Rethinking the Dynamics of the RFP Process for Improved IT Procurement

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In NASCIO's 2013 State CIO Survey, we asked CIOs to rate the effectiveness of the procurement process used by states in acquiring best value information technology (IT) goods and services in a timely manner. Almost two-thirds of CIOs believe their IT procurement process is either somewhat or very ineffective. One of the most frequently cited concerns is the length of time required to complete an IT procurement. The typical state procurement cycle for IT services often exceeds 18 months, with the majority of time consumed by RFP development and proposal evaluation.

Likewise, in 2013 NASCIO participated in the IJIS Institute Procurement Innovation Task Force, which released Strategies for Procurement Innovation and Reform in January 2014. Some recurring procurement themes that were identified in the report are:

- Misunderstanding of technology and standards
- Culture
- Lack of communication
- Concerns about risk

Recognizing the slow pace of major reform and innovation in the public procurement space, NASCIO has continually sought ways to encourage collaboration between CIOs, chief procurement officials and private sector IT vendors. The NASCIO IT Procurement Modernization Committee, in partnership with TechAmerica and the National Association of State Procurement

Officials (NASPO), continues to focus on state IT procurement reforms and highlighting best practices and innovations at the state level. This brief is the fourth in a series of recommendations set forth by this collaborative.

The committee has identified one facet of procurement to which special attention must be paid: the RFP, or Request for Proposal process.

How We Got Here

The RFP process is multifaceted with a broad set of stakeholders including state CIOs, agency heads, state procurement officials, state procurement attorneys, private sector vendors, and many others. The role of the state CIO in the procurement process is to provide innovative solutions to an agency, through its agency head or "agency business owner." That is, in a shared services model, agency heads run an agency like a business and the office of the CIO provides a service to that business. In order to modernize the state IT procurement process, state CIOs and procurement officials should collaborate with the agency business owner on the business motivations for maximizing the use of taxpayer dollars and delivering more efficient and effective services.

While there are numerous processes for state IT procurement in the shared services business model, the RFP approach is but one mechanism that can be leveraged by states. This brief seeks to present an overview of how the current IT RFP policy and practice is relegated nearly to the end of the procurement process and by turning this course of action on its head it may create more innovative solutions, yet still maintain the best value for every state dollar.

The procurement term "best value" varies from the self-explanatory term of "best or lowest price" because it encompasses the total benefits that a state expects from the acquisition. Lowest cost does not always ensure the best value to states and factors such as long-term project benefits, cost avoidance, cost versus technical superiority tradeoffs, and increased productivity need to be factored into an overall assessment.

The variation for built-in flexibilities fluctuates from state-to-state, but a state that has a malleable RFP process has the potential to yield innovative solutions from proposal submissions. In 2000, the American Bar Association recognized the need to include technology procurements in the Model Procurement Code (MPC) and highlighted the importance of the RFP process. To emphasize the point, states should recognize the value in changing the dynamics of the RFP process and increased flexibilities can ultimately enrich the value of IT procurements.

While this brief will exclusively focus on the RFP process, it is important to remember that each state has a procurement process that was drafted into law by legislators, interpreted by judicial branch judges, and carried out by executive branch leaders and their staff members. Though there may be general trends in the way that state laws handle certain aspects of the RFP process for technology procurements, it is difficult to generalize on state RFP process due to the variations in state procurement laws. You should view any recommendations or suggestions in this brief with that in mind. Consult your legal counsel if you are considering implementation of any of these recommendations and remember a collaborative environment with all stakeholders can reap better results.

RFP Breakdown – Why has the RFP Generally Been Relegated to the End of the Process?

In the field of IT, products generally precede the "known" need for services. A new product is released, such as smartphones and tablets, and a host of software solutions, which arguably are services in nature, spring up around it. This is particularly true today, where investments in consumer technology innovations lead the marketplace and become attractive options for state government. Contrary to this, in the practice of IT in many states, it is the desire of the state to offer a service which relegates the procurement of the product to the back-end of the process, to where service leads product procurement.

For many years, states have hewn to very specific processes for how technology solutions are identified, assessed, and procured mirroring common leading practices for IT management. Generally speaking, ideas or opportunities are identified or proposed by business needs or problems by agency business owners. Ideally, these initiatives were explored in partnership with an IT services group who ensured that similar needs in
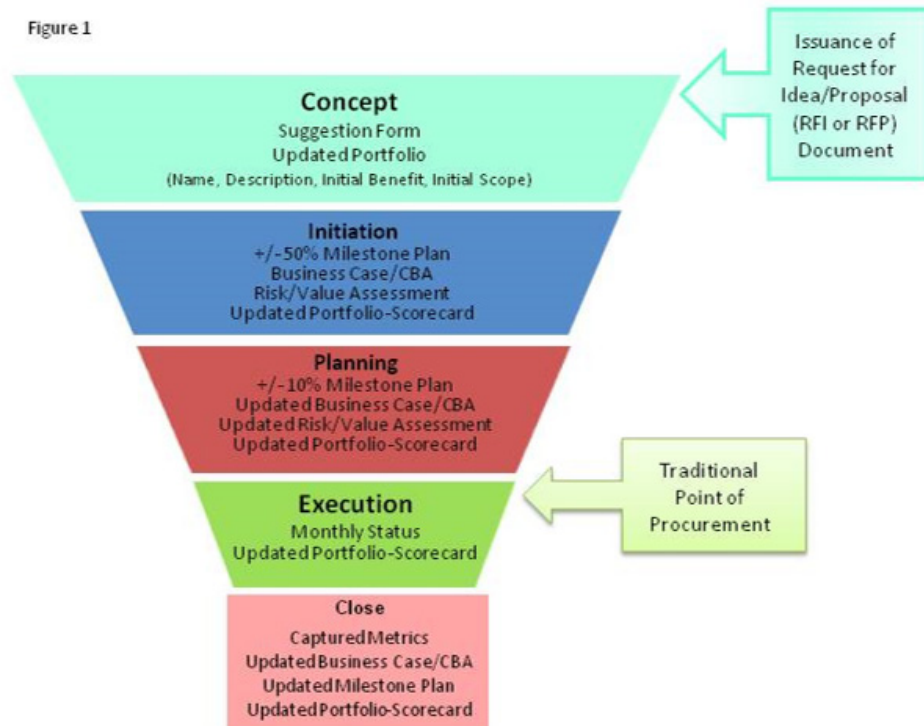
different agencies are supported in complimentary ways from a technology architectural viewpoint. This is a very complex and vast topic that has been explored by NASCIO in many publications and it is recommended that *Leveraging Enterprise Architecture for Improved IT Procurement* be consulted on this issue.

From the concept phase, the proposed ideas which generally appear to be good from either the technology standpoint (making technology more efficient) or from the business standpoint (optimization of the business process effectiveness) are then moved into an initiation stage. At this point, a plus or minus milestone plan and business case is developed, articulating the return on investment from the financial benefits (from technology or business efficiencies) to be realized by the financial investment in procurement of hardware, software, or implementation services of this solution. The first estimate on the hardware, software, and implementation costs are gathered, with the more tangible costs being the hardware and software and are provided by the vendor or from catalogues such as the Western States Contracting Alliance (WSCA) or some other general source. The business owner then reviews the business case and decides if they wish to proceed. Due to budget variations, cost constraints and the possible impact of federal funding cycles and procurement requirements, states may have varying points for which they decide to move a project on to the next phase. In some instances, states may require a return on the initial investment (ROI) in 12 months or fewer.

Those project charters, which are approved by the business owner, then move to the planning stage, where a plus or minus plan based on percentages may be developed and the business case will most likely be revised with much more rigor. This part of the process especially presents an opportunity for the CIO to introduce innovations around service delivery options. Labor estimates and consulting costs are the primary areas from the previous business plan which need to be tightened up, as the hardware and software costs are generally understood with often the previous plan estimate used. A detailed project plan is developed, articulating the critical path and resource constraints (particularly labor constraints) and any points in the project where delivery on milestones may be jeopardized. If there have been significant changes to the ROI or the previous estimated completion schedule from this process, the business owner is again asked to approve the plan. Ensuring that there

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are thresholds for procurement review in place, the Office of the CIO also gives approval and then the state moves forward.

In execution, the first step is generally the issuance of the Request for Proposal (RFP) for the hardware, software, and implementation services to bring the project live. However, if there is a business case for it, a request for information (RFI) can also be issued to make sure that the CIO and business owner have adequate information to move forward. By this time the participants feel the requirements and expectations are well understood, and generally the RFP leaves little room for innovative thinking on the part of the vendor community. Proposing such innovations as part of their RFP responses jeopardizes their proposal and will be deemed as not meeting the requirements and summarily rejected. These bids are most frequently evaluated by either lowest responsible bid or best value, as determined by a rubric constructed prior to the issuance of the RFP. This process is pictorially represented in Figure 1.

Figure 1

Graphic provided by the Oklahoma Office of Management and Enterprise Services (OMES) Information Services Department, August 2012.

The problem with the current method is that it relegates procurement nearly to the end of the process. In this construct, it is difficult for an innovation to be brought into the state. Innovations must be identified by either the business

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owner or technology subject matter expert, and in part is the reason why states generally lag behind the innovative use of technology when measured against the private sector, educational agencies, or other not-for-profit organizations.

This problem arose through the complex relationship the state has with the vendor community. A vendor may represent a taxpayer, an employer, they may have relationships with people in leadership, a property holder, an economic development partner, a philanthropic supporter, and a vendor of products or services. In this arrangement, it has been prudent for states to be deliberate and eschew a well-defined and transparent process for soliciting and awarding contracts.

Oklahoma Redesigns the Rubric for the RFP Process

In May of 2012, the State of Oklahoma made an attempt to change this dynamic by issuing an RFP to gather ideas and implement effective strategies to achieve efficiencies with the state's technology infrastructure. This put the solicitation at the front of the process in the concept phase, leading rather than following the pursuit of opportunities.

This solicitation is to be evaluated based upon the best value for the state, factoring in how well the responses meet the overall objectives and the vendor's understanding of the current state profile for each of the six sections identified. Other factors included how well the solutions appear to address the guiding principles and the state's infrastructure and technology, the projected financial impact, and the presentation of creative and innovative methods to manage and deliver the critical services.

The guiding principles for this effort are to reduce complexity, reduction of cost through buying in bulk, maintain or improve the current level of services, transparency of all transactions, maximize flexibility and agility, and spend fewer Oklahoma taxpayer dollars as measured in total cost of ownership, not simply the initial purchase price.

Six categories were identified: application development; networking; server virtualization; desktop administration; storage; and document imaging. The current state of these areas was described in the RFP, and respondents were asked to limit their ideas to these six categories. In all 79 proposals from 34 vendors were offered, which are currently being evaluated

as concepts and it is hoped that several will make it into the initiation stage.

It is the intention of the State to do this on an annual basis, changing categories as needs require or opportunities are identified. Suggested categories include data center(s), enterprise content management, IT security and identity management, to name but a few.

California Recommendations to Improve the RFP Process

In 2013 the California Task Force on Reengineering IT Procurement for Success released a report: *Recommendations to Improve Large Information Technology Procurements: A Road Map for Success in California*. The purpose of the commission was to help California hire the right vendors at the best value and hold them accountable for their performance.

The report contained specific recommendations for improving the RFP process. First, it recommended that a 10 month maximum timeline from RFP issuance to contract execution should be established.

The report also included these recommendations:

- Prescreen vendors: using criteria that are fair and promote competition, agencies should be able to prescreen vendors, helping to decrease the total time for procuring IT.

- Embed the appropriate staff on the project team before the procurement process begins. This will reduce the number of iterations in reviews and the overall review cycle and help integrate procurement planning into the overall project plan.

- Develop a library of standard procurement elements: this should include provisions and terms; statements of work clauses and procedures; and terms for warranty, maintenance, and acceptance. A library will help streamline the procurement process by reducing the learning curve.

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- Use a solicitation library: during solicitation development, a library of documents should be available to vendors to help them fully understand the business processes, technical interfaces, technical history, and other elements of requirements.

- Require governance body approval and reporting of project schedule: require the governing body to approve the procurement schedule and include procurement schedule status in all communications with stakeholders, including the Legislature. Persons detailed to the project team should be told that the project is their highest priority.

- Use parallel processing where possible: required processes and tasks should be conducted in parallel wherever possible to reduce the time between RFP issuance and contract execution.

Going Forward: The Change Imperative

Technological innovations and alternate sourcing models are not waiting for improvements in public procurement. In the end, proper management of the RFP process and bringing together the right stakeholders is imperative to an RFP's success. The state CIO offers the technical and IT policy expertise to ensure that the proposed procurement is consistent with the state's enterprise IT direction and architectural vision of the future. The state's lead procurement official can bring a broad expertise to understanding how aspects of the state's procurement process can be leveraged or tailored to produce the best outcome for the state. Other stakeholders can be helpful as well—it is helpful to look across the broad state enterprise to understand how to harness the collective experience of state agencies' technology purchasing. This is especially critical today as the process becomes more complex and challenging due to cost pressures, changes to the IT sourcing model and options in the marketplace. State leaders are examining alternative approaches to many services traditionally owned and operated by state government. This includes the entire stack of IT related services.

The growing adoption of managed services, outsourcing, cloud services, Software-as-a-Service (SaaS), enterprise integration and other sourcing innovations offers this evidence. In the 2013

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State CIO survey, sixty five percent of the respondents reported they outsource some of their IT applications and services. Sixty nine percent use a managed service for some or all of IT operations. One thing is clear: continuous process improvement and flexibility in state IT procurement is warranted and justified.

In summary, observations from the IJIS Institute procurement report provide recommendations and concrete actions for improving the RFP process and moving forward:

- State government entities (the buyers), wherever legally permissible, should conduct a risk assessment of the project prior to issuance of the RFP to clearly identify the risks, mitigations, roles, and responsibilities of both the buyer and seller [vendor] in the procurement, as well as the remedies that will be taken should one of the parties fail to deliver on their commitments.

- The success of a project often comes down to ensuring the correct composition of skills, competencies, and capabilities on project teams. For the success of the project, it is critical that the buyer and seller understand and agree upon the manner in which project team members may be substituted. This includes establishing in the RFP that proposal responses must specify the key personnel involved in the project's implementation.

- Conduct market research by inviting qualified vendors to present their approaches to the problem during the pre-RFP period in order to improve the understanding of the current availability of solutions. Market research can expand the range of potential solutions, change the very nature of the acquisition, establish the performance-based approach, and represent the agency's first step on the way to an "incentivized" partnership with a contractor.

- Engage in an open dialogue with industry prior to finalizing and releasing any RFP for a complex technology solution. Pre-solicitation conferences, industry days, an open blog, or a wiki site to allow 24/7 communications as the buyer conducts appropriate pre-solicitation activities would likely result in a better RFP that industry is more likely to respond well to.

- Participate in advocacy programs that promote greater flexibility in stating requirements within the RFP process.

- Ask qualified sellers, prior to the formal RFP process, to visit and discuss their solutions as a type of market research that allows the buyer to become familiar with what is available in the market place.

- Encourage sellers to offer alternative approaches even though they deviate from the RFP requirements.

- Represent in the RFP any budgetary limitations considered as part of the procurement process.

- Provide an adequate period for sellers to respond to the RFP. Procurement requests with unreasonably short response times deter otherwise qualified bidders from responding because either there is inadequate time to prepare a credible response or it suggests that there is already a favored supplier.

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