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USING REQUEST FOR PROPOSAL IN SOURCING PRACTICES

Case study: CPS Color Group Oy

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ABSTRACT

Under the pressure of increasing costs efficiencies in a volatile economic environment, procurement managers are forced to make the most sensible supplier selection decision. Strategic sourcing is an optimum approach that aligns procurement projects with the best suppliers. Such approach ensures all project needs are satisfied while releases the highest savings opportunities.

Request for proposal (RFP) is a strategic sourcing tool. It is a means of communication to inform prospective suppliers about the needs and requirements of a procurement project and encourage them to submit proposals that best satisfy these needs and requirements. The proposals will be evaluated and rated using an objective and structured scoring system to select the best supplier for the project being procured. This thesis is conducted to assist the case company – CPS Color Group Oy in using RFP in their sourcing practices.

The theoretical part of the study introduces steps in a strategic sourcing process and describes how an RFP can be employed in the process. Following are theories concerning different aspects of an RFP including its usage, advantages, content and proposal evaluation method.

In the empirical part, the sourcing practices of the case company in both direct spend and indirect spend categories are explored. The content and format of an RFP template are based on the theoretical framework and the preferences from the case company. Interviews with the procurement managers of CPS Color were organized to obtain more insights into the case.

The study utilizes a deductive approach and qualitative methods to collect and analyse both primary and secondary data. Primary data is extracted from interviews with procurement managers and the author's own observations while working at the case company as a procurement trainee. Secondary data is gathered from books, articles, reports, websites and previous studies.

The study shows that sourcing practices of CPS Color fails to capture potential added value from suppliers due to many of its weaknesses in the sourcing process. As a result of the research, an RFP template is formulated to support the process. Further studies on the effectiveness and efficiency of using a RFP in a sourcing process are suggested.

Key words: sourcing practices, request for proposal, RFP, template

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1 INTRODUCTION

In the past ten years, the importance of procurement function in the overall organisation of companies have grown so much that it controls about half of the annual budget in many industries and up to 80% in sectors such as manufacturing and retail. Bearing a great responsibility in such a volatile economic environment as nowadays, procurement managers are being pressed to make the most sensible sourcing decisions, which can increase cost efficiencies, minimize operational risks, stimulate suppliers' innovation and even consider the social and environmental impact of suppliers. (Booz & Company 2008, 1.)

Practices of sourcing have become more sophisticated over the past decade. Sourcing now is playing a critical role in releasing the highest possible savings opportunities by aligning procurement projects with the best suppliers. (Limberakis 2012, 4.) Such optimum approach is often known as strategic sourcing. In comparison with traditional sourcing, whose main focus is to ensure that products or services are acquired at the lowest possible prices, strategic sourcing provides a more holistic picture by monitoring, addressing and forecasting various needs throughout the organisation and even of its suppliers (Booz & Company 2008, 2).

In the pursuit of savings opportunities, procurement managers at CPS Color, a global manufacturer and supplier of tinting solutions, embrace the idea of integrating request for proposal (RFP) – a strategic sourcing tool – into their current sourcing practices. An RFP is a document describing, in details, the needs of a company and inviting prospective suppliers to submit proposals of products or services that best satisfy these needs. These proposals will be evaluated and the most suitable suppliers will be selected. Well-managed RFPs are best known for assisting procurement personnel maintaining a good control of the procurement project and of potential project risks, creating a fair competition environment among suppliers, gaining creative and innovative solutions from suppliers and earning the most savings opportunities. (Wheaton 2008.) In consequence, a well-grounded understanding of RFPs is of utmost importance for CPS Color to most effectively benefit from it.

1.1 Research objectives and questions

The goal of this research is not to design a complete sourcing process, because such process already exists at the case company. This study aims at assisting the case company in using an RFP in their sourcing practices. Therefore, the main research question is: How can procurement managers of CPS Color integrate an RFP template into their sourcing practices?

The objectives of this thesis are to assist the case company to answer the main research question and to provide them with relevant information required for using RFP. To achieve these objectives, the following sub-questions are identified:

- When and where in a sourcing process can an RFP be integrated?
- What is included in an RFP?
- What are current sourcing practices at CPS Color?
- How should an RFP template support CPS Color procurement managers in generating RFPs?

1.2 Research scope and limitations

The scope of the research is illustrated in Figure 1. The research consists of three main parts: theoretical framework, case study and proposed solution.

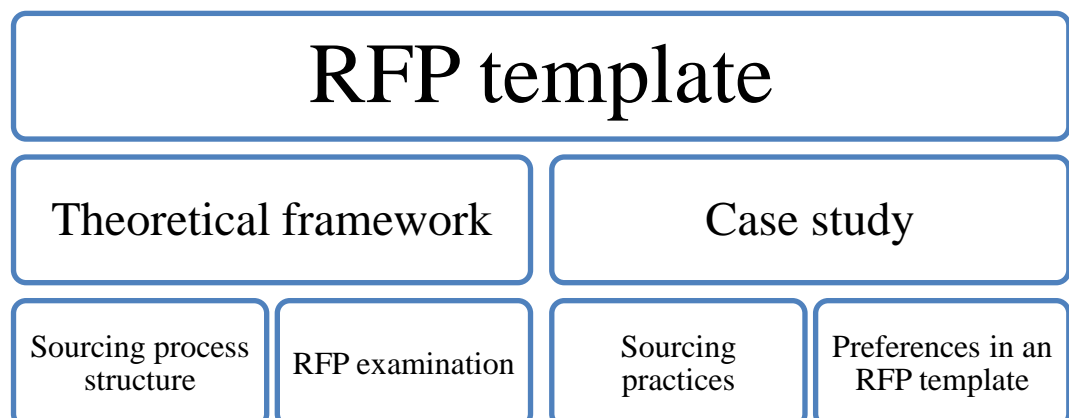


Figure 1. Research scope

In the theoretical framework, theories of sourcing process structure and RFP shall be studied. Even though sourcing is a broad term that include many aspects, this study will only focus on key steps of a sourcing process in order to identify at which step in the process an RFP can be employed. This foundation is also meant to provide guidance on the analysis of the sourcing practices at the case company. A detailed examination of an RFP usage, content and proposal evaluation method will be included.

In the case study, regardless of the fact that CPS Color is a global organization that has its presence in 13 countries, the scope of this study is limited to its headquarter in Finland, where the author had an opportunity to work as a procurement trainee. Through interviews and the author's own observations during the traineeship, sourcing practices that CPS Color procurement managers used for sourcing both goods and services will be analysed. Preferences in an RFP template will also be collected.

Finally, an RFP template will be proposed by applying the theoretical knowledge on the practical case study. It should be noted that this RFP template will be used for sourcing of products and services whose minimum monetary value are 50 000 euros. Possible effects of an RFP on the sourcing practices of the case company will not be measured and evaluated in this research.

1.3 Research methodology

The subsequent methodology, including research approach, method and data collection, (see Figure 2) is applied throughout this research.

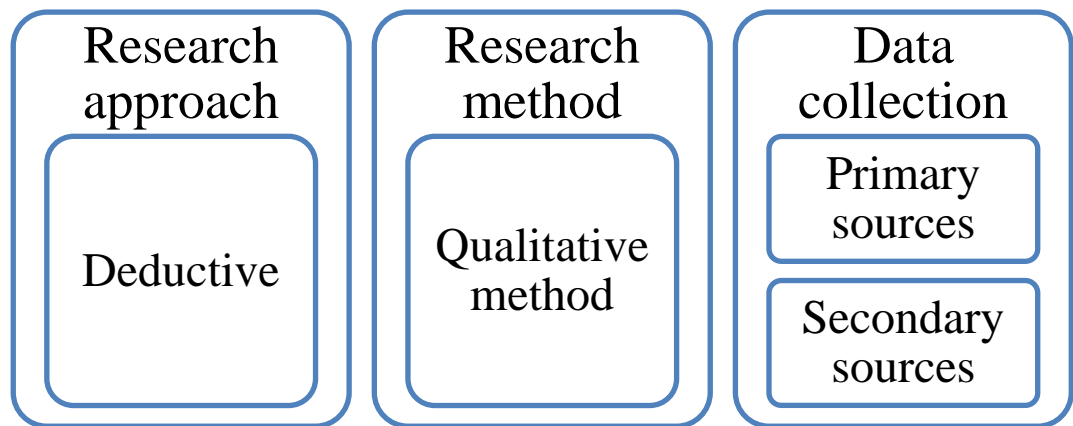


Figure 2. Research methodology

a. Research approach

According to Saunders et al. (2009, 124-128), there are two key approaches to designing a research project: deductive and inductive. The former approach derives findings from a theory or hypothesis by testing that theory or hypothesis. Conversely, the latter approach formulates a theory by analysing particular observations. (Saunders et al. 2009, 124-128.)

The deductive approach is chosen for this research. An RFP template will be developed by applying the theories of strategic sourcing and RFP onto the practical setting of the case company.

b. Research method

A research method is a combination of any data collection technique and data analysis procedure. Two most common methods in business and management research are quantitative and qualitative. Quantitative method collects numerical data and analyses them using statistical methods. In contrast, qualitative method refers to the collection and analysis of non-numerical data. (Saunders et al. 2009, 151-155.)

This research employs qualitative method to gather and examine relevant data for the research objectives. The data is collected from observations of the author while working at the case company and from semi-structured interviews with

procurement managers of the case company (Mattsson & Anttila 2013). A semi-structured interview is an interview where, on top of predefined interview questions, the researcher has potential opportunities to probe interviewees' answers to broaden researcher's understanding of the research objectives and add significance and depth to the data obtained. As a result, the data gained is rich and detailed. (Saunders et al. 2009, 318-324.)

c. Data collection

Primary data is new data collected for a particular purpose while secondary data is data that has already been collected, processed and stored for some other purpose. Although primary data is preferred, secondary data can also provide useful information that helps researchers answer research questions. (Saunders et al. 2009, 256.)

A combination of primary and secondary data is required to answer the research questions and meet the research objectives. Primary data is extracted from face-to-face semi-structured interview with procurement managers of the case company. Secondary data is sourced from books, articles, websites and previous research papers.

1.4 Research structure

The research structure is divided into six chapters as indicated in **Error!**
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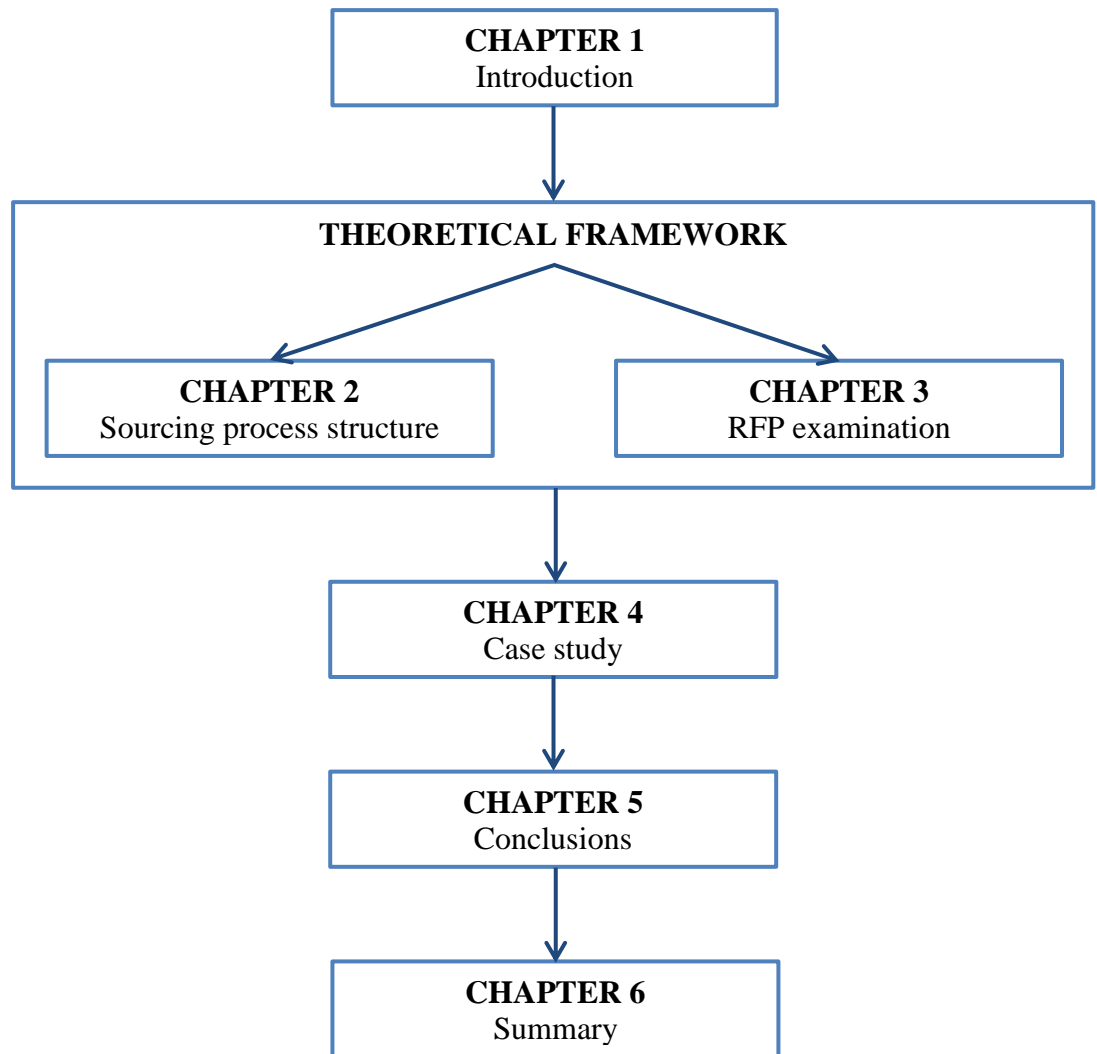


Figure 3. Research structure

Chapter 1 introduces the background information of the research, including its objectives, scope, methodology and structure. The content of the research is a combination of a theoretical framework and a case study. The theoretical framework is established in Chapter 2 and Chapter 3 with theories of sourcing process structure and RFP. The case study is presented in Chapter 4 and comprises an analysis of sourcing practices at the case company and development of an RFP template. Finally, Chapters 5 and 6 draws conclusions and summarizes the whole research paper.

2 STRUCTURE OF A SOURCING PROCESS

One of the most important and challenging process in a procurement project that managers perform is selecting the best possible supplier. Consequences of a careless supplier selection decision may range from delivery problems to a total service failure. Furthermore, incompetent suppliers, who are unable to provide savings opportunities or other advantages, may cost a company its precious market share. (UPS Supply Chain Solutions 2005, 1.)

The objectives of sourcing process are to find a suitable supplier for a specific purchase and to ensure that that supplier comes with reliable supplies, reasonable terms of services, low operation risks and maximisation of value of the money spent on the purchase. A standard sourcing process consists of eight key steps as illustrated in Figure 4. Different companies may add different modifications to this process to best suit their own needs. (Monczka et al. 2010, 163.)

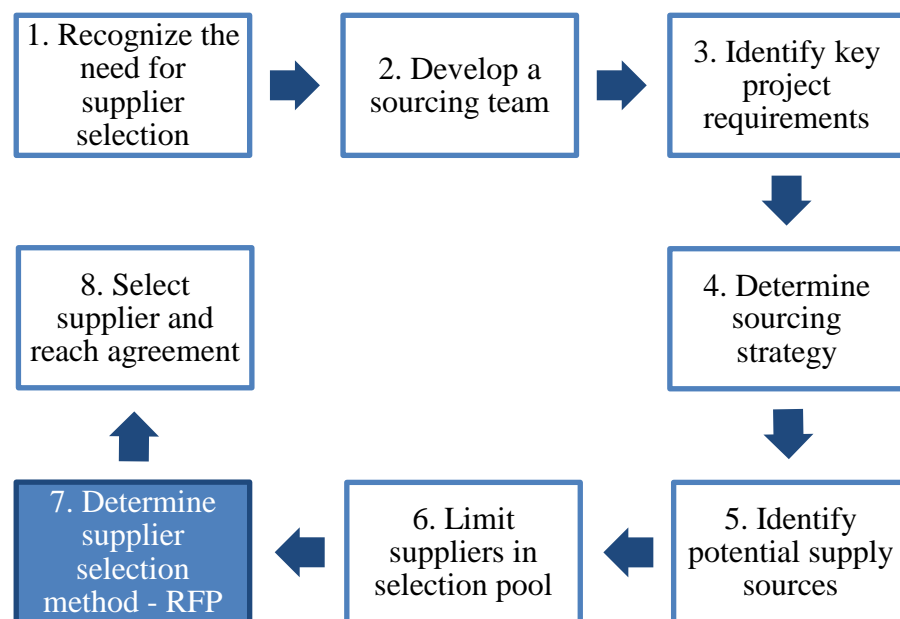


Figure 4. Steps of a strategic sourcing process (Adapted from Monczka et al. 2010, 163)

Among these steps, an RFP is often used after a small number of prospective suppliers are identified and shortlisted. These remaining companies may appear equally competent, thus, sending out an RFP and evaluating responding proposals will assist sourcing team in examining the alternatives in greater details and choosing the best supplier. (Monczka et al. 2010, 168.)

The aim of this chapter is to explore each step in a sourcing process and identify the location where an RFP can be employed in the process.

2.1 Recognize the need for supplier selection

The need for supplier selection may emerge in different situations. For instance, a company may involve in a new product research and development and thus needs to look for suppliers of potential new equipment. A need may also occur when the company is expanding its business to new markets; when current suppliers are incompetent or no longer suitable; or when internal users submit requisitions for new products or services. Managers need to be proactive in anticipating needs in order to quickly response to the situation and reduce lead-time between recognition of the need and arrival of the first order. (Monczka et al. 2010, 163-164.)

2.2 Developing a sourcing team

The scope and structure of a sourcing team will vary from procurement project to procurement project within a company, and from company to company. Figure 5 shows different actors that commonly involve in a sourcing team. Generally, a sourcing team is composed of five stakeholders from different functions of an organisation: procurement manager, technical specialist/subject matter expert (SME), financial analyst, end user and executive supervisor/sponsor. (Dominick & Lunney 2012, 70.)

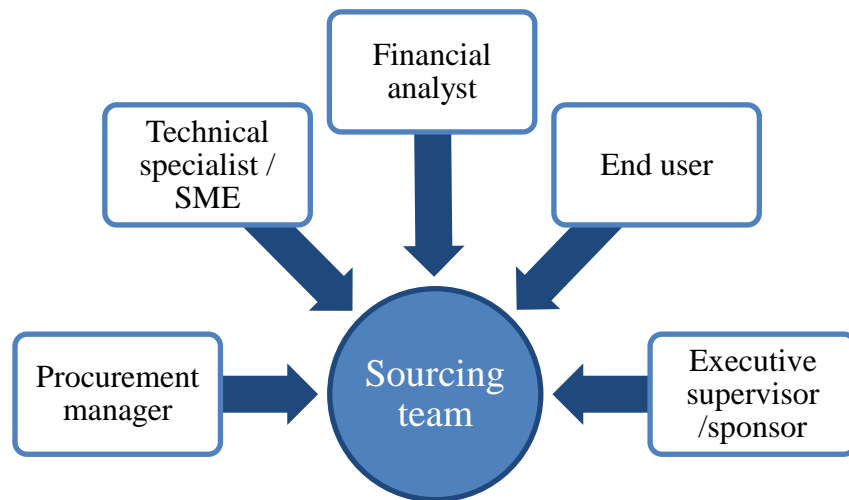


Figure 5. Composition of sourcing team (Adapted from Dominick & Lunney 2012, 70-72)

a. Procurement manager

A procurement manager will directly drive the sourcing process and be responsible for selecting the best possible supplier for the procurement project. Beside professional knowledge of the supply market and supplier selection and evaluation, the procurement manager often possesses also general knowledge of technical aspect of different products or services collected from previous procurement projects. Performance of the procurement manager is usually evaluated based on performance of the selected supplier and amount of savings made. (Dominick & Lunney 2012, 70-71.)

b. Technical specialist / Subject matter expert (SME)

A technical specialist / SME is the one who is most familiar with the product or service being sourced, especially its technical aspect. The main task of the technical specialist / SME is to give advice on technical specifications and requirements of that particular product or service. (Dominick & Lunney 2012, 71.)

c. Financial analyst

A financial analyst assists the sourcing team in calculating financial impact of different selection options, which are available for the procurement project, on the bottom line of the company. The financial analyst confirms the credibility of savings opportunities generated by the chosen option. (Dominick & Lunney 2012 72.)

d. End user

An end user will work most closely with the product or service being sourced. Their main concern is that that product or service will allow them to do their job in the most efficient and effective manner. The end user contributes to the sourcing team their feedbacks on the current in use product or service, possible improvement ideas and potential needs. (Dominick & Lunney 2012 72.)

e. Executive supervisors / Sponsors

The role of high-ranking supervisors / sponsors is specifically necessary when large and company-wide contracts are involved. The supervisors / sponsors will not perform sourcing work but set high-level strategic direction for the sourcing team. (Dominick & Lunney 2012 72.)

It is important to include all the actors, who are relevant for the supplier selection decision, on board to create a holistic and transparent approach to the supplier selection process. However, by doing this, the process may become even more complex as each actor may demand that their input and needs be addressed in the selection decision. (Dominick & Lunney 2012, 72.)

2.3 Identify key project requirements

The selected supplier and their product or service has to meet certain requirements set by all members of the sourcing team (Monczka et al. 2010, 164). Potential requirement categories that may be considered for a project are listed in Figure 6.

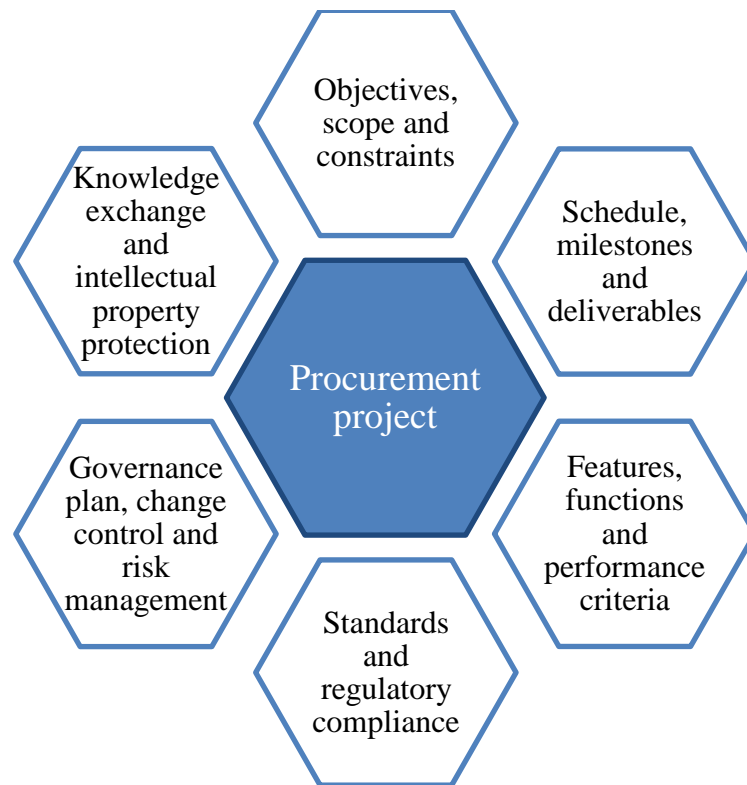


Figure 6. Project requirements (Adapted from Bullen et al. 2010, 80)

The sourcing team should define requirements about the deliverables expected from suppliers together with a timeframe and any constraints of time, budget, resources, etc. that may affect the implementation of the project. The deliverables, which the sourcing team can request from suppliers, can be:

- specific features and functions of the products or services;
- compliance with specific standards or regulations;
- inclusion of governance plan, change management and risk control to the project
- terms of knowledge exchange and intellectual property protection

(Bullen et al. 2010, 80.)

The project requirements should be described as specifically, clearly and accurately as possible to allow the best understanding of what is being accomplished (Krizan et al. 2011, 344; Bullen et al. 2010, 79).

2.4 Determine sourcing strategy

It is beneficial to clearly define a sourcing strategy for a procurement project. A clearly defined sourcing strategy assists the procurement manager in aligning sourcing requirements of the current procurement project with the current sourcing objectives of the company. (UPS Supply Chain Solutions 2005, 3-4.) For example, if one of the sourcing objectives of the company is to minimize supply risks, the procurement manager may engage only well-established suppliers to the sourcing process.

There are several elements that affect the determination of a sourcing strategy. Arjan van Weele (2010, 214-215) proposed that at least the following issues should be addressed by a sourcing strategy (see Table 1):

Table 1. Sourcing strategy options (Adapted from van Weele 2010, 214-215)

Strategy elements	Sourcing strategy	
Number of sources	Single	Multiple
Region	Local	Global
Relationship	Operational supplier	Strategic partner
Purchase volume	On the spot basis	Under contract
Contract agreement	Price	Performance

a. Single sourcing vs. Multiple sourcing

Single sourcing is a crucial decision of selecting only one supplier among several available sources for an item. It may result in reduction of transaction costs, ease

of sourcing process and even a long-term partnering relationship but on the other hand, the quality and delivery of that item is entirely dependent on the selected supplier. (Besterfield et al. 2011, 130; Blome & Henke 2009, 126-127)

Multiple sourcing is a strategy of buying an item from at least two available, distinctly independent sources. Price, quality and delivery are three factors that affect the proportion of the business of each supplier. As a result of such competitive situation, the company is not only independent from suppliers but may also enjoy favourable business deals. Disadvantages of such strategy are higher sourcing costs and a more complex supplier management. (Besterfield et al. 2011, 130; Blome & Henke 2009, 126-127)

b. Local sourcing vs. Global sourcing

Depending on the type of product or service and the geographical scope of the supply market, procurement managers can decide whether a local supplier would suffice or a global supplier is required. Local sourcing strategy is often chosen when fast deliveries, intensive communication, flexibility and agility from suppliers are highly prioritized. (van Weele 2010, 214.) Global sourcing solutions are designed for global organizations to effectively manage procurement complexity, gain efficiencies and reduce costs across the organisation, across the country and around the world (PwC 2010, 7).

c. Operational supplier vs. Strategic partner

The type of relationship between a company and its suppliers affects significantly logistics, quality, costs and development of the item being purchased. An operational relationship means that the relationship only exists from order to order or for a short-term period. Such relationship does not benefit either the company or the supplier in terms of cost and process management in the long run as neither of the parties is willing to share and cooperate. On the contrary, a strategic partnership, which is built on long-term commitment and mutual sharing of information, risks and rewards deriving from the partnership, results in better planning, controlled quality, cost efficiencies and continuous improvement. (van Weele 2010, 214-222.)

d. Purchase on the spot vs. Purchase under contract

Spot purchasing involves purchasing an item at the current market prices while contractual purchasing implies that a fixed price for a certain quantity is agreed with a supplier in advance. A combination of contractual purchasing and spot purchasing is often chosen in order to secure minimum supply and, at the same time, keep contact with the market. The extent, to which a contract may cover the intended purchase volume, varies depending on the price volatility of the market. If an increase in prices is foreseen, it is preferred to make a contract that covers the greater part of the purchase volume. (van Weele 2010, 215.)

e. Pricing agreement vs. Performance agreement

An agreement with suppliers on a specific pricing approach or performance level should be well considered as part of a sourcing strategy. A pricing agreement may state that prices have to decline a certain percentage every year as the accumulated purchase volume increases. On the other hand, a performance agreement is an arrangement with a supplier that details types and quality of services to be provided. These types of agreement increase the efficiency and effectiveness of the procurement project. (van Weele 2010, 215.)

All of these issues should be carefully addressed before searching the supply market (van Weele 2010, 215).

2.5 Identify potential supply sources

Once all of the requirements have been defined and a sourcing strategy has been determined, the procurement manager can start screening the supply market to make an initial list of suppliers that can actually deliver the requirements. Information to develop this list can be obtained from various sources (see Figure 7).

