

## Chapter 17: Vendor Selection

Vendor selection is the process of choosing a partner or supplier to work with on the process that will be outsourced. It is possibly the most critical part of the entire road to outsourcing because, after months of planning, you have taken the decision to go ahead with the project and that plan must work.

In many cases, vendor selection and management has been treated as nothing more than a procurement decision. This approach does not work with major off-shore outsourcing projects because procurement is generally geared to achieving a given service for the lowest possible price.

Selecting a vendor by choosing the lowest quote, then offering the contract on the condition they reduce the price a further ten per cent, may well work for purchasing office stationary, but not for strategic sourcing. Ian Pearl, director of financial services outsourcing consultancy Scindo, said: "This style of vendor selection and management needs to be consigned to the history books. I can't believe anyone thinks that there is any value in developing an adversarial relationship with a company that should be your strategic partner."<sup>1</sup>

Pearl makes an excellent observation. Companies don't outsource processes that are unimportant. There are relative levels of importance, but accounting, technology, human resources and client management are all typical processes that are regularly outsourced and yet each one is a critical part of the supply chain. With this in mind it becomes even more important to establish a good relationship with the right vendor.

Robert W. Krahl of management consultants Transition Partners states a long list of questions that should be continually asked right from the start of the selection process: "Are their working styles and personalities compatible with yours? Will the vendor bring the 'right' policies, procedures and management disciplines? Will the vendor have the courage and maturity to implement the necessary disciplines? Can the vendor be trusted to be a long-term partner? Does the personality and values of the vendor align with those of your organisation?"<sup>2</sup>

That's a long list of questions. I hope to provide some answers.

There are a couple of situations where the type of competitive tender described in this chapter is not applicable. Some organisations use a preferred supplier list and will not open their doors to new bidders and for certain niche services there may be only a single credible supplier in the marketplace, in which case there can be no tender.

## The Critical Path to Finding the Right Vendor

David Porter is Vice President Application Delivery at Electrolux IT Solutions, the technology division of the global Electrolux group. In 2001, Electrolux took the decision to outsource much of their IT support and programming work in order to move their internal staff up the value chain and improve service delivery. In a NASSCOM/FT conference presentation Porter listed the following steps to the contract award<sup>3</sup>:

- Request for Information (RFI). Sixteen companies responded to the initial tender with basic information on how they might provide an outsourced service to Electrolux.
- Site Visits. Porter and the Electrolux executive team visited India to meet the most impressive seven companies, based on the RFI data.
- Request for Proposal (RFP). Four companies were then invited to make a formal proposal for the business, including legal terms and service cost.
- Negotiation. Two companies were discarded at this stage allowing a final contract negotiation process to take place between the most impressive two before the final contract award.

Porter stated that throughout the entire process Electrolux considered that any partner must have the following attributes:

- Accredited Process Quality
- Evidence of large scale applications management
- People excellence

Porter found that the main differentiating factors between different outsourcers were:

- Culture
- Motivation
- Price

The experience of Electrolux neatly outlines the major steps to finding a partner in India. Their own vendor selection process spanned a period of seven months; however every selection process is different as each project has differing qualities so this is no indication of a 'typical' timeline to selection.

Chapter 16 outlined some of the process mapping and criticalities planning that are essential steps before any decision to outsource. This analysis of which are your critical processes and which can be outsourced will feed into the creation of the initial RFI document.

The steps taken by Electrolux and most other firms who have entered into an outsourcing contract can be summarised as: