

# Requests for Proposals (RFP) and Vendor Selection Guide

Vendor selection can be a tedious and arduous process but one that is necessary and often revealing. Whether you have decided to consider a new broker, change third-party administrators, or select a new insurance carrier, the process requires time and commitment. Although it may seem difficult to manage, selecting a new vendor or determining whether your current vendor is the best choice for you is critical for the success of your integrated program. Without facilitating a bidding initiative in the form of a request for information (RFI), request for proposal (RFP), or other format, it is difficult to know how the services you receive compare to the offerings available from other organizations. Also, competitive bids allow your organization to validate the current cost structure and reduce potential waste from both a hard dollar and a process efficiency perspective.

Your vendor partner(s) should provide a service that is best in class, based on your specific needs. This includes balancing choice, flexibility, pricing, and customer service as well as other priorities for your organization. Best in class or best practice is defined differently by all buyers, and as such, competitive bids are facilitated for many reasons, including but not limited to:

- Dissatisfaction with current program and/or services
- Testing the market to ensure competitive positioning and pricing
- An internal requirement to bid coverage
- Change in the plan or process that warrants examining options in the market
- Lack of capability by current partners

Regardless of the reason, a systematic approach is always best and should include a qualitative and quantitative analysis. Setting a framework for the entire process at the onset will ensure biases are reduced. That framework should include an assessment for current needs as well as potential future considerations. The latter is imperative to include as it will require your internal stakeholders to think more broadly and position your organization for a longer term partnership. This is valuable because the cost of an RFI or RFP is significant and therefore a longer term relationship (i.e., three years or more) is ideal.

Most RFP or RFI initiatives include four primary steps: (1) pre-planning, (2) proposal process, (3) analysis, and (4) selection. From there, implementation of a new vendor or perhaps

re-implementation of your current vendor will begin. All of the information gathered during those four steps of the bidding initiative will be used as the catalyst for a smooth implementation or re-implementation.

Below is an overview of the four main stages of the RFP process and what should take place during each stage.

## STEP 1: PRE-PLANNING

The pre-planning process typically requires four primary steps, including (1) establishing goals, (2) building the business case, (3) setting the team and timeline, and (4) pre-qualifying participants. The scope of these will vary based on the organization as well as the services being included in the RFP. As is the case with most large projects, careful planning predates success, and if internal subject matter experts do not exist, it will be important to leverage external support.

### *Establishing Goals*

To establish goals for the project, you must first identify the various customers impacted by the bidding process as well as the internal stakeholders. Ensuring that all key stakeholders provide insight regarding their goals for the RFP initiative will better position the project. When multiple stakeholders are involved, it may make sense for round tables to occur in order to engage all parties to promote exchange of ideas and facilitate development of goals. It is likely that during these discussions, goals and objectives above and beyond the RFP will also be discussed, and it will be critical to capture those goals so they are not missed once a vendor is selected. With various “customers” providing feedback, conflicting goals may be raised. A process to resolve these conflicts should be established in advance.

Documentation is a critical part of the RFP process, as topics discussed will evolve over time and decisions made will impact other decisions. Therefore, it is always best to have a project manager assigned during the pre-planning process who can manage this project through to implementation. Documentation should begin at these round table discussions, keeping all parties informed through meeting minutes, action item logs, decision logs, project plans, and the like.

If in determining your goals you discover that you merely want to gather market information, you may want to consider an RFI, as opposed to or as a preliminary step to an RFP. An RFP is typically more formal than an RFI; however, both may contain the same level of detail. In some organizations, the RFI is linked to the “business needs,” whereas the RFP is derived from the “system or information technology needs.” Other organizations establish an RFI as a precursor to an RFP as a way of pre-screening potential vendors. Regardless of terminology, the goal is to use the most efficient method to achieve your desired results.

### *Building the Business Case*

Feedback from goal setting will position the core team to begin building the business case. Similar to the goal-setting process, requirements for establishing the business case will vary considerably depending on the organization. Some groups will require a business case for the RFP itself, mandating management and other internal stakeholders agree to the RFP and any spending and/or staffing it requires.

Other groups use this step to plan their own internal business case for changing vendors, and therefore, identify requirements for potential providers as well as advantages and disadvantages of their current plan in order to solidify their needs for the future. The remaining groups may hope to accomplish both within this task.

