

Evaluating Proposals and Suppliers

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Source Selection

- "The most important job today in purchasing is source selection. Buyers who fail to thoroughly investigate their suppliers have only themselves to blame for their future problems, i.e. Quality, deliveries, or financially troubled suppliers."

Michael J. Moyer, C.P.M.
President, M2 & associates

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The Purchasing Professional's Role in the Evaluation of Proposals.

- The purchasing professional needs to be more than merely the facilitator or moderator of the evaluation team
- The purchasing professional needs to **take** a comprehensive and proactive approach to our duties without being offensive

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Assume a Leadership Role

- The purchasing professional must take the time and make an effort to understand the theoretical, operational, technical, and political objectives of the solicitation
- The purchasing professional should delve deep into understanding the perspectives of the players or stakeholders

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Managing the Evaluation Process

- The purchasing department should be responsible for managing the process
- **Why?** - To ensure fair and equitable treatment of all persons who deal with the procurement system

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Use a Two-step Evaluation Process

Use a two step approach in evaluating proposals

- Technical proposals and cost proposals should be submitted in two separate sealed envelopes
- Evaluate technical proposals first, eliminating any supplier not meeting the mandatory requirements; then evaluate the cost proposals for the remaining suppliers

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What Is a Proposal?

- It is a written attempt to persuade the evaluator to select the proposer and its product or services
- It is a response to an RFP supported by an array of credentials which attempt to convince the evaluator that the proposer is best qualified to provide the results the evaluator requires

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What Is a Winning Proposal

Winning proposals have four characteristics in common. They convince the evaluator that:

- The supplier fully understands the needs and problems of the organization
- The supplier offers a suitable plan to satisfy the needs or solve the problem

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Winning Proposal

- The supplier is well qualified by virtue of experience and resources, including personnel to carry out the proposed plan
- The price asked is reasonable and is within the organizations budget

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Prior to the Issuance of the Request for Proposals

- Establish a cross-functional team, which should include the individual who will ultimately become the contract manager, in addition to others from the user agency, purchasing, and various other agencies if applicable
- Develop a evaluation matrix and weighting/point scheme to be used by the team to evaluate the supplier proposals

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Select The Evaluation Team

- The evaluation team should consist of:
 - A senior member of the purchasing department
 - Actual end users (your internal customer)
 - An individual from the end user department who has decision making authority
 - If possible, an employee from another department who has some knowledge of the subject matter

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Develop The Evaluation Matrix

- The evaluation matrix should be contain attributes based on the characteristics your agency is looking for in a qualified supplier
- Each attribute must be measurable
- These attributes fall into three categories:
Business, Technical and General

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The Evaluation Matrix

Business: suggested criteria, but not limited to are:

- References for similar work
- Traditional characteristics of: quality, delivery and service. What has been their track record in achieving these objectives?
- Reputation in the industry: are they leaders or followers?

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The Evaluation Matrix - Business Criteria

- Financial stability, will they be around to complete the job? Here we use the key financial ratio's: liquidity, leverage, activity and profitability.
- Management capability, are they innovative and creative, and what about turnover within the ranks?
- Documentation - is it always thorough and error free (invoices)?

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The Evaluation Matrix - Business Criteria

- Price competitive in the industry?
- E-mail, EDI and internet capability?

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**The Evaluation Matrix -
Technical Criteria**

Here you would evaluate to determine whether the potential suppliers:

- Have a full understanding of the RFP requirements
- Possess all the technical resources required (labor, equipment, processes, etc.) necessary to fulfill the contract.
- Possess a quality philosophy

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**The Evaluation Matrix -
Technical Criteria**

- Possess the educational, technical, and certification credentials and also the management, interpersonal and presentation skills that will be compatible with the organizations culture and practices.
- Has identified the qualified personnel to be assigned to your project.

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**The Evaluation Matrix -
General Criteria**

Common criteria that are important are:

- Honesty in their relations with their customers and others?
- Ethical in their actions towards their employees and others
- Integrity in business transactions beyond approach
- Committed to being a leader in the industry

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Evaluation Responsibility

- Business criteria: purchasing and finance departments
- Technical criteria: contract manager and end users
- General criteria: entire evaluation team

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Checking References

Asking the right questions, of the right people, can help you get the most out of supplier reference checks.

- You can usually be certain that potential suppliers have only offered references that will give positive responses.
- How often have you received less than a glowing response to your inquiry?

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References

The process begins when developing the RFP, where you will ask for references.

Request references from:

- New customers obtained in the last six months
- Veteran customers - customers with long-term or repeat contracts
- Past customers - previous customers whom they are not currently under contract with

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References

- When talking to a veteran customer, try to determine why he or she continues to do business with the supplier
- Don't assume that because an organization has used a supplier for a number of years it tracks the supplier's costs and service as compared to the market.