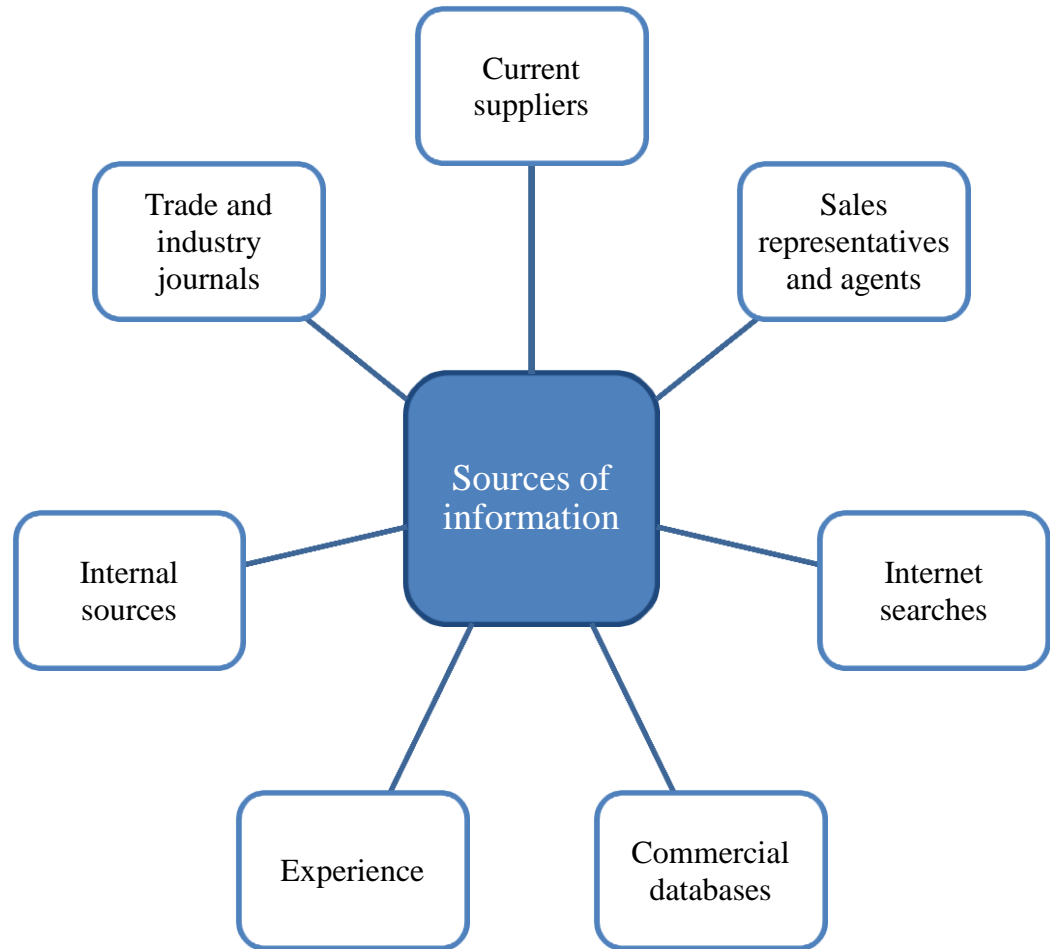


Figure 7. Sources of information of potential suppliers (Adapted from Monczka et al. 2010, 165-166)

Internal information may include evaluation of current suppliers, personal experience and informal contacts of procurement staff and internal input from other business units. External sources ranges from marketing information from sales representatives and agents to searches in internet, commercial databases, industry journals and directories, trade events, etc. (Monczka et al. 2010, 165-166.)

2.6 Limit suppliers in selection pool

From the initial list of suppliers developed in the previous step, the procurement manager moves on to sifting and analysing the list to consolidate a manageable

selection pool. A selection pool consists of only suppliers whose performances are superior to the others and there are often three to five suppliers in a selection pool. These shortlisted suppliers will be put forward for the final stage of evaluation. (Monczka et al. 2010, 167.)

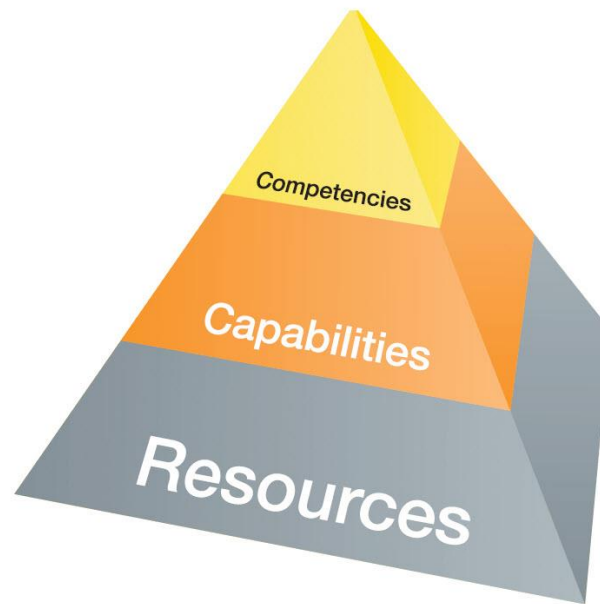


Figure 8. Relationship between the importance of supplier's resources, capabilities and competencies (Willcocks et al. 2007, 4)

There are different reasons for the procurement manager to accept some suppliers and eliminate others (Monczka et al. 2010, 167). In their guide to selecting effective suppliers, Willcocks et al. (2007, 4) emphasized the importance of capabilities and competences over resources when assessing a supplier's performance (see Figure 8). Accordingly, it is a supplier's capabilities and competences that enable them to respond to customer's day-to-day operational needs, to deliver improved services in terms of costs and quality and to align themselves with customer's values, goals and needs (Willcocks et al. 2007, 4).

2.7 Using RFP as a supplier selection method

RFP is a tool that aids in supplier selection decision making. The method is straightforward: needs and requirements are documented, an RFP is issued, submitted proposals are evaluated and the best supplier is selected. (Beisse 2012, 345.) Figure 9 furnishes the understanding of RFP method.



Figure 9. Using an RFP as a supplier selection method

Before actually writing an RFP, members of the sourcing team need to define supplier evaluation criteria and develop a scoring system (Beisse 2012, 345). While writing an RFP, the sourcing team should provide clear and comprehensive descriptions of the project requirements, supplier requirements, expected deliverables, proposal guidelines and proposal evaluation criteria (Gido & Clements 2011, 51).

Once the RFP is finalised, it is sent to suppliers who are shortlisted in the selection pool (Beisse 2012, 345). A reasonable amount of time should be given to suppliers so that they can properly prepare their proposals (Kinard 2011).

Lastly, proposals received will be evaluated by members of the sourcing team. Their scores will be calculated in the scoring system and become a guide for supplier selection (Kinard 2011).

A detailed examination of RFP will be presented in Chapter 3.

2.8 Select supplier and reach agreement

The last step in the sourcing process is to select a supplier and award them with a contract. Depending on whether the item being purchased is a routine item or a major purchase, activities in this step may vary from simply sending a purchasing order to the selected supplier to further detailed negotiations to agree on specific issues. (Monczka et al. 2010, 163.)

Guth (2008) strongly emphasized the importance of the sequence of negotiation and supplier selection events. He advised that the negotiation process should take place in parallel with the supplier selection process but prior to the actual announcement of the selected supplier. The purpose of such sequence is to avoid eliminating competition among suppliers and maintaining leverage of the procurement manager in negotiation process. By accompanying the RFP with a contract template and requiring suppliers to respond with any contractual concerns or issues as part of their proposals, procurement managers reduce time and resources in negotiation phase. When a deal is concluded, and only then, can the winner of the contract award be announced. (Guth 2008.)

3 REQUEST FOR PROPOSAL (RFP) OVERVIEW

According to the Encyclopaedia of Operations Management (Hill, 2012, 299), a request for proposal (RFP) is “an invitation to prospective suppliers” to inform about the needs and requirements of a procurement project and encourage the suppliers to submit proposals that best satisfy these needs and requirements. Received proposals will be evaluated using “an objective and structured evaluation process to select the best supplier”.

The purpose of this chapter is to provide knowledge of RFP concerning its usage, content and proposal evaluation method.

3.1 Usage and advantages of an RFP

3.1.1 Usage of an RFP

Van Aartsengel and Kurtoglu (2013, 327) suggested that an RFP should be used in procurement projects where the conditions listed in Figure 10 apply.

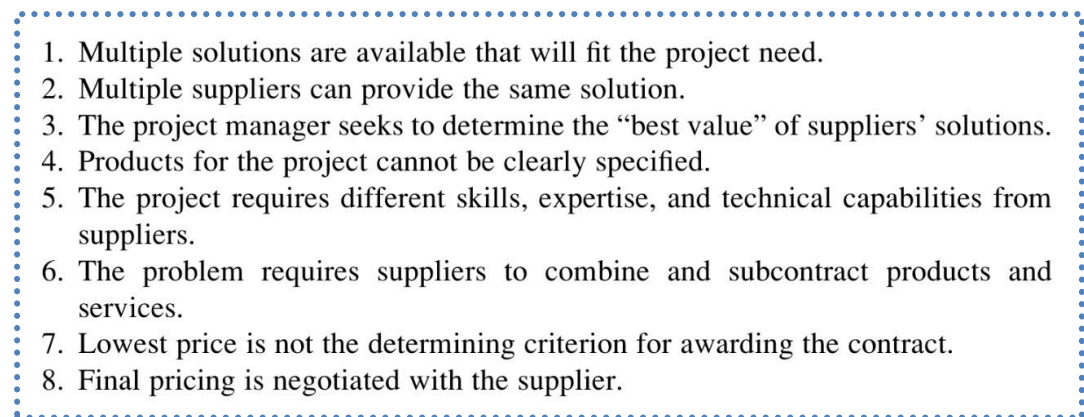
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1. Multiple solutions are available that will fit the project need.
 2. Multiple suppliers can provide the same solution.
 3. The project manager seeks to determine the “best value” of suppliers’ solutions.
 4. Products for the project cannot be clearly specified.
 5. The project requires different skills, expertise, and technical capabilities from suppliers.
 6. The problem requires suppliers to combine and subcontract products and services.
 7. Lowest price is not the determining criterion for awarding the contract.
 8. Final pricing is negotiated with the supplier.

Figure 10. Characteristics of procurement project that requires an RFP (Van Aartsengel & Kurtoglu 2013, 327)

On this account, RFPs are often used in projects which concern complicated products or services that are difficult to define and therefore have to be translated into a set of project needs and requirements. Due to this nature, it is possible that

multiple solutions may fit the project needs and the same solution may be provided by different suppliers. Furthermore, various project requirements indicate that suppliers have to possess suitable skills, expertise, capabilities and ability of combining and subcontracting other products and services for the project. As a result of such complicated projects, suppliers are evaluated based on a multiple-criteria method, which measure various values, not just prices, that suppliers have to offer. (Van Aartsengel & Kurtoglu 2013, 327.)

Similarly, Wheaton (2008) agreed that engaging RFPs is only sensible in sufficiently complex projects that (1) warrant proposals from suppliers, (2) generate benefits that are greater than the considerable amount of time spent on preparing an RFP and managing the process of RFP and (3) do not have cost as the sole or main evaluation criterion. Moreover, she mentioned that RFPs would be helpful when the project needs creative and innovative approaches from suppliers (Wheaton 2008).

3.1.2 Advantages of an RFP

An RFP is helpful, especially in complicated procurement projects, because it provides the procurement team with an organized approach using a set of rules and requirements. This set of rules and requirements facilitates the evaluation of suppliers' proposals in two ways: (1) in order to come up with these rules and requirements, the procurement team is forced to examine the project and understand concerning issues in greater details and (2) because all suppliers have to work on the same rules and requirements, it allows procurement team to easily recognize the differences between proposed solutions. Moreover, using an RFP signifies to suppliers that there is a competition among suppliers and that the competition is fair and consistent. This situation forces suppliers to create competitive solutions with additional values for the project. (Van Aartsengel & Kurtoglu 2013, 328.)

3.2 Content of an RFP

Content of an RFP greatly varies from organization to organization and from project to project (Krizan et al. 2011, 344). Kinard (2011) divided the information

to be included in an RFP into two basic categories: information to provide to suppliers and information to request from suppliers (see Figure 11).

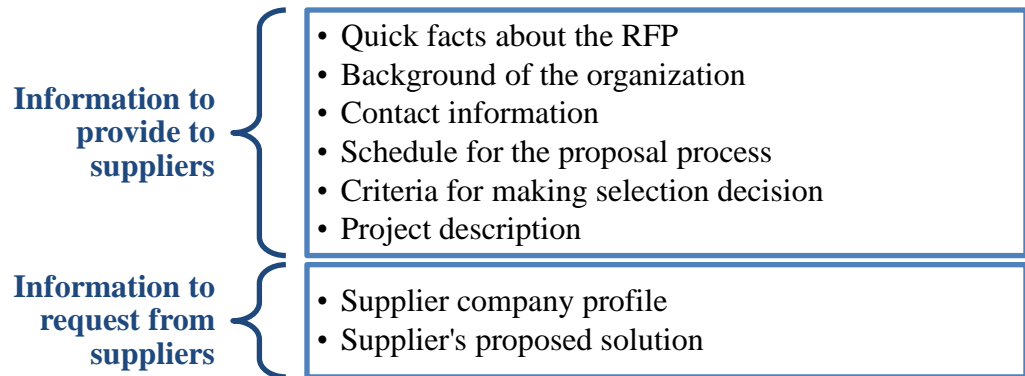


Figure 11. Information to be included in an RFP (Adapted from Kinard 2011)

He asserted that the quality of proposals submitted by suppliers is highly dependent on how well-equipped the suppliers are on the procurement project and how clear, relevant and concise the questions are when asking suppliers for information (Kinard 2011).

3.2.1 Information to provide to suppliers

a. Quick fact about the RFP

Information to provide to suppliers may begin with ‘quick facts about the RFP’ – a short list of fundamental points of the RFP, which is often extra helpful if the RFP is particularly long and complicated. Information such as project type, RFP purpose, proposal submission deadline, level of confidentiality, etc. may be highlighted in this section. (Kinard 2011.)

b. Background of the organization

‘Background of the organization’ is the section where the organization is briefly introduced. The organization may be profiled by a short summary defining the organization and its products and services or by the boilerplate readily made for

the organization. Additional information about the organization that is relevant to the initiative of the RFP may as well be considered for inclusion. (Kinard 2011.)

c. Contact information

It is important to establish a channel for communication with suppliers and identify to whom questions and inquiries should be directed (Krizan et al. 2011, 344; Kinard 2011). However, this channel needs to be carefully managed in order not to inadvertently provide exclusive advantage to any supplier, which may result in a tainted ability to make a fair comparison (Kinard 2011).

d. Schedule for the proposal process

As Kinard (2011) pointed out, a process of RFP may take from 2 weeks to 3 months, depending on the size and the complication of the project. There are different events set out during an entire process of RFP, for instance:

- issuance of RFP,
- receipt of suppliers' intentions of participation,
- receipt of suppliers' proposals,
- negotiation of contracts,
- selection of the final supplier,
- start of the project, etc.

The deadlines of these events should be clearly, realistically and considerably scheduled and provided to suppliers in order to allow them to properly fulfil the request. (Kinard 2011.)

e. Criteria for making selection decision

Krizan et al. (2011, 344) defined criteria for making selection decision as general qualities of a winning proposal while Kinard (2011) described them as those that are most important to the sourcing team in making a selection decision. In both definitions, it means that proposals submitted by suppliers will be evaluated against these criteria and the supplier with the most beneficial proposal will be awarded with the business opportunity (Gido & Clements 2011, 45). Evaluation criteria should be agreed among sourcing team members in advance and then

communicated to suppliers to ensure that information provided by suppliers will be relevant for evaluation (Kinard 2011).

f. Project description

Project description is the section where insights into the project is provided to suppliers. The more details that are communicated to suppliers, the better equipped they are to intelligently align their ideas and solutions with the project goals. The following items may be used to describe the project:

- Target markets/users
- Ultimate goal and expected secondary benefits
- Budget
- General scope and time frame
- Requirements about business, technicality, functionality, service level and working relationship

As detailed as a project description may get, suppliers should have enough room to provide additional perspectives, new ideas or strategic suggestions, which will add extra value and creativeness to the project. (Kinard 2011.)

Gido & Clements (2011, 44-45) suggested further information that would be helpful for suppliers are guidelines on the format and content of proposals, contract type and payment terms. To this list, Bullen et al. (2010, 80) added RFP termination provisions and conditions of rewards and penalties.

3.2.2 Information to request from suppliers

a. Supplier company profile

The first information to request from a supplier is about the supplier itself. General information about supplier company background, size of company, products and services portfolio, financial stability, key personnel bios, contact information, etc., furnishes the knowledge of suppliers' profiles, their capabilities and resources. (Kinard 2011.)

b. Supplier's proposed solution

After the brief introduction, suppliers are requested to demonstrate their understanding of the project and their ability to satisfy the project requirements in a proposal. Specifically, suppliers are asked to express their perspective as well as their approach to the project and to provide a detailed breakdown description of the proposal. Finally, it is recommended that suppliers should provide examples of previous related work for reference. (Kinard 2011.)

3.3 Proposal evaluation method

Evaluating proposals is a vital step in selecting the best supplier for the procurement project. It is essential that the sourcing team have a disciplined and consistent approach to ensure integrity, fairness and transparency in the proposal evaluation process. (Bullen et al. 2010, 81.)

A scoring system for proposal evaluation, whereby each and every evaluation criteria is listed and assigned with a weight based on its importance degree, is utilized in many organizations (Kinard 2011). An example of the principle of this scoring system is presented in Table 2.

Table 2. Example of a scoring system for proposal evaluation (Adapted from Bullen et al. 2010, 82)

Evaluation criteria	Weight (%)	Supplier 1	Supplier 2	Supplier 3
Criterion 1	10	1	2	3
Criterion 2	15	2	1	2
Criterion 3	20	3	2	1
Criterion 4	25	4	3	2
Criterion 5	30	1	4	3
Total score	4	2.3	2.7	2.2

In this example, a 4-point scoring system is applied, with:

- 1 being major non-conformity to requirement, which means that supplier is completely incapable of delivering the requirement.
- 2 being minor non-conformity to requirement, which suggests that supplier is unlikely to deliver a satisfactory requirement without defects.
- 3 being conformity, which implies that no problems are identified and supplier is capable of providing reliable deliveries.
- 4 being adequacy, which indicates that supplier is able to ensure continuing satisfactory or even superior performance.

(Monczka et al. 2010, 178.)

Even though scores are determined by opinions of each member of the sourcing team, this approach is structured and objective in a way that proposals are rated against all pre-defined evaluation criteria and no supplier is favoured (Kinard 2011; Bullen et al. 2010, 81).

4 CASE STUDY: CPS COLOR AND THE DEVELOPMENT OF AN RFP TEMPLATE

Following the theoretical framework established in Chapter 2 and Chapter 3, this chapter proceeds to present the empirical study on the case company. The three sections in this chapter respectively introduce CPS Color, analyse its sourcing practices and collect preferences in an RFP template, and finally discuss the process of developing an RFP template.

4.1 Overview of CPS Color

4.1.1 Corporate background

Rooted in three pioneering companies, which were Tikkurila-CPS, Winter Bouts and Corob, CPS Color was officially established in 2000 with a history of tinting concepts development since 1960's. CPS Color has its headquarter located in Finland and a global organization of operating units, production sites, service points and 900 colour professionals in 12 other countries, including Sweden, Netherlands, Italy, Switzerland, Germany, Russia, India, China, Singapore, the U.S., Brazil and Uruguay (see Figure 12). (CPS Color 2013.)



Figure 12. CPS Color global organization (CPS Color 2012)

CPS Color's mission is to provide the most innovative, sustainable and effective integrated tinting solutions that can strengthen customers' competitive position. A complete integrated tinting system is a harmonizing combination of individual elements, including base paints, colorants, colour marketing tools, colour formulas, dispensing and mixing equipment and software (see Figure 13). (Heutz & Kunnen 2011.)

