

# Software Selection Whitepapers

Vendor Selection  
RFPs And Reference Checks



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# VENDOR SELECTION RFPs AND REFERENCE CHECKS

## Executive Overview

The Successful Software Selection white paper series offers project teams the opportunity to garner consultant quality insight in manageable portions. Based on *The Software Selection Handbook*, the white paper series pares down selection project elements into subsets based on areas of interest. The series is ideal for committees just getting started on their selection project or teams well on their way to finding a new solution provider.

*Vendor Selection: RFPs and Reference Checks* reviews screening vendors, creating the RFP, analyzing the RFP responses, checking references.

## Vendor Screening

The cost of responding to Requests For Proposals (RFPs) have become so expensive that many software firms will not respond to blind RFPs that show up at their door. The cost of evaluating RFPs is also expensive in terms of actual dollars and time. Plus, when the number of alternatives compared is over four, it becomes confusing and is more difficult to arrive at a clear answer.

In recognition of these issues, we suggest creating a pre-selection project summary. This is a relatively short document. It provides an understanding of who you are, how much business you do (transaction volumes) and a short description of mission critical processing. By sending this to the right group of potential vendors, they are able to "self select" themselves. Once they agree to be in the evaluation and they know there will only be three or four finalists, it is worth their efforts to respond to the RFP and worth your time and effort to evaluate their response.

You can find potential vendors through your vertical market associations, publications, business acquaintances and business partners. Immediately eliminate any that do not appear to be viable candidates. A \$50 million company should not be looking at a \$149 shrink-wrap general business system. By the same token, a small startup is not likely to purchase a multi-million dollar application that requires an IT staff to operate.

Optimally, there should be three new packages that would work for your organization and an upgrade of your current software. These should give you a good group to select from with a range of costs, capabilities and usability. Do not select from a universe of one. Of course, there are exceptions to all rules, but excluding the unusual, selecting from a group of 3 or 4 should serve you well.

When you have identified your three or four alternatives, it is time to give them copies of the RFP and start the timer. While you do not want to rush a decision, neither do you want one to drag on forever.

Within six months of the project start, the right answer will have changed at least once. If you take too long to make your decision and complete the implementation, you may miss new opportunities. It is best to make your decision when you have the facts and then move forward in a timely manner with the selected vendor.

### RFP Creation

A Request For Proposal, is a method by which a customer can obtain and compare information from multiple vendors to make a selection. This task pulls together all of the collected information from the previous tasks and creates a single, concise document which accurately describes the needs of the organization. It provides a framework for each vendor to propose a solution for consideration.

The actual process can be very formal (as for government projects) or informal (for most small business needs). In between, each organization can determine what will work best. The most important function of the RFP process is to provide a level playing field for the decision process. That way, the decision will be based on facts and a structured methodology as opposed to one made by gut feel or under political pressures.

The formal RFP normally has an extremely rigid process that must be followed. These may include vendor meetings, standard responses to questions, and a very formal bid opening process. The process is often mandated by governmental agencies to ensure fair competition for the bid. Large companies also use it to make sure that no one has an unfair advantage.

In an informal RFP, the rules can be less rigid. Multiple vendors may be asked to start at different times and submit proposals with different ending dates. The customer may have a very informal requirement in terms of the documentation that the vendor provides.

A second difference may be the amount of detail information that is requested. In an informal RFP, the specific requirements may be very limited in scope. It may be a good idea to have meetings with each vendor where you can discuss the details of your operation and answer all of the vendor's questions. That will help you get the best response possible from each vendor.

You must remember that it is the job of a computer sales person to sell software. Therefore they work hard to present their software in the most favorable light possible. It is your job to make certain you have defined your absolute requirements sufficiently for the vendors. You must verify during the demonstration that their software meets your mission critical requirements. The RFP is only the first step in achieving that objective, with the demonstration the final step. The vendor responses to the RFP should be viewed only as a guide to what they can do and not the final confirmation of their capability.

The rest of this section will describe the creation and management of the RFP process. A modifiable copy is found on the enclosed forms CD.

In a standard format, the RFP contains four major sections. These are:

1. The description of the process to be followed;
2. A detailed picture of the organization;
3. Documentation on how the organization currently operates and its existing technology infrastructure; and
4. Information on how the organization would like to operate.

The first section outlines the process that is going to be followed. It tells a potential respondent exactly what is expected of them, the due dates for submission of materials, and in what format they must appear. The more formal procedures appear here. They may include a specific time when all responses will be opened (prevents cheating by allowing specific vendors to find out what others have bid before submitting their own response). In order to make sure everyone gets the same information, communication with your company may be restricted to only the project leader. Review the actual details in the sample RFP and select the specific procedures most appropriate to your situation.

The second section of the RFP provides background information on the organization. It allows you to describe the organization, its goals and objectives. Often, long range planning data is included as well as information on markets served and products or services provided. By painting a relatively complete picture of the operation, the vendor will be able to better tune their response to your specific needs. It will also allow them to research their internal vertical market expertise to help you find options or opportunities to further improve your operation.

Part three contains specific information on your current infrastructure and operation. A complete inventory of existing equipment allows the vendors to determine what (if any) new or upgraded hardware or software may be needed.

Volume data will provide a foundation for determining the actual size of the system. In some cases, the cost of the system is affected by the number of users, the size of the centralized hardware or the number of transactions. Without this detail, it is too easy for vendors to lowball hardware and software in order to get the contract. Their hope is that once they have started, the purchaser can be charged extras as it will be more difficult to change the solution.

You may find that many software companies will provide you with software only and do not provide a hardware solution. When this occurs, they will often provide suggested or recommended hardware configurations based on the number of users, modules, or processes. If you are uncomfortable finding and installing the hardware yourself, make their assistance a requirement in the RFP.

Information from your transaction and order volumes will be used to estimate conversion costs, training and timeframes. The amount of data to be converted, as opposed to re-keying the information, is another area to consider. Some software companies include conversion as part of their implementation, while others bill it on an hourly rate.

Many packages allow you to import data that exists in spreadsheets, or which can be exported from your current software to a spreadsheet. This may sound easy, however it does take some "trial and error" to get the correct format to make it happen easily.

The RFP should also request information on training and related startup services that will be needed. Most can be tailored to fit your specific needs, but don't overlook these important phases of your implementation.

Finally, section four presents the specific requirements that you would like to find in a new system. This is generally a list of all of the features and functionality that the software program must provide. All requirements from "Musts" to "Likes" are described.

The requirements are presented as a list. The vendor is instructed to respond to each requirement as well as to score their response as: available, requires custom work, done through third party software, coming as a future feature or is not available. These "answers" are the foundation of the analysis process.

A traditional RFP would contain upwards of 1,000 requirements or features. There were a number of reasons that this was done, some good but most bad. Bad reasons include:

- The RFP seemed to be worth more
- Everyone was impressed that you did so much
- The process took more time to create and then evaluate
- It was pure CYA so if something goes wrong; there is someone to blame
- The original reasons that were good included:
  - Systems were immature and evolving quickly
  - There was little or no agreement on what should be included in basic functions
  - Functions that were promised often differed from what was delivered
  - It was (still is) a good checklist so we do not forget to ask for something

The need to include as much detail today is based on individual needs and company requirements. Most systems that are used by multiple companies have met all standard requirements for basic accounting, billing and any functions that are normal in the markets they serve. It is then not necessary to specify in detail such issues as the ability to list outstanding receivables.

Specifically include detailed descriptions/explanations of any mission critical needs or unusual processing requirements. Make sure there are no misunderstandings between you and the vendors.

If you need specific information regarding tax calculation, costing methods or sales commission, make certain you define it in the RFP and see it in the demonstration. In general, most software companies will only "guarantee" their software conforms to the written documentation. The appropriateness of the software to your business is your responsibility. Do your homework and pay close attention during the demonstrations if you want to ensure the software will perform as you expect.

It is common for third party packages to perform such activities as faxing, email, forms management, sales tax calculations and reporting. Other, more critical pieces such as Warehouse Management, bar-coding, shipping, reporting, Business Intelligence (OLAP), equipment rental, maintenance or Point-of-Sale may also be handled by third-party providers. If these are critical to your business make sure you understand who is providing them and how they work with the core software.

If you are in the distribution business and plan to invite vendors from the software4distributors web site to respond to your RFP, then the program will not only help you build the RFP, but will provide a comparative matrix of answers without having to wait for the vendors. This will shorten your process, as only additional information needs to be compared and evaluated. The vendors also appreciate the simplified response requirements.

You will want the response to the RFP to become part of the final contract documents with the selected vendor. Where a formal response is not required, it is important to create a document that specifies any mission critical features that the vendor agrees they are able to supply. Have this list or letter added to the contract. This should eliminate any disputes if anything does not work as promised.

Remember, have everything in writing and have it as part of the contract documents that are signed by an officer of the software company. Most respected software companies do not allow their salesmen to submit "side letters"; that is letters apart from the contract that outlines specific requirements or capabilities. Beware if these are offered to you.

We usually suggest that you include your current computer software vendor in the evaluation process. Unless they are just not capable of taking you to the next step, there is value in including them as part of the process. Our experience shows that most distributors (and it is not much different for other industries) use less than 25% of the features and functionality in their systems. Perhaps your "new" requirements can be met by your current vendor with an upgrade.

Over the years, we have found that many companies become complacent. They use what they know and what was learned during the initial training. Employees invent "work-arounds" to overcome perceived system limitations. Some companies are not very good at continuing education, learning about upgrades or enhancements, or finding new things that can be done with existing software. You may find that many, if not all of your requests, can be satisfied by your current software.

If this is the case, the cost of upgrading, training and possibly some custom programming should be significantly less than starting over. Moreover, the cost of conversion should be minimal (unless you have never applied any updates). Still, follow the process and make the current software vendor earn your continued business. It can become a big win for both of you.

#### RFP Analysis

Analysis of the responses to the RFP is very critical to the success of the project. The review must be complete, accurate and not allow politics to affect the answer. Although we recommend sending the RFP to a limited number of vendors, many companies still want to review as many solutions as possible. The time and cost of full detail analysis of every response will exceed its value.

As the responses to the RFP are received, review them first for completeness. Companies who do not follow directions or are sloppy during the sales cycle might not be capable of doing a complete and satisfactory job during implementation. On the other hand, a "wiz bang" proposal may be hiding software that will perform less than satisfactorily when implemented. The bottom line is you "can't judge a book by its cover" and should not judge a company or software solely by its proposal.

Eliminate any proposals that are unable to successfully respond to the "MUST" or absolute requirements portion of the RFP. Remember, you created a list of minimum functionality when ranking all of the requirements that were collected. There is no need to further analyze a package that cannot meet all of these needs.

Next, evaluate each proposal against the remaining requirements of the firm. Rank the solutions in order of relative benefit. This is possible using the ranking of the non-absolute requirements. You are looking to identify which solution will provide the greatest percentage of high value "WANTS" as part of the decision making process. If there are more than three or four alternatives at this time, use this ranking to eliminate the software offering the least viable solution against your requirements.

Developing a "percentage of requirements" metric will allow you to rank the software package based on how well they satisfy the rest of the requirements that were identified in the RFP. The use of "Weighting" allows you to control the relative value of the requirements. The value of this becomes obvious when creating the "scatter diagram" shown below.

Cost is one of the measurements that we always save for the last. Remember that the cost included in the initial proposal will not be your final cost. All vendors will be willing to negotiate pricing, terms, conditions and support if they are selected as a finalist.

In order to compare costs you must "normalize" the vendors' investment summaries. You must be sure that all of the cost elements are considered for each vendor. It is your responsibility to make sure that the costs are presented in a consistent manner. This allows you to compare the proposals on an equal footing.

We suggest that you include the "investment form" with the RFP so that all financial summaries follow the same format. It will allow you to organize the proposed costs for hardware and software, training, conversion, implementation support, modifications as well as maintenance and interest that will occur on a continuing basis after the initial installation.

If there is a significant difference between the costs for each alternative, it is important to do further research. Make sure there were no misinterpretations of the requirements. Verify that everyone responded on the same basis. If some included hardware and others did not, you will have to balance the responses by obtaining hardware proposals to fill in the blanks – or eliminate the vendor if you are looking for a turnkey vendor with a single point of control.

As we noted earlier, some software companies do not offer hardware with their proposal, but only provide you with a recommended configuration. While this might seem a disadvantage, it might actually provide you with significant advantages. You will be able to work with local providers, perhaps a company you are already familiar with who may have installed your network or other computer-related activities. Remember, software companies are best at developing software.

Be certain you understand the maintenance and support offerings from each vendor. Some may not charge for updates or patches, but do charge for upgrades. Companies may provide you unlimited phone support, others may limit it to a few hours a month – with a credit card or purchase order required for calls beyond that limit. Other companies may only provide support over the web or may use third party support companies. Some companies separate support and maintenance, while others may require you to have maintenance if you wish to purchase support. There are many options, so make sure you understand what you are buying and the ongoing cost before signing the contract. In some cases, the least expensive solution to purchase may become the most expensive over time.

Since a picture is worth a thousand words, we like to graphically represent the results of our analysis using a scatter diagram like that shown above. This was created in Excel by plotting functionality on one axis and cost on the other.

Draw a circle around packages that exceed 80% functionality and are within 20% of the financial constraint that you set at the beginning of the project. This range will ensure that you do not eliminate packages for reasonable price variations. Packages that are above 80 percent functionality but are outside the recommended price range will require additional research to determine whether they should be included in the short list.

Finally, attempt to quantify the risk associated with the various alternatives. This is the analytical element most often ignored, but important when making trade offs between opportunity, cost and risk. Assign a "risk factor" (the probability that something bad will occur times the seriousness of the threat if it does) to the potential that an absolute requirement or a high priority "WANT" cannot be delivered. Determine a risk factor based on the amount and complexity of custom programming necessary to be able to use the solution.

Review the vendor's financial strength and their customer base for stability. Look into the personnel situation and establish a relative risk factor depending on the depth of the organization and its reliance (or lack of) on any single person.

Rank the alternatives by relative risk. This is not a number that can be added or subtracted from the benefit ranking. It is only a comparative score that can be used when making trade offs between costs and benefits. In other words, you may be willing to accept a higher degree of risk for a significantly lower cost. In another situation, a company may be willing to spend more to reduce its risk.

## Reference Checks

The purpose of reference checking is to validate the selection of the finalists. The time and cost associated with demonstrations and detail analysis is such that no more than three alternatives are normally selected for the final steps. These checks often provide a means of eliminating one or more of the alternatives.

References are provided by the vendors. Therefore we know that if we only ask: "do you like the system?" the answer will almost always be yes. When doing reference checks, there are some simple things that will get you the information you really need. Generally, the vendor will provide you with two or three companies and a single point of contact at each one. Your job is to get this person to provide you with additional people in their organization who can speak about various aspects of the software. Be pleasant; ask nicely and often people will be glad to help.

You need to have multiple people involved in the process. They will each talk to peers at the reference company. Your receiving manager will have an easier time talking to and interpreting the answers of their receiving manager than anyone else in the company. Do not focus too much on the executive level. It is the line people who will tell you the most about what you really want to learn.

Ask open-ended questions that always start with: "we feel this is the right system for us, so I just have a few simple questions. First, were there any surprises during implementation that we can learn from?" This should start the conversation going. Take plenty of notes. You will learn what to watch out for and how to avoid it.

Next, ask if the project was completed on time and on budget? Not all references will know the answer to the budget questions, but everyone will know about the timing. Ask about support and training. Find out which vendor personnel they would recommend we ask for? Who did the best job? Who understood the business better? Each of these questions will get you answers that will help ensure the success of the project.

However, there is a word of caution here. Since you do not know the constraints which were placed on their organization during the selection and implementation, you cannot know if your experience will be the same. Remember, implementations are hard work. The amount of time and effort that went into the planning can make the process a bit easier or a bit harder. If the reference has a few negative things to say about the process you might want to delve a little deeper to find out if it was related to the software, the implementation consultants, the methodology used or the company's internal issues.

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### About *The Software Selection Handbook*

Developed at the request of our clients who recognize the methodology we have developed over the past 20 years as the best in the business, *the Software Selection Handbook* details the same process employed by our consultants for client engagements to help you tackle the difficult task of finding the right software for your business. Multiple copy discounts are available.

*The Software Selection Handbook* includes an electronic version of every form on CD and provided in electronic format at no additional charge. The forms, supported on any Windows PC platform, are available as Microsoft Word, Microsoft Excel and Adobe Acrobat (PDF) format files.

*The Software Selection Handbook* was created as a guide for organizations interested in reviewing and selecting new software and technology through the use of a well-structured process. The authors, publishers and distributors do not make any representation or warranty as to the suitability of the following information for a specific business or business purpose. It is up to each organization to assess their situation and take the appropriate action.

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### About Brown Smith Wallace Consulting Group

St. Louis based Brown Smith Wallace Consulting Group, founded in 1976, is a leader in the strategic use of technology to create competitive advantage. While other firms may bring answers based on their experience, we use our experience to help our clients find the unique answers to their unique situations. For more information visit [www.software4distributors.com](http://www.software4distributors.com).

Brown Smith Wallace, which has revenue of \$13 million, is the second largest locally owned independent full-service CPA and business consulting firm in Missouri. Brown Smith Wallace, with offices in St. Louis, St. Charles and Chicago, makes a measurable difference in clients' lives by making sure clients get more than just a good return on their investment, finding hidden value, looking where others forget, bridging gaps to form long lasting relationships, being accessible and by putting a guarantee in writing. For more information visit [www.bswllc.com](http://www.bswllc.com) or call 314.983.1200.

#### Additional Resources:

- Distribution Software Guide  
[http://www.software4distributors.com/resource/distribution\\_software\\_guide.aspx](http://www.software4distributors.com/resource/distribution_software_guide.aspx)
- Successful Software Selection -- Getting Started: Project Management (White Paper)
- Successful Software Selection -- Getting Started: Project Teams (White Paper)
- Successful Software Selection -- Getting Started: Documenting Where We Are
- Successful Software Selection -- Vendor Selection: Demonstration Planning (White Paper)
- Successful Software Selection -- Vendor Selection: Contract Negotiations (White Paper)