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References

Ask veteran customers:

- When was the last time the customer did a market analysis?
- What competition has the supplier had?
- How has the supplier stayed competitive over the years?

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References

Ask new customers:

- How was the implementation process?
- Did the supplier implement the product or service on time?
- Did the supplier provide the product or service as outlined in the proposal?

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References

Ask past customers:

- Was the supplier terminated for convenience or cause or expiration of contract?
- During the transition period from the previous supplier to a new supplier, were there any problems associated with the service?
- Did the supplier address open issues or complaints after termination?

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References - Make the Right Contact

Always try to obtain information from the person who had the most direct contact with the supplier. This is not necessarily the purchaser

- Talk to the end user
- If the organization is unwilling to let you talk to an end user, contact the supplier and ask for another reference

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References - Do Your Own Research

- Contact other government entities of similar size and objectives to see if they have contracted with or considered the supplier
- If they considered the supplier, but did not select them; why didn't they?
- Use technology such as NIGP's e-net to find other references not supplied in the RFP.

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References - Put Them at Ease

- Don't rush through the reference check. If you spend a little time talking with the person, he or she may feel more comfortable and open with information.
- Keep in mind that the individual giving the reference may not want to risk damaging his or her current relationship with the supplier by giving a negative reference.

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References - Problem Resolution

How does the supplier manage customer-related problems?

- Ask the reference about these issues and whether the supplier rectified the problems to the reference's satisfaction.
- How does the supplier handle criticism?
- Is the supplier responsive to suggestions?
- Does the supplier follow quality assurance procedures?

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References - If It Was Your Money?

Be bold and ask the individual giving the reference this direct question.

- If you were spending your own money for this service, would you select this supplier again?

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Financial Analysis of a Supplier

The completion of a financial analysis prior to contracting is a Procurement Best Practice.

- The goal of a financial analysis is to mitigate risk.

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Financial Analysis

It is standard to include within a request for proposal a requirement for the provision of financial information. However, uniform application of a methodology for the completion of a supplier financial analysis is often absent from the procurement process.

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Financial Analysis

A financial analysis is not required for all procurements. A risk assessment must be completed during the drafting of the solicitation. The following should be determined:

- Is the contract of strategic importance?
- Are the services to be provided critical to the well being of the end user?

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Financial Analysis

- Are there federal or state sanctions for poor or interrupted contract performance?
- Can a substitute supplier or your organization provide the services with limited lead time?
- Is the supplier paid as work is performed or only after acceptance testing? If the latter, the supplier must be able to finance all expenses prior to completion of deliverables

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Financial Analysis

- What are the ramifications of a suppliers insolvency?
- Does the contract period cover a significant period of time?
- Will the contract be fixed price, time & materials, or a labor hour contract?
- Is the supplier the single or sole source for the services contemplated?

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Independent Financial Information

- Independent financial information may be obtained. Fee based information providers such as Dun and Bradstreet are available.
- Company's internet home page
- Search on-line databases for articles related to the supplier. I.E New York Times, Wall Street Journal, Brokerage Firms, Hoovers

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Dun and Bradstreet Information

- Business Information Report (\$65)
- Supplier Evaluation Report (\$65)
(Gives risk factor)
- Comprehensive Report - includes financial stress class, credit score class, credit score norms and summary
- Financial stress summary compares the supplier to that of the industry

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D&B Information

- Financial stress norms which rates the supplier to companies in the same region, industry, employee range, and years in business.
- Includes public filings summary and detail
- Shows banking relations
- Includes key business ratio's and industry norms

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Financial Analysis Application

- The intent of the analysis or evaluation is generally a pass/fail determination. A financial analysis would normally not be awarded points in the completion of an RFP evaluation.
- There may be situations when the financial analysis may be used as an evaluation factor of an RFP.

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Financial Analysis Application

- If reasonable concerns regarding the supplier's viability exist, the evaluation team may reject the supplier, or place the supplier on special financial surveillance via periodic reviews conducted during contract performance.

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Financial Analysis Assignment

A financial analysis may be completed by either a:

- Financial specialist (CPA from finance or budget)
- Procurement specialist
- RFP evaluation team
- Program specialist
- Private financial consultant

Training in the financial analysis methodology is required prior to assignment. An assessment of existing personnel knowledge and skills will determine the appropriate assignment

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The Evaluation Matrix - Develop a Checklist

- Use a checklist to ensure compliance to all mandatory requirements and to assist with the scoring of proposals.

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Develop a Scoring System

- Percentages/weights or points are used to assign relative importance to each evaluation criteria:
- Qualifications
- References
- Technical approach
- Experience
- Staffing qualifications

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Scoring Systems - Percentages

Each criteria on the evaluation matrix is assigned a scoring percentage for evaluation purposes. For example:

- Contractors qualifications = 15%
- Technical approach = 35%
- Contractors experience = 20%
- Qualifications of staff to be assigned = 25%
- Cost proposal = 15%

Each criteria is given a score. Example from 0 to 4 based on the following:

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Scoring Systems - Percentages

- Exceptional - 4 points
- Exceeds standards - 3 points
- Meets standards - 2 points
- Fails to meet standards - 1 point
- Unacceptable - 0 points

■ There are many other scoring schemes that can be used. (100 points, 0 to 10 scale, etc.)


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Scoring System - Points

Each criteria on the evaluation matrix is assigned a maximum number of points for evaluation purposes. For example:

- Contractors qualifications = 15 points
- Technical approach = 35 points
- Contractors experience = 20 points
- Qualifications of staff to be assigned = 25 points
- Cost proposal = 15 points


Each criteria is given a score based on the following:



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Scoring System - Points


- **Exceptional** - gets full point value
- **Exceeds standards** - gets 85% of full point value
- **Meets standards** - gets 75% of full point value
- **Fails to meet standards** - gets 25% of full point value
- **Unacceptable** - gets 0% of full point value



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Evaluating the Cost

- There are **three** different approaches to evaluating costs. Costs, mean life-cycle costs: the total value of all costs associated with a proposal over the life of the contract or the life of the solution
- Each approach could yield a different winner from the same set of proposals



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Evaluating the Cost - Least Cost

- Evaluators eliminate any proposals which do not satisfy the organizations mandatory requirements
- For those proposals which remain, the selection is made on the basis of least cost

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Evaluating the Cost Cost As an Evaluation Category

- Cost is simply another factor which is included in the scoring scheme
- For example, cost would be assigned 20 points. The lowest-cost proposal would receive all 20 points. Other more expensive proposals would receive fewer points

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Evaluating the Cost Greatest Benefits Per Dollar

- Each proposal is evaluated and a score is established for it. The score excludes any consideration of cost. Once this has been completed, the total score for each proposal is divided by the total cost to obtain a "points per dollar" measurement. The proposal with the greatest "points per dollar" represents the greatest value and is selected

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The Evaluation Process

- Establish compliance
- Score the proposals
- Impose upset levels
- Evaluate the cost
- Develop a short list
- Have supplier's give oral presentations
- Score the oral presentations

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Score the Proposals

- Score the proposals according to the evaluation criterion defined in your RFP
- Score "**costs**" only after all other criterion have been evaluated

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Impose Upset Levels

- Upset levels are used to eliminate the possibility of a proposal obtaining the most points overall when it has serious deficiencies in one or more categories
- An upset level is a minimum score that a proposal must receive, either in total or in a category, to remain in competition

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Develop a Shortlist


- The short-listing process produces a reduced list of proposals to be evaluated further



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Interview the Suppliers


- The procurement officer should prepare an agenda for the presentation, outlining the objectives of the presentation and any specific requirements
- The evaluators should control the subject matter and content of the presentation, not the supplier
- All short-listed proponents should be given a copy of the agenda in advance



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Evaluate the Cost

- Evaluate the cost base on the least cost; cost as an evaluation category; or greatest benefits per dollar method
- If necessary complete a cost analysis
- If necessary and appropriate complete a price analysis



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The Evaluation Process

- During the evaluation process, you may contact suppliers to clarify their proposals, to ensure that your estimate of costs is based on a clear understanding of the proposal
- Does the evaluation include all related costs
 - (Life-cycle costs)

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The Evaluation Process

- Are proposals that fail to meet one or more mandatory requirements to be excluded from further consideration?
- Are you prepared to accept one of the proposals if it satisfies the mandatory requirements but offers few "desirables"?
- Do you have a strategy in place if none of the proposals is acceptable?

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The Evaluation Process

- Your goal should be to select the best qualified proposal that meets all mandatory requirements and with the lowest evaluated cost

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Ending the Process

- Determine the winning proposal
- Negotiate the final contract price
- Notify the winner and non-winners
- Finalize the contract
- Document every step of the process
- Complete your RFP file

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What Is Success?

- The RFP process was executed in a professional manner and was consistent with your organization's purchasing policy and all applicable laws and regulations
- The RFP process was documented as you went along, and could survive public scrutiny

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What Is Success?

- No objections were raised by suppliers concerning the fairness of the RFP process
- The selected supplier performed as expected. The solution was implemented on-time, within budget, and satisfied the requirements
- Your organization acknowledged that the project was a success

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