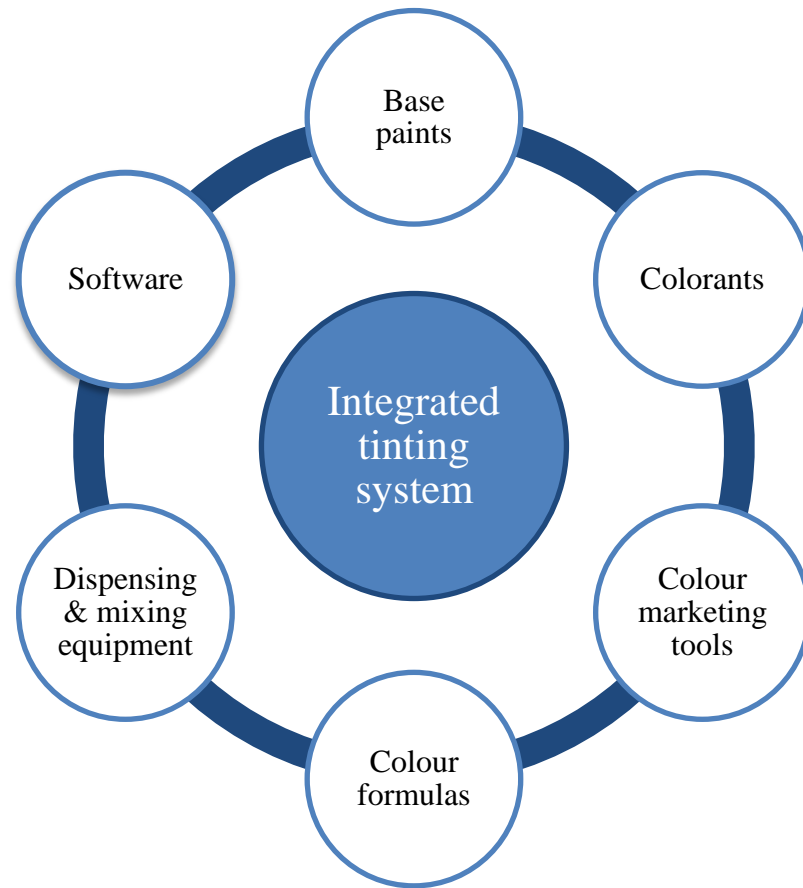


Figure 13. Elements of an integrated tinting system (Adapted from Heutz & Kunnen 2011)

The objectives of the system are (1) to customize tinting solutions in compliance with customer's needs, market requirements and environmental regulations and simultaneously, (2) to optimize the efficiency and effectiveness of the tinting solutions (Heutz & Kunnen 2011). A variety of business customers, such as paint manufacturers, paint retailers, leather and plastic producers, can benefit from utilising CPS Color system (CPS Color 2013).

4.1.2 Products and services portfolio

For each individual customer, CPS Color specifies, delivers, integrates and maintains a customer-specific tinting solution designed from their portfolio of products and services (CPS Color 2013). Figure 14 displays the three main categories included in the portfolio. Although colorants and equipment take up a

major portion in the portfolio, software and services are also strongly emphasized for investment and development.



Figure 14. CPS Color portfolio of products and services (Adapted from CPS Color 2013)

CPS Color Colorants are manufactured to rigid specifications of colour shade, strength and rheology under stringent controls and processes. On top of that, CPS Color tinting solutions can be built up from a single or multiple options of colorant technologies that are offered by the company, such as water-based, solvent-based, low and no VOC (Volatile Organic Compounds). The results are colour accuracy and technology suitability to any particular need for façade paints, decorative paints or industrial coatings and applications. (CPS Color 2013.)

In its COROBTM equipment family, CPS Color introduces several series of dispensers, mixers and shakers. Each equipment is designed to deliver high quality, advanced technology, accuracy, ease of use and fast operation. (CPS Color 2012.) Depending on sizes and nature of customer business needs, a tinting system can be assembled for in-plant production sites or point-of-sale outlets. In addition, customer-operated tinting centers are added in the equipment portfolio to involve active purchasing experience for consumers and increase added value for retailers. (CPS Color 2013.)

InnovaTint™, a software developed by CPS Color, is the guiding mechanism that controls the whole tinting system and optimises its performance. InnovaTint™ is a platform where colour formulas, real-time information of colorant and paint usage, product stock, consumer contact information and purchase history are stored and managed. This software enables users to share and collect information across the company, tracking sales performance and consumer buying behaviour, analyze and predict colour trends. There are three configuration packages, basic, professional and ultimate, that users can choose to best suit their business structures and needs. (CPS Color 2013.)

CPS Color has a worldwide service network of 150 service technicians to assist its customers. Service packages can be tailored according to customers' needs and requests. The range of support varies from online helpdesk for remote service to emergency engineer call-out, from initial installation to annual overhaul. (CPS Color 2013.)

The products and services of CPS Color are managed by two business units of the company: Colorant business unit and Equipment business unit. As indicated in their names, Colorant business unit is responsible for colorant production while Equipment business unit is in charge of equipment, software and services. The company headquarter, where the research took place, belongs to the Colorant business unit, hence, the following discussion on sourcing practices at the case company revolves around sourcing of goods and services that are incorporated into colorant production.

4.2 Sourcing practices at CPS Color

At CPS Color, the goods or services purchased for colorants production are managed in different manners, depending on whether the goods or services directly or indirectly contribute to colorant production (Mattsson & Anttila 2013). Purchases that directly participate in corporate production are classified as 'direct spend' while 'indirect spend' classification comprises all purchases that are necessary for corporate activities but not directly integrated in corporate production (Quitt 2010, 31).

4.2.1 Sourcing practices in direct spend category

In the context of CPS Color, direct spend category consists of raw materials and packaging. The most common factors that may raise needs for sourcing in direct spend category are depicted in Figure 15.



Figure 15. Common factors that may raise needs for sourcing in direct spend category (Adapted from Mattsson 2013)

There are several influences on corporate production, such as amount of customers' orders, sales forecast, stock demand, supply market fluctuation, etc. These influences cause long-term, short-term or and even urgent needs for sourcing of raw materials to keep production process running smoothly and stably. Apart from satisfying supply needs for corporate production, procurement managers are also demanded to meet annual savings targets set by the supply chain management of the company. This puts procurement managers under pressure to constantly search for competent suppliers, who can provide cost efficiencies to corporate production. (Mattsson 2013)

Beside the above pressures, continuous efforts by the company R&D department to innovate tinting solutions also initiate needs for sourcing of raw materials,

especially new ones. In cases where alternative ingredients are found, new colorant technologies are developed or new colour formulas are created, R&D department will inform procurement managers about these developments and request for sourcing of necessary items. Last but not least, needs for sourcing arise from the practice of using multiple-sourcing strategy of procurement department. Procurement managers prefer having at least two suppliers for critical raw materials to maintain stock safety and keep prices competitive. (Mattsson 2013.)

Once a need for sourcing is identified, procurement managers immediately start scanning the international supply market, mainly from internet searches and their own worldwide supplier base for suitable suppliers. At times when knowledge and accessibility to local supply market are appreciated, this step is handed down to local purchasers. Members of a sourcing team often include procurement managers and specialists from R&D department. (Mattsson 2013.)

From the initial list of suppliers, prospective ones will be shortlisted for a final selection round. Procurement managers in coordination with R&D specialists will first go through suppliers' websites and any commercial materials provided by suppliers to collect information about the suppliers and their products. If more information is needed, informal emails will be sent to suppliers to request for more information. All of this information is evaluated and utilised in shortlisting suppliers. Shortlisted suppliers are those who possess a competitive company profile, a trustworthy supply chain and sustainable development. They should be able to deliver purchase orders at the right time and in the right quality and their products or services should comply with environmental, health and safety regulations. Additionally, display of business potential with CPS Color is also considered as an advantage. (Mattsson 2013.)

In the final selection round, price is the only factor that determines whether a supplier is selected for business opportunity awarding. Once an agreement is finalised, procurement managers instruct local purchasers with details about the purchasing items, together with their quantities, quality and delivery terms. Local purchasers, following the instructions, will place purchase orders, tracking them and report the purchasing process to procurement managers. (Mattsson 2013.)

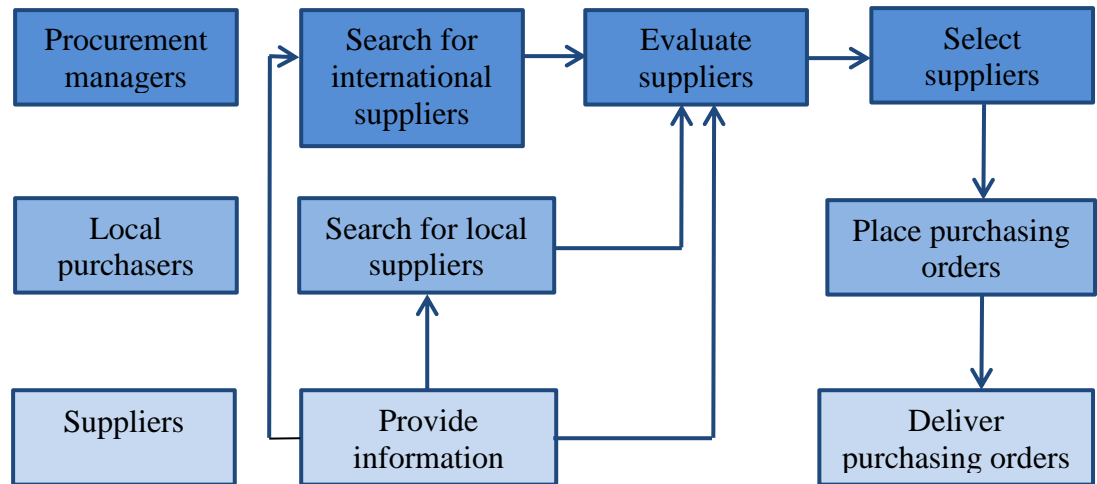


Figure 16. Sourcing process in direct spend category

Figure 16 summarizes how suppliers are selected in direct spend category at CPS Color. Currently, a supplier can only passively provide bits of information to procurement managers at different times, not to mention, procurement managers have to spend a considerable amount of time sifting these bits of information to take out the most relevant residue for evaluation. As a result, suppliers are not given proper and equal chances to fully demonstrate its business potential, capabilities and suitability, the sourcing process takes an awful lot of time and resources and yet, procurement managers may miss out on competent suppliers.

4.2.2 Sourcing practices in indirect spend category

Indirect spend category comprises professional services, real property, information and communication services (ICT), travel, personnel's needs and other non-direct-spend items. Unlike direct spend category, sourcing of these items is not managed by procurement managers but directly by local purchasers. In general, the sourcing process in indirect spend category is rather simple and loose as suppliers' competencies are not evaluated and costs is the only determining factor in the selection stage. (Anttila 2013.)

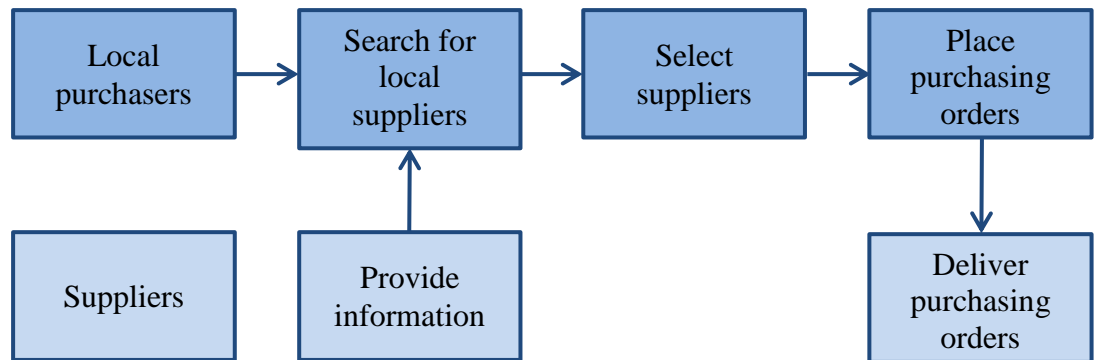


Figure 17. Sourcing process in indirect spend category

Figure 17 represents the sourcing process in indirect spend category. When a request for an item is received from an end user, local purchasers start looking for relevant suppliers, who can satisfy the end user's requirements, from existing contacts or from the local supply market. The search is usually quick due to its small geographical coverage and the search result is often a small list of suppliers. Among the listed suppliers, the one who can provide the item at minimum costs will be awarded with a contract. Under the contract, local purchasers place and monitor purchase orders. (Anttila 2013.)

4.2.3 Preferences in an RFP

a. Preferences in usage of an RFP

Firstly, even though an RFP is suggested to be used in procurement projects with complicated characteristics, CPS Color procurement managers decide to employ an RFP in procurement projects whose minimum monetary value is 50 000 euros. Such projects are considered large and important, therefore, suppliers should be selected with a careful and organized approach. (Mattsson & Anttila 2013.)

Secondly, an RFP is also used to standardize the sourcing practices at CPS Color. Currently, the practices vary depending on spend categories and the practices themselves are not well-developed: needs and requirements are not documented, prices and costs are the only evaluation factors and suppliers are subjectively selected. By standardizing the process, CPS Color procurement managers wish to

optimize the effectiveness and efficiency of the sourcing process. (Mattsson & Anttila 2013.)

Lastly, an RFP is adopted for documentation purposes. Information communicated with suppliers concerning a procurement project is often recorded in informal emails exchange or unofficial meeting minutes. Such manners of storing information prevent the flow of information and cause possible losses of information. When using an RFP, all of the information proposed by suppliers are documented in a formal written format and procurement managers have an official source of materials for supplier evaluation. (Mattsson & Anttila 2013.)

b. Preferences in an RFP template

The content of a template should be sufficient so that it can cover all of the aspects of a procurement project in an RFP. At the same time, it should also be flexible so that procurement managers can easily customize for different procurement projects. (Mattsson & Anttila 2013.)

The template should be in a recyclable format. It means that for different procurement projects, procurement managers can use the same template and only need to insert the relevant project specifications without having to draft the entire RFP for each project. This approach is convenient and reduces the amount of time spent on writing an RFP. (Mattsson & Anttila 2013.)

4.3 Request for proposal template

A strong grasp of an RFP regarding its content and usage in a sourcing process in addition to the understanding of sourcing practices at the case company has laid down the groundwork for the development of an RFP template. This section discusses the content of the template as well as how RFPs can be generated from the template using TextPlan – an online document assembly solution.

4.3.1 Content of the template

Content of the RFP template adopts the suggested ideas previously studied in this research. It is composed in a way that as much general information, which can be

applied for any project, is included as possible. On the other hand, where project-specific information is needed, a placeholder is created for later inserts. Such method provides procurement managers with the possibility to use and reuse the template regardless of project type. The template consists of the following sections:

a. Title page

This section is designed with CPS Color logo, a document title being “Request for proposal”, a document subtitle to specify the item being procured and a date to inform when the document is issued.

b. “About this request for proposal” – section

This section states the purpose of the RFP and invites interested suppliers to submit proposals. The place and date to submit proposals are mentioned and a confidentiality claim is included to protect CPS Color’s ownership of the information provided in the RFP.

c. “Background of organization” – section

CPS Color is briefly introduced with information concerning its history, mission, global organization, products and services and recent sale value to indicate its operation scale. A link to CPS Color’s website is also added.

d. “Need description” – section

Due to the fact that each procurement project has its own description, this section generally lists various aspects that can be used to describe a project, such as target markets/users, objectives and scope, budget, schedule and deliverables and different categories of requirement. While drafting the RFP, the procurement managers can give further specifications for each aspect or delete those aspects that are not relevant.

e. “Proposal guidelines” – section

While drafting or submitting proposals, suppliers are requested to strictly follow the proposal guidelines concerning proposal requirements, proposal format and proposal timeline.

f. “Evaluation criteria” - section

Two sets of criteria are established for proposals evaluation: mandatory requirements and evaluation criteria. A proposal must meet all mandatory requirements before it is considered for evaluation. Mandatory requirements request suppliers to submit their proposals on time and to the right address and to include a price quotation and a costs structure, as part of their proposals. Price and costs are chosen to be obligatory in suppliers’ proposals because they are important factors for CPS Color. Evaluation criteria are flexible and can be further defined by the procurement managers for each procurement project.

g. “Contact information” - section

A single point of contact with is established. Suppliers can send their questions and inquiries related to the RFP to the given email address.

h. “Miscellaneous” – section

This section explains the rights and obligations of CPS Color as well as suppliers during and after the RFP process.

4.3.2 Using TextPlan to create RFPs from the template

The template was first created simply using Microsoft Word 2010. However, taking into account the preference in a recyclable, convenient and non-time consuming RFP template, the author decided to take advantage of the online document assembly solution offered by TextPlan. TextPlan solution is illustrated in Figure 18.



Figure 18. Online document assembly solution of TextPlan (TextPlan 2013)

TextPlan is designed to be user-friendly and efficient so that users can easily and significantly cut down document processing time (TextPlan 2013).

As a first step, the author manually modifies the appearance of the RFP template using Microsoft Word 2010 so that it can be compatible with TextPlan's configuration. The modification is as simple as highlighting titles of sections / subsections in green and placeholders in yellow (see Figure 19).

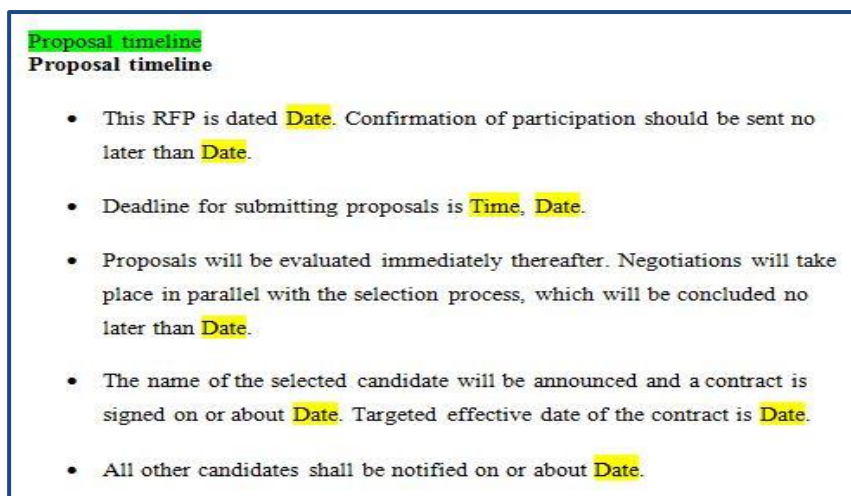
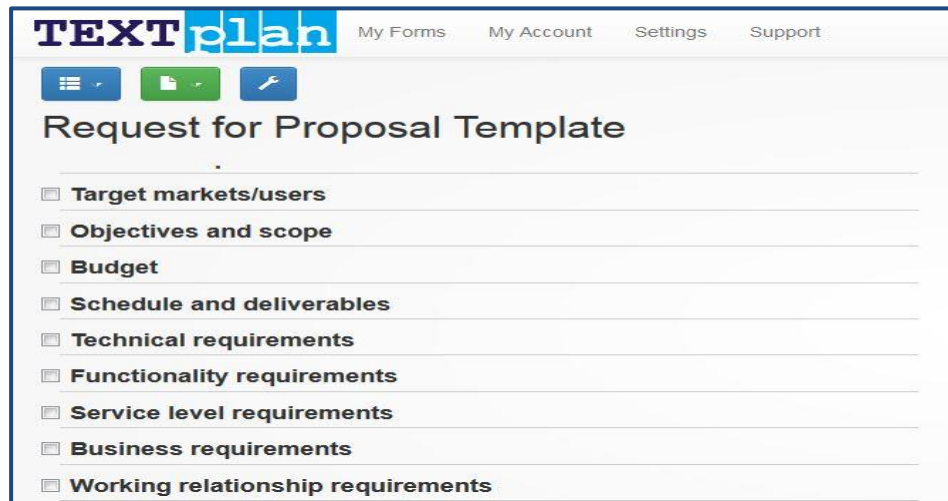


Figure 19. Preparation of the template before using TextPlan

With a paid or free subscription, the procurement managers can upload and store the prepared template in TextPlan. Whenever an RFP is needed, the template can be configured directly in TextPlan following these steps:

- i. Different fields in the template can be chosen to be included or excluded (see Figure 20).




TEXTplan My Forms My Account Settings Support

Request for Proposal Template

- Target markets/users
- Objectives and scope
- Budget
- Schedule and deliverables
- Technical requirements
- Functionality requirements
- Service level requirements
- Business requirements
- Working relationship requirements

Figure 20. Choosing to include or exclude different fields in a template Using TextPlan

- ii. Project-specific information can be inserted easily by filling in designated field (see Figure 21).



Proposal timeline

Date

Proposal timeline

- This RFP is dated Confirmation of participation should be sent no later than .

Figure 21. Fill in the designated field with project-specific information

- iii. Once the configuration on TextPlan is complete, the document can be saved in different file formats (see Figure 22).

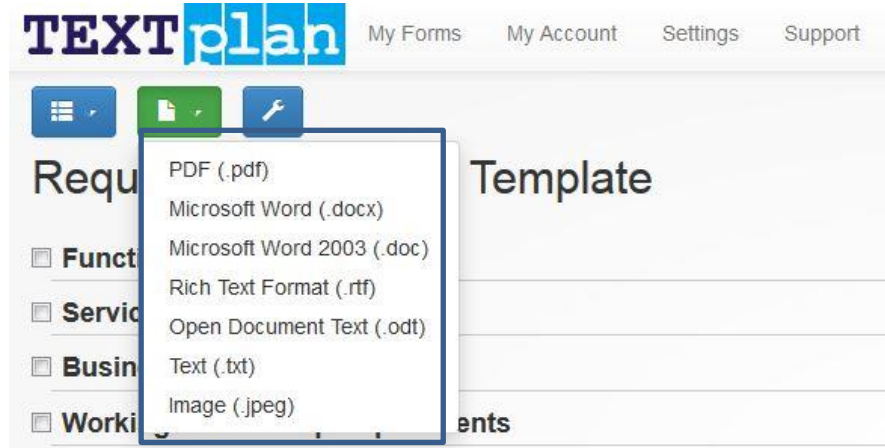


Figure 22. Save the ready document in different file formats

At the end of the process, a complete RFP is generated automatically. Further manual modifications to the RFP are also possible if it is chosen to be created in an editable format.

5 CONCLUSIONS

The motivation of helping procurement managers at CPS Color to integrate an RFP into their sourcing practices has driven the author to complete her research process. Throughout the research, the author attempts to solve the four sub-questions set forth at the beginning of the paper and consequently, provides profound insights into the main research question.

Making a supplier selection decision for a procurement project requires a lot of resources and effort. First of all, the project requires all actors, who are relevant to the project, to be put on board to examine different factors of the project. Then, the sourcing team have to identify project requirements, determine a sourcing strategy, scan the supply market, shortlist the most prospective suppliers, establish an evaluation method to evaluate them and finally, select the best supplier. Even though the process is complicated, it is highly recommended for the case company to properly invest the necessary resources and effort in the process. A thorough sourcing process ensures the selection of a competent supplier, who has the competencies, capabilities and resources to deliver cost efficiencies, minimize operational risks and support customers in achieving their goals.

An RFP is often used in the evaluation phase of the sourcing process, after a small number of prospective suppliers have been shortlisted. It is a means of communication to inform prospective suppliers about the needs and requirements of a procurement project and encourage them to submit proposals that best satisfy these needs and requirements. The proposals will be evaluated and rated using an objective and structured scoring system to align the best supplier with the project being procured. Benefits of using an RFP in a procurement project are that (1) members of the sourcing team are forced to investigate and understand different aspects of the project in much greater details, hence, more room for improvement is created and their business expertise are also strengthened and (2) know-how, creative ideas and innovation provided in suppliers' proposals allow the sourcing team to realise elements that they didn't consider and thus, chances of development are increased.

Content of an RFP consists of information to provide to suppliers and information to request from suppliers. Although it may seem obvious that suppliers are the ones who are being requested to submit information, it is the sourcing team's responsibility to describe as clearly and accurately as possible what is being accomplished. By equipping suppliers with sufficient information about project descriptions, proposal guidelines and evaluation criteria, the sourcing team can warrant quality proposals and comparable materials for evaluation. The RFP also creates a fair, transparent and consistent competition environment for suppliers where the supplier selection decision is entirely based on suppliers' proposals and negotiation results.

Sourcing practices at the case company are managed in different manners depending on whether the item being sourced belongs to direct or indirect spend category. Throughout the company, the sourcing practices are loose, subjective and inconsistent, which results in suppliers' strengths not being exploited and savings opportunities being missed. In addition, suppliers are not given chances to actively provide additional perspectives, new ideas or strategic suggestions, which may add extra value and creativeness for the case company.

As a first step towards reinforcing their sourcing practices, an RFP template used for generating RFPs is formulated. The template is meant to be used for procurement of both products and services, whose minimum monetary value is 50 000 euros. The content of the template incorporates corresponding ideas collected in the theoretical framework. It will be presented in a way that as much general information, which can be applied for any procurement project, will be included as possible. Where project-specific information is needed, a placeholder will be created for later inserts. Whenever CPS Color procurement managers would need to generate RFPs from the template, it is suggested that they use TextPlan – an online document assembly tool – to configure the template. The use of TextPlan is believed to boost the efficiency of RFP generation.

It can be concluded that the results of this research are highly reliable because if the same study is repeated by another researcher, the results will remain consistent. The research also shows good validity because the research utilises various sources of data to accurately tackle the research problem.

Finally, with the integration of RFP, the sourcing practices of CPS Color is expected to become more efficient and effective thanks to a more holistic and transparent approach and an increase in standardization and documentation. In the future, a follow-up research may be conducted to actually measure the influence of using RFPs on the success of the sourcing process at CPS Color.

6 SUMMARY

The research aims at assisting the case company in using an RFP in their sourcing practices. In the pursuit of this goal, four research questions are specified to guide the research. The research uses an inductive approach and qualitative methods, such as semi-structured interviews and observations, to collect and analyse data. Primary data is extracted from the interviews with CPS Color procurement managers and from the author's own observations while working at the company as a procurement trainee. Secondary data is collected from books, reports, websites, previous studies, etc. Subsequently, the research is divided into two parts: theoretical framework and case study.

The theoretical framework systematically recaps different theories of the structure of a sourcing process and RFP. Typically, a sourcing process consists of eight steps from recognizing sourcing needs to selection of supplier. Among these steps, an RFP is often used after a small number of suppliers are shortlisted. An RFP will be written and sent to these suppliers to invite proposals and the supplier with the best proposal will be evaluated.

Content of an RFP comprises information to provide to suppliers and information to request from suppliers. The Information should be clearly and accurately described so that suppliers can understand what exactly is being accomplished and propose effective and efficient solutions. Proposals are evaluated using a scoring system built from evaluation criteria.

The empirical study grows from the theoretical framework to enhance the train of thought. Sourcing practices of both goods and services at CPS Color are analysed with guidance of the sourcing process structure studied in the theoretical framework. Results of the analysis suggest that sourcing practices at CPS Color fail to thoroughly evaluate suppliers as well as capture potential added value from suppliers.

CPS Color procurement managers are also requested to provide preferences in an RFP. According to the preferences collected, an RFP will be used in procurement projects whose minimum monetary value is 50 000 euros. It should also help CPS Color to standardise its sourcing practices and document relevant information of

each procurement project. On the other hand, an RFP template should be flexible, recyclable and time-efficient.

As an outcome, an RFP template is formulated and proposed to CPS Color procurement managers. Content of the RFP template adopts its theoretical counterpart. The author also suggests procurement managers to use TextPlan – an online document assembly tool – to boost the efficiency of RFP generation.

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Interviews

Mattsson, E. Procurement manager. CPS Color Oy. Interviewed 19 August 2013.

Anttila, M. Procurement manager. CPS Color Oy. Interviewed 31 July 2013.

Interview questions with procurement managers at CPS Color Oy

1. How is the sourcing process being organized at CPS Color Oy?
2. Who define the requirements for a procurement project?
3. Do you have a sourcing strategy? (If yes) which sourcing strategy do you prefer?
4. How do you search for potential suppliers for a procurement project?
5. How do you communicate with a potential supplier about your needs and requirements?
6. By what method and based on which criteria are suppliers evaluated?
7. Who makes the final supplier selection decision?
8. What do you think about the performances of your current suppliers?
9. Are you satisfied with the current sourcing process or is there any area that you would like to improve?
10. Why would you choose to employ an RFP in your sourcing process?
11. In what way do you believe an RFP can improve your sourcing process?
12. What are your expectations from an RFP template?