A poorly written request for proposal (RFP) is probably the greatest source of confusion and cause for problems between outsourcing enterprises (purchasers) and the outsourcers (vendors). It is not just that the enterprise has trouble putting what it wants into writing; rather, the enterprise often has little idea of what it wants or needs. Sometimes, organizations are aware of their lack of clear vision, and think they know what they want, but the outsourcer, with much more experience in this area, knows better. Of course, outsourcers sometimes think they know best when they just plain do not.

In all these cases, purchasing organizations must create an RFP that will attract well-thought-out and reasonable proposals. They also want to create an RFP that sets the basis for a comfortable working relationship throughout a sometimes complicated and expensive project.

RFP DEFINED
Outsourcing occurs when an enterprise subcontracts to a third party (the outsourcer) for the performance of certain services or operations normally performed internally by the enterprise. More and more enterprises...
now seek outsourcing as an attractive alternative to the overhead of full-time, in-house workers.

If time and resources allow (and if not, experienced consultants should be used), the outsourcing process should start with a detailed RFP describing the enterprise’s current operations, its needs, and its expectations with respect to the services that it wishes to outsource.

These issues, as well as all the legal concerns, must be communicated to the outsourcer in the RFP, and included within the resulting contract. Most costly disputes arise when these matters are not spelled out at the outset, and are then omitted from the resulting contract. By contrast, successful outsourcing RFPs are those in which the project goals and objectives of the enterprise and those of the outsourcer are in agreement, and the parties are convinced that the proposed plan described for bringing about the goals is reasonable, and will be successful.

Certain questions must be asked before writing a successful outsourcing RFP. The most important is determining if outsourcing is appropriate for the enterprise.

**IS OUTSOURCING APPROPRIATE?**

The following criteria are useful in formulating a decision on whether to outsource or not, and in obtaining information in the form of a request for information (RFI), prior to writing an RFP:

- Is the function central to the enterprise?
- Does it provide the enterprise with a competitive distinction or advantage?
- Is the technology mature and well-understood, as opposed to evolving?
- Is it stable, as opposed to emerging technology?

If the answers to the first two questions are no and the answers to the next two questions are yes, the service might well be suited to outsourcing and the eventual writing of an RFP.

Alternatively, an organization might consider whether the proposed function to be outsourced is either: (1) strategic; that is, essential, confidential, and a core part of the enterprise; or (2) of a commodity nature, which does not distinguish the enterprise from any of its competitors. According to this analysis, strategic functions must be kept in-house in order to protect the viability of the enterprise, while functions of a commodity nature may be outsourced without endangering the enterprise. In the latter case, an RFP will probably be written?

What follows are some reasons why many enterprises today have chosen to outsource:
1. Outsourcing provides cost savings, arising from economies of scale and data center consolidation.
2. Outsourcing provides access to advanced technology without investment.
3. Outsourcing enables immediate and major enterprise changes to be effected, such as centralization or decentralization, without the need to acquire a new computer system or other resources.

Cost savings is often the driving force behind the decision to outsource. However, international opinion indicates that this should not be the major motivation. Rather, the overarching driving force should be to improve the service provided in conjunction with cost savings.

Additional questions can help drive the final decision regarding whether or not to outsource, and thus write the RFP. These questions include:

1. Is the system truly strategic? In many cases, