business has made the decision to outsource, outsourcing team should create a project plan comprising different phases - Strategy phase, Scope phase, Negotiation phase, Implementation phase, Management phase and Completion phase. In Outsourcing process, some of the elements are unknown and will evolve during the life of outsourcing contract. During the above phases business should get an idea on whether outsourcing will work for them or not. To create value from outsourcing a long term relationship should be developed and for that the

outsourcing partner should know today's business requirements and develop a plan for future

betterment for both parties.

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