Vendor Sourcing and Management: An RFP Decision Platform for the Digital Enterprise

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IDC OPINION

The request for proposal (RFP) has been and continues to be one of the fundamental means by which enterprises create competitive environments for the procurement of technology. RFPs document the technical requirements of the product or service being sought, identify the process used to evaluate the technology, and solicit formal price proposals. The RFP journey begins with a template that is often based on RFPs issued by other enterprises for similar technologies. Many enterprises have access to a collection of such RFP templates. Nevertheless, because the templates have been created by or for other enterprises over a long period of time, the framework and process within such templates are different from one technology to the next, often with no underlying justification. To make matters worse, as IDC observes, templates describing competitive procurement processes utilized by government agencies many decades ago are still in use. Even when such government procurement practices were first introduced, they were criticized as inefficient and bureaucratic. Vendors and government agencies had to deal with lengthy procedural steps, formal question submission requirements, and bid protests, all in the interest of eliminating any possibility of corruption and favoritism. For the most part, the government procurement templates served their purpose. Nevertheless, IDC observes that the use of outdated templates leads to inefficient processes and lengthy procurement timelines, and the use of generic one-size-fits-all template approaches address the least common denominator requirements. IDC also observes that enterprises are reluctant to engage in formal RFP processes because of the lengthy procurement timelines and confusion among internal and external stakeholders, and there is a growing demand for a standardized decision platform and framework for the efficient creation and administration of RFPs for a broad spectrum of technologies and sourcing activities. This study is the first in a series of studies that define IDC's RFP Decision Platform for the Digital Enterprise. IDC findings include:

- A more streamlined approach tailored to specific product and sourcing activity categories for creating a competitive environment and soliciting proposals from vendors is required.

- To effectively lead digital transformations, VSMOs must adapt to the rapid changes in technology and to the manner in which strategic partnerships with vendors of these technologies are formed.

IN THIS STUDY

In this study, IDC identifies the general categories of technology procurement activities as well as the different evaluation criteria and processes used to procure products and services in such categories. This study provides practical advice to the VSMO by addressing the following questions:

- When is an RFP warranted?
- What are the different sourcing activity categories?
- What are the appropriate considerations that determine which sourcing activity should be utilized?
- How can we effectively leverage the IDC RFP Decision Platform?

This study guides VSMO leaders, CPOs, CIOs, and LOB executives to help them navigate through the RFP process, achieving lasting advantages from an efficient, effective, and repeatable RFP approach.

SITUATION OVERVIEW

When Is an RFP Warranted?

In today's fast-paced business and technology environment, IT and procurement professionals are pressured to deliver business solutions quickly and efficiently. To do so, they must be able to quickly identify vendors that are capable of delivering the necessary technology, evaluate capabilities, and solicit price proposals. An RFP is often an ideal vehicle for this task. Nevertheless, before diving in, it is important to determine when it is appropriate to issue an RFP. There will be a significant investment of time and resources in assembling an RFP, clearly articulating the requirements to prospective vendors, and evaluating responses. Accordingly, there must be a reasonable expectation that the investment will yield results. In an ideal scenario:

- A project is chartered, funded, and supported by the appropriate organizations.
- Stakeholders and decision makers responsible for selecting a vendor are open to consider different vendors for the project.
- A need for new externally developed technology is identified.
- The vendor market space is scoped out, and a short list of potential vendors is identified.
- RFP documents are assembled, and the RFP process is initiated.

Critical Pitfalls in the RFP Process

If only all technology sourcing activities fell neatly into the ideal scenario described above – clearly, a lofty goal in today's complex 3rd Platform ecosystem. As expected, the ideal scenario usually yields positive results. As the vendor proposals are evaluated, the stakeholders and decision makers balance functionalities and technical considerations with long-term cost and ultimately make their decision. Unfortunately, such ideal scenarios do not always present themselves in a neat package. Accordingly, IDC often observes the following general scenario:

- A small group within the enterprise conducts a pilot with a single vendor, often a leader in its market space.
- The pilot moves to production, and, over time, other groups begin leveraging the technology.

- Although an RFP is issued to introduce competition and drive costs down, stakeholders and decision makers are pleased with the services provided by the incumbent and are not interested in seriously considering alternatives, even if the costs are reduced by a reasonable margin.

In the aforementioned scenario, and others similar to it, the time and resources invested in the RFP process do not yield meaningful results. The incumbent vendor, knowing its position in the market space and the amount of support it has from the stakeholders and decision makers within the enterprise, does not alter its price position and may use the RFP process as an opportunity to enhance its network within the enterprise. Other potential vendors involved either put halfhearted proposals together or walk away disenchanted with the process. Ultimately, resources are diverted from other more productive endeavors. Within IDC's Vendor Sourcing and Management practice, the aforementioned scenario is generally referred to as *siloed sourcing.* To avoid the negative consequences of siloed sourcing, IDC encourages enterprises to avoid issuing RFPs unless there is a reasonable expectation to achieve a positive outcome and such expectation is shared by all internal enterprise organizations involved.

Another common pitfall observed by IDC in the fast-changing 3rd Platform space is the traditional practice of selecting one vendor to provide a feature set of capabilities across the enterprise. Feature sets, capabilities, and pricing models change rapidly in the growing 3rd Platform ecosystem. A leading vendor in its market space today is likely going to be overtaken by a competitor in the foreseeable future. Accordingly, enterprises should consider developing an agile and flexible set of relationships with a changing mix of internal and external service providers.

Sourcing Activity Categories

Before creating an RFP or selecting a template for one, the objectives for issuing an RFP should be understood. To do this, VSMOs should understand how the products and services provided by different vendors differentiate themselves in the market space. In addition, VSMO professionals should understand the environment in which the technology will be used. VSMOs are encouraged to seek advice from their in-house technical experts and online resources, as well as expert analyst advice. Understanding the market space could greatly influence the content of the RFP as well as the process used to solicit proposals. VSMO professionals should seek answers to the following questions:

- Are the technologies offered by different vendors highly differentiated in the value to the enterprise?
    - Is the technology highly customized or configurable?
    - Do the solutions offered by different vendors vary greatly in technical approach?
- What is the pricing approach to this technology?
    - Is there a great price variance for similar technology offered by different vendors?
    - Is this a highly commoditized market where price variances are minimal?
- Is there strategic value in sourcing the technology from an incumbent vendor?
    - Will it be necessary to integrate technology sourced with existing technology from an incumbent?
- Is there other related technology that will be required in the future, and is there strategic value in sourcing all related technology from a single vendor?
- Will the technology and vendor be key elements of a strategic digital transformation within the enterprise?

Figure 1 shows the different sourcing activity categories and their value and price differentiation.

FIGURE 1

Value and Price Differentiation
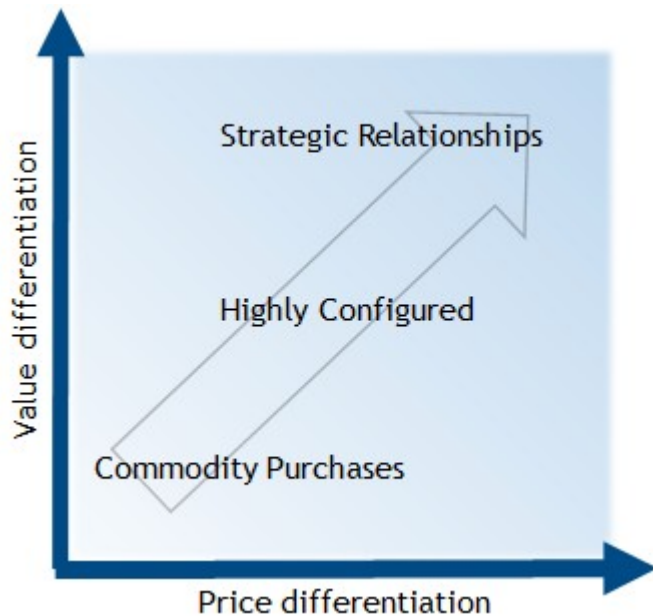
Source: IDC, 2015

Commodity Purchases

As the value provided by technology from different vendors increasingly differentiates itself, so does the price (refer back to Figure 1). Starting in the lower left corner, the price points for technology provided by different vendors vary little, and so does the value provided by the technology. *This space is highly commoditized, and VSMOs are encouraged to focus on price in the RFP process. VSMOs should also strongly consider the use of e-auctions (also commonly referred to as* reverse auctions*) where vendors aggressively compete to win business in an online event.* IDC observes that end-user devices, such as laptops and desktops, are the most common technology commodities that are sourced in this manner.

Highly Configured

As the technology becomes more complex and more highly configured, the value provided by one solution over another starts to differentiate itself, and so does the price. Take, for example, the combination of deskside support services with the sale of end-user devices. The approach, scope, and level of support may vary greatly between one vendor and the next. *This type of transaction is the proverbial sweet spot for RFPs. VSMOs are encouraged to leverage IDC's expertise and the RFP Template Decision Matrix introduced in this study to identify and document the appropriate technical requirements that would help evaluate the value provided by one technology over the next.*

Strategic Relationships

Further along the continuum are vendors that offer solutions using vastly different technical approaches. Such vendors offer highly integrated technology stacks that can solve a number of

technical and business problems more efficiently and effectively than individual components from many different vendors can. *Traditional RFPs are less common but are still used to identify vendors willing and able to consider entering into strategic relationships where the requirements are more fluid. In general, strategic relationships are formed at the executive level. Often, it is the cultural compatibility between enterprise and vendor that is a key factor in making the decision on the best strategic partner.* For example, vendors maniacally focused on short-term revenue targets will find it difficult to partner with enterprises exploring digital transformation strategies where requirements and forecasts are fluid.

RFP Template Construction

To best assist enterprise VSMOs in developing the appropriate RFP, IDC is creating a series of studies that include practical guidance as well as templates for each technology category (see Figure 2). The General RFP Foundation will provide guidance on the sections of the RFP that are generic to all procurement activity categories. VSMO professionals are encouraged to review this study in detail and determine which sourcing activity category (Commodity Purchase, Highly Configured, or Strategic Relationships) most appropriately applies to the sourcing activity being contemplated. The IDC study matching the technology and sourcing activity categories will provide the appropriate guidance and template for a streamlined RFP. Furthermore, IDC MarketScapes will be used as the basis for RFP requirements. Attributes used to evaluate vendors in IDC's MarketScape studies will be extracted and compiled in easy-to-use formats ready for incorporation into your RFP document. By using this process and methodology, together with advice from the appropriate IDC analysts, VSMOs will be able to streamline what has traditionally been a cumbersome and bureaucratic process leveraging outdated templates and processes.

FIGURE 2

IDC RFP Platform
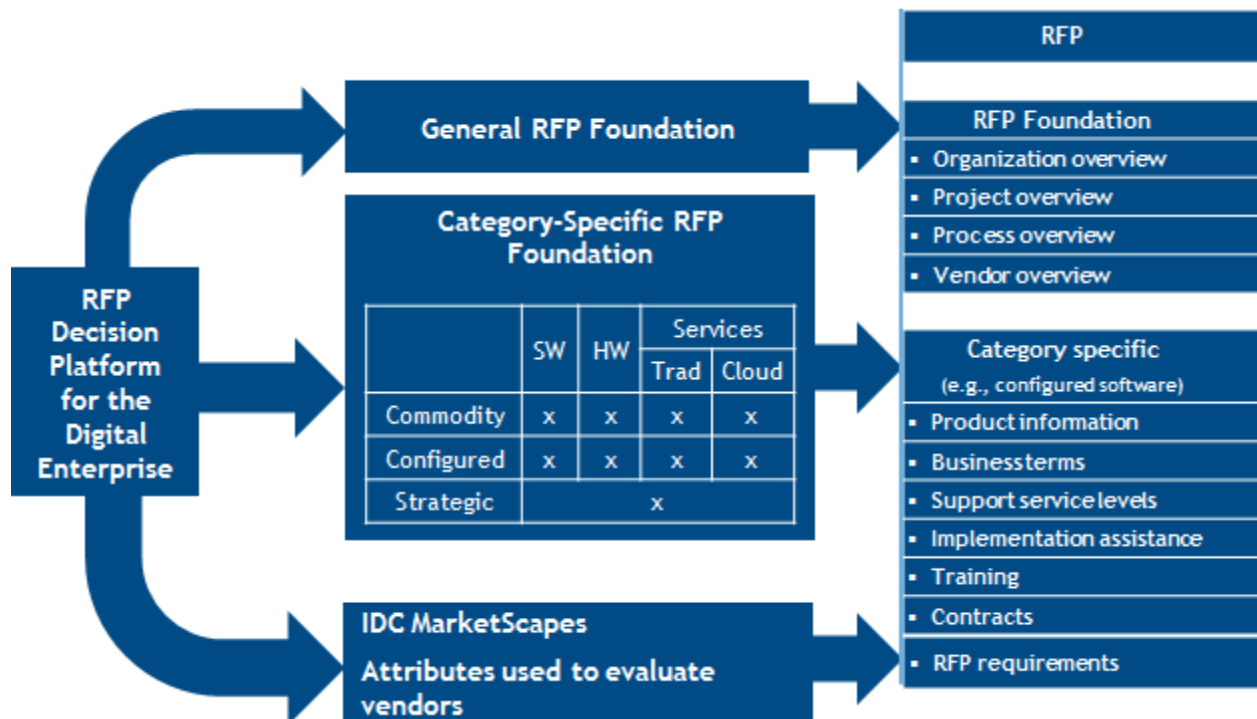
Source: IDC, 2015

FUTURE OUTLOOK

By 2016, 80% of the IT budget will be based on providing service brokering, integration, and orchestration for a broad portfolio of internally and externally sourced IT and business services (see *IDC FutureScape: Worldwide CIO Agenda 2015 Predictions,* IDC #252235, October 2014). Furthermore, changes in technology and its delivery models will accelerate in the near term. A minority of enterprises will adopt streamlined processes and templates for creating competitive environments and the efficient solicitation of proposals from vendors and formation of strategic relationships with partners. These enterprises will reap the benefits of competitive pricing and leverage digital transformation to develop new sources of revenue. According to a recent IDC benchmark, the VSM practices of 75% of enterprises are not mature enough to source 3rd Platform technology or drive digital transformations. Accordingly, the 25% that have achieved the required maturity will adopt streamlined RFP practices described in this study.

ESSENTIAL GUIDANCE

Using the right tools for sourcing technology critical for the operation of the enterprise is an essential prerequisite for a successful outcome. RFP templates are a key element in such a toolset. IDC urges VSMOs to take the appropriate steps to ensure that RFP templates and processes are up to date and streamlined in order to best serve the needs of the digital enterprise:

- **In the short term (0–6 months):**
  - Conduct an assessment of the different RFP templates used to source technology for the enterprise.
  - Review IDC's RFP Template Decision Matrix and its associated studies and templates.
  - Assemble a forecast for technology sourcing activities and determine the corresponding sourcing activity categories based on the guidance provided in this study.
  - Construct RFP templates for the upcoming sourcing activities using the guidance provided by the IDC RFP Template Decision Matrix.
  - Utilize the RFP templates in the forecast sourcing activities.
- **In the midterm to long term (6–18+ months):**
  - Conduct reviews to assess what worked and what didn't on the sourcing activities and adjust process accordingly.

LEARN MORE

Related Research

- *IDC PeerScape: Practices for Effective and Efficient Technology Contract Negotiations* (IDC #258831, September 2015)
- *Vendor and Sourcing Management: The Leadership Imperative* (IDC #257371, July 2015)
- *Vendor and Sourcing Management: The Future Vendor and Sourcing Management Office* (IDC #244648, December 2013)
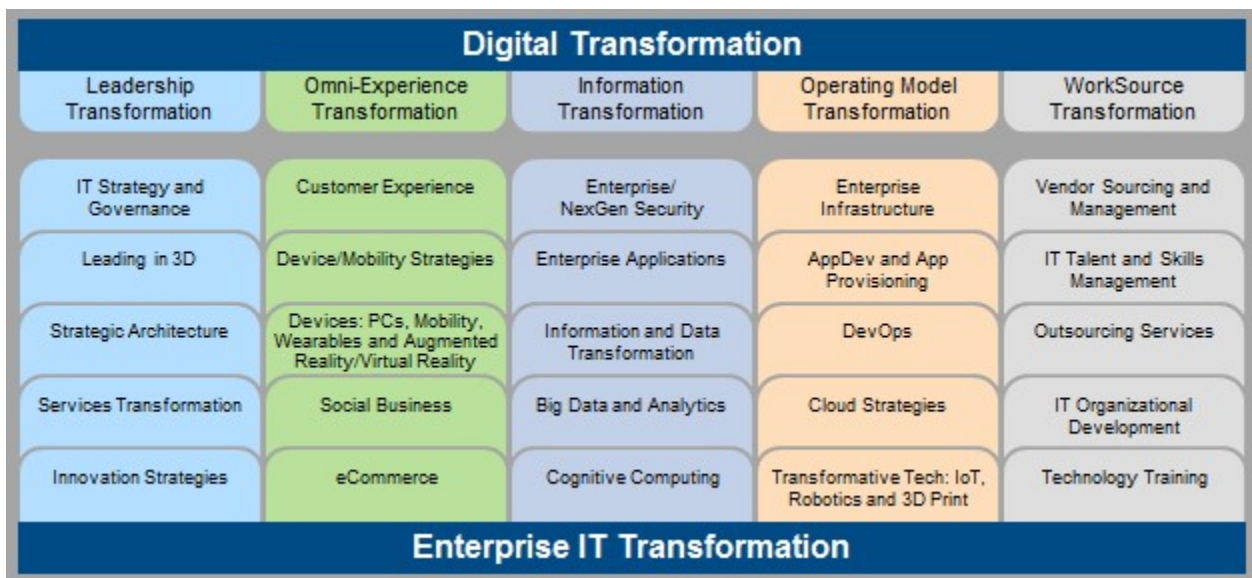
Appendix

IT Executive Program Research Agenda

This IDC continuous research program focuses on the issues, challenges, and opportunities confronting business and IT practitioners. Our research agenda empowers technology leaders who seek to stay abreast of technology initiatives that influence and disrupt their business ecospheres — balancing the state of established best practices with emerging technology management challenges. Our agenda is organized around 32 essential themes (see Figure 3). This study focuses on Vendor Sourcing and Management, IT Strategy and Governance, and Leading in 3D.

FIGURE 3

IT Executive Program Research Agenda Themes

Digital Transformation				
Leadership Transformation	Omni-Experience Transformation	Information Transformation	Operating Model Transformation	WorkSource Transformation
IT Strategy and Governance	Customer Experience	Enterprise/ NexGen Security	Enterprise Infrastructure	Vendor Sourcing and Management
Leading in 3D	Device/Mobility Strategies	Enterprise Applications	AppDev and App Provisioning	IT Talent and Skills Management
Strategic Architecture	Devices: PCs, Mobility, Wearables and Augmented Reality/Virtual Reality	Information and Data Transformation	DevOps	Outsourcing Services
Services Transformation	Social Business	Big Data and Analytics	Cloud Strategies	IT Organizational Development
Innovation Strategies	eCommerce	Cognitive Computing	Transformative Tech: IoT, Robotics and 3D Print	Technology Training
Enterprise IT Transformation				

Source: IDC, 2015

Synopsis

This IDC study identifies the general categories of technology procurement activities, which may, or may not, require an RFP. In response to the growing demand for a standardized decision platform and framework, IDC has created a streamlined RFP decision platform, with easy-to-use templates and guidance. Furthermore, the study explores the differing evaluation criteria and processes used to procure products and services in such categories. This study provides practical advice to the VSMO by addressing the following questions:

- When is it appropriate to use RFPs?
- What are the different sourcing activity categories?
- What are the appropriate considerations that determine which sourcing activity should be utilized?
- How can we effectively leverage the IDC RFP Decision Platform?

This study guides VSMO leaders, CPOs, CIOs, and LOB executives to help them efficiently navigate through the RFP process.

According to Aaron Polikaitis, vice president, IDC's IT Executive Programs (IEP) Vendor Sourcing and Management practice, "Enterprises have been leveraging antiquated templates and process, resulting in unnecessarily lengthy procurement cycles and the reluctance of stakeholders to participate in the RFP process. A more streamlined approach – IDC's RFP Decision Platform for the Digital Enterprise – is imperative."

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

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