When senior management approval is required for the RFP, it will be important for the core team to clearly lay out not only the costs involved but also the anticipated savings or other benefits that will result from the RFP process.

### *Setting the Team and Timeline*

To establish the core team, you need to consider the departments directly involved and any that might be affected by a change in vendor. Often it is helpful to have one individual from the organization (project manager) spearheading the effort. Some organizations leverage a broker or consultant in this capacity; others utilize the broker/consultant as primarily a subject matter expert. More and more, employers are turning to internal procurement teams to play this role. Either way, clearly defined roles will enable everyone to operate efficiently and avoid duplicative efforts.

Beyond the core team, it will be necessary to identify other stakeholders that may need to be pulled in from time to time for certain pieces of the implementation process. Even if a certain group's involvement won't be needed until further along in the process, it is important to identify them up front so that there are no surprises down the road. Deciding how and when to communicate with other stakeholders will be important as well; they may want to be up to speed on the project status but will probably not need to know the level of detail that the

core team will be involved in. Therefore, it is critical to have a forum to address questions and solicit feedback. This can be a monthly conference call or meeting, depending on the group. For disability and absence management bids, typically human resources, risk management, occupational health and safety, information technology, payroll, legal, and communications are directly involved. In addition, procurement may be considered a contributing team member.

In setting the timeline, the core team will need to consider other important dates and deadlines impacting the project and its stakeholders, such as enrollment dates and board or budget meetings. Depending on the size and scope, the bidding process can range from a few months to a year. Implementation can vary widely, including some phased implementations that may range over years, but anywhere between three to nine months is common for most programs. Once the team has an implementation estimate, it can then work backward from the set deadline, usually an enrollment date, and add time in for the RFP process, including development, distribution to the vendors, time to respond to vendor questions, and the time involved in vendor selection, which may include additional meetings and/or site visits.

Inevitably, some bidding initiatives take longer than originally planned. Especially as it relates to leave and absence management providers, attention to detail is critical. Therefore, truncating the timeline for a bidding effort is ill-advised without revising the scope. Timelines could be restructured by adding additional resources, including subject matter experts, decreasing the number of bidding vendors and the like; however, a timeline should not be cut without understanding the risks involved. Given the expense of the bidding process (including direct and indirect costs, such as time) it is almost always best to revise the timeline based on the required scope than the reverse.

### *Pre-qualifying Participants*

Identifying who will receive your request to bid can be laborious. If a broker or consultant is involved, they should have a list of pre-qualified vendors that fit your needs. Without an advisor, it is suggested that you consider trade publications, membership organizations, and research tools to assist in pre-qualifying participants. High-level conversations should be held with all potential bidders to ensure they understand the requirements.

Unless the situation with the current provider is dire, the incumbent provider should be included in the bidding process. This will allow them the opportunity to demonstrate any revised capabilities since your last marketing initiative, as well as give a strong comparison point.

During this phase, it is also important to understand what, if any, contractual obligations will be required of bidders. It

is considered optimal to have bidders sign nondisclosure agreements to ensure they keep the content of the RFI or RFP confidential.

## STEP 2: THE RFP

The RFP itself is designed to meet specific company criteria and should be organized into key categories. Some categories to consider in developing an RFP are:

- Background and fit
- Functional requirements
- Corporate standards
- Customer service
- Performance and pricing

### *Background and Fit*

This section gives the vendor the opportunity to describe its organizational experience and reputation. The vendor should also detail its staffing and training capabilities and provide information on its team's experience and years of service, as well as average length of employment, geographic closeness of claims staff to company locations, and average caseloads per claims administrator.

### *Functional Requirements*

It is very important that the RFP be tailored to the company's specific needs as it relates to requirements. The employer needs to be clear in what it is asking the vendor to describe, as this information will likely be where the bulk of the decision making comes into play: the core team will need to be certain that the selected vendors can in fact provide the requested services. It will be important to compare each vendor's capabilities within each of these specific areas and their flexibility within these categories:

- Intake
- Claims administration
- Leave administration
- Information technology and interfaces
- Reporting and data
- Proactive consultation

### *Corporate Standards*

Depending on the employer's organizational structure, the vendor may be looked upon to provide guidelines around compliance. Contractual and legal issues should be identified up front, such as who will bear fiduciary responsibility. Data security and integrity of information should also be outlined and clarified. For some organizations, this will link directly to information technology and interface discussions. For other organizations, the focus is tied more closely to confidentiality.

