

## Manage That RFP

The RFP process can be a big source of supplier frustration, or a critical point of competitive leverage. All too often, it is the former, but it doesn't have to be that way.

Over the past few months, I've encountered two situations in which customers drafted RFPs that were not in their own best interest, and caused great difficulties for the suppliers.

The first concerned a distributor who had developed an extremely productive relationship with a major customer. The supplier had utilized its unique abilities to improve the customer's production process. The results were stellar. What happened next? At contract renewal time, the customer's purchasing group issued an RFP for the products without the related services, and made it clear that lowest price (not most value) would win the business.

The second situation concerned a major transportation and logistics company. Like the distributor, this company had developed very innovative services that greatly improved the customers' ability to operate flexibly and efficiently, and to penetrate new markets. In our discussions, the company's executives reflected that it didn't seem to matter what they did for the customers because in the end, the RFPs were all about price.

### The problem

The underlying problem in these situations is that there was a mismatch in the customer between the organizational unit that received the benefit, and the one that has to pay the bill. This is a common problem. As one top manager put it, his customers wanted to choose service from column A, and price from column B. His frustration stemmed from the fact that the customer did not frame its RFP to maximize the overall value, but instead each organizational unit within the customer acted in its own self interest.

This situation is not surprising, but it does leave supplier managers scratching their heads and wondering what to do about it.

### Four steps in RFP management

In my experience, there are four essential steps in successfully managing your customers' RFPs. The process requires coordinated activities over a significant period of time, so it is very important to select your target customers very carefully. You simply can't actively manage all of your customers' internal RFP processes.

**Engage early and high.** One of the biggest problems is that by the time a customer issues an onerous RFP, it is generally too late to change it. Instead, the first key to success is to begin the RFP management process well before contract renewal time.

At the same time, it is important to proactively choose your primary buyer within the customer. If purchasing controls the RFP, it is likely that price will be the main criterion. Instead, if you start

the process early enough, you can develop relationships with those in the customer who own both the benefits and the costs. It is no surprise that a top executive of P&G said that in its relationship with Wal-Mart, the retailer's CFO is P&G's real customer. Consequently the P&G account team has a very strong group of finance managers – after all, P&G is driving sales by showing Wal-Mart's top finance officers the overall value and profitability of the relationship.

**Develop showcases.** Even in the context of a well-specified customer relationship, a creative supplier has an opportunity to develop small, but important, showcase projects. A showcase project is an opportunity to “learn by doing” jointly with the customer on a small scale. These projects have very low cost and extremely low risk, but they are critical in developing and demonstrating new ways to do things. Because the innovations are actually functioning and observable, executives from throughout the customer can visit them and “kick the tires.” Showcase projects transform interesting theoretical possibilities into real working models, and this process in turn has a major impact on executive expectations throughout the customer's organization. It is only natural for these new expectations to become embodied in the next RFP.

**Build alliances.** While you develop an innovative service within a customer, it is important to be very proactive in partnering with your customer counterparts (those who are gaining the benefits) to build alliances throughout the customer's organization. It is natural to simply assume that your good work and demonstrated value will carry the day. However, if your counterparts are not adept at advocating their interests, the RFP will be all about price.

**Go public.** When you create a valuable new service within a customer, take steps to encourage your counterparts to publicize the innovation. This can take place internally within the company in meetings, or even in internal newsletters and publications. You also can help your customer counterparts publicize your joint innovations in the local press as examples of the company's vitality and ability to transform its business. In most situations, there are many important opportunities to publicize and market the innovation in concert with your counterparts, and these will have a major impact on subsequent RFPs.

## **RFP management**

The benefits of capable RFP management are huge. If you help frame an RFP that uniquely fits your strengths and capabilities, you'll build competitive differentiation and avoid commodity price wars. Most importantly, it will give you an opportunity to create real value for your customers, and to work with those customer managers who treasure real supplier innovation.

Success in the RFP process requires active management from day one. Those who settle into simply fulfilling the contract terms leave themselves open to price-oriented RFPs at renewal time. But companies that systematically manage the RFP process throughout the contract period control their own destiny.