Defining confidentiality and pinpointing what information will be shared within the organization and at what level is critical. At the core, a vendor partner should have policies that are in line with the employers' policies. This would include but not be limited to its interpretation of the Health Insurance Portability and Accountability Act, which does not apply to disability or leave programs but may have some philosophies or standards that could be leveraged.

As more information is exchanged, data protection and rules regarding data transfer and permission levels are becoming increasingly vital. The vendor should also be asked to detail its quality assurance processes and how it goes about ensuring the validity of its data and systems, preventing errors, and dealing with issues that may come up.

### *Customer Service*

The account management section should provide information on the vendor's structure, whether there is a designated team, and if the implementation team will differ from the account management team moving forward. The size of the account out to bid may determine the level of customer service put forward by the vendor; this will be an important point of comparison between the service providers.

At the end of the day, the employer needs to be comfortable with the vendor's implementation and account managers and know that they are up to the task of developing and successfully managing a program for the company. The involvement level of the employer will vary, so the vendor needs to be flexible in its role. Some organizations prefer to work hand in hand with the vendor throughout the process, whereas others look to the vendor to take a leadership role.

### *Performance and Pricing*

The performance and pricing section of the RFP will likely be frequently referenced further down the line, potentially even after choosing a vendor and implementing a program with it. Performance guarantees will be dependent on the employer's organizational structure. In going forward with a vendor, there is usually a series of negotiations around these before all parties are in agreement. The employer and vendor will need to agree on measurement and amount of fees to put at risk. The pricing structure should be provided in a clear and understandable way.

As vendors work through the material shared, questions will be raised. A format to address questions should be established well in advance. Whenever possible, answers should be shared with all bidding providers to keep the messaging consistent. Tardy questions may or may not be addressed, but if they significantly alter the positioning of the proposal, every effort should be made to provide responses. Following suit, responses to bidder questions should be timely as well. Typically, a two- to three-day

turnaround is ideal. If communication issues arise, a conference call can be scheduled in which vendors are able to pose questions without revealing their identity to the other parties on the call. This may or may not prove valuable, depending on the circumstances.

Some firms are leveraging online software systems or proprietary procurement tools for RFPs. While those tools do provide efficiencies, they also have limitations. Great care must be taken to ensure responses are as detailed as necessary for an absence management program. Forcing bidders to respond yes or no may provide a quicker analysis but not a quality analysis. Details are important. Therefore, it may or may not be advantageous to use online tools for this type of procurement initiative. Consider the employer, broker, consultant, and bidding providers when determining the best tools for your bidding process.

### **STEP 3: ANALYSIS**

Analyzing responses may be difficult, depending on both the RFP format and the quality of the responses received. Considering the proposal analysis within the pre-planning phase will make this smoother and less time-consuming. Absence management bids must be reviewed from both a qualitative and a quantitative perspective. Therefore, to ensure a consistent process, answers should be compared side by side. In addition, engaging multiple team members to review the responses is helpful as it allows for various perspectives as well as strong peer review.

Perhaps the most important aspect of the analysis is to ensure bidding vendors are compared appropriately (i.e., apples to apples). Great care must be taken to weigh responses that are uniform and, when necessary, follow up with providers to gather responses that are comparable. If the proposal considers both current and future needs, the analysis should separate those and provide two different reviews. This will ensure that the team understands which providers are the best fit given the current state and which providers are equipped to support anticipated needs. In addition to reviewing detailed responses, it will also be important to assess cultural fit. Based on the cultural fit and the detailed responses, two to three finalists should be selected for additional review.

### **STEP 4: SELECTION**

Once finalists are selected, a more in-depth review of the vendor may be warranted. Steps to consider include finalist site visits, reference checks, performance guarantees, final financial proposals, and understanding each provider's commitment to the overall business case, including return on investment.

#### *Finalist Site Visits*

At this point, all information shared to date should be reviewed and discussed with team members who will attend site visits. In many ways, the intangibles become very meaningful in the selection phase as the margin between finalists may be small. The site visit team should include internal stakeholders from various areas within the organization. If a system is being purchased or links with a system are needed, a representative from the information technology team is critical. The site visit will give the team time to get a "hands-on" feel for the vendor's operations and observe how the organization is run on a daily basis. Ideally, the group will be able to meet some key team members who would be leveraged if the business were placed with that provider and make an overall assessment of the cultural "fit" between the working groups. After the site visits, optimally the same day, each team member should complete an assessment of that vendor. Those assessments will be helpful if multiple site visits are made, as over time it may be hard to recall details of the visit.

#### *Reference Checks and Performance Guarantees*

To validate the team's findings during the site visit process, it is customary for the finalists to provide at least two references and ideally three — two current customers and one past customer — to provide confirmation of the capabilities and expertise the vendor presented during the procurement process. The team will strive to understand what went well in these relationships and what didn't, and why the one reference might have terminated the vendor's services.

At this time, another round of performance guarantee discussions might take place to assess the vendor's overall commitment to the pending employer relationship. As performance guarantees can be quite detailed and specific to an employer's situation and some vendors may not share specific guarantees in their initial proposal, it is often more productive to discuss them with a smaller group of finalists than with a larger group of potential partners at the onset of the RFP process. This is a very important point of comparison, and although final details can wait until the contract, discussions on performance standards are critical to have before a vendor is selected.

#### *Final Financial Proposals*

The final financial proposal must consider more than the core pricing. It should also detail any out-of-scope fees, since such charges will be likely over the course of the relationship, as well as any assumptions inherent in the costs. It should also adjust for any specifics uncovered during the site visit and really serve as the vendor's best and final offer. In conjunction with the performance guarantees, fees at risk should be clearly stated. In addition, the team should understand how issues and

miscommunications will be resolved and how pricing for those will be managed. Essentially, your team will want to be assured that if your vendor makes an error, it will assume the cost for correcting that error and if new needs are discovered during implementation, there is a process to account for them.

## DECISION MAKING AND SELECTION

Selecting a vendor may not be easy and can require a lot of internal analysis and discussion, depending on the organization. Senior management, or at least the initial team that agreed to the business case, will likely be involved or at least interested in the outcome. The original goals and objectives set out by the team will need to be compared to the proposal of the preferred vendor, and the anticipated return on investment validated or even improved upon from the process. If the decision involves a change in vendor, there may be political ramifications for the team to consider.

Once a decision has been reached, a communication plan should be established so that all internal stakeholders are aware

of it and the corresponding rationale behind it. The chosen vendor should then be notified, followed by the incumbent vendor and any other finalist providers. The communication timeline may need to be varied in some situations, but it is important to communicate directly to both vendors and internal parties as quickly as possible to avoid them learning about your decision from other sources.

If bidding providers request feedback, it should be given candidly and constructively. This feedback will help them as they prepare for other proposals and will help your organizations maintain a good working relationship for future needs.

Whether the decision is to remain with your incumbent provider or to change vendors, care must be taken to implement or re-implement according to your needs. Set reasonable timelines and clearly identify roles at the onset. It will also be important to continually tie back to the program goals set forth in the RFP. During implementation, refer to the RFP and consider it the selected vendor's commitment. It should be adhered to unless a change in strategy is mutually agreed upon.

## EMPLOYER CHECKLIST

KEY QUESTIONS	ANSWERS	COMMENTS
Are you required to bid your plan at specific intervals?		
Does your current provider fulfill the needs of your integrated program?		
Have situations arisen that have made you question your current vendor's commitment to your organization?		
Have you considered where your plan will be in three years? Will your current vendor be able to meet those needs?		
Does your team have the capacity and subject matter expertise to support a marketing initiative?		
If no, do you have a trusted advisor to turn to?		
Have you determined the timing for your RFP initiative?		
Have you set a budget — both internal and external — for the process?		
Have internal stakeholders in the following areas been identified?		
Human resources		
Risk management		
Information technology		
Payroll		
Legal		
Communications		
Other		
Has the business case, at least at a high level, been made so your team can begin the process in an orderly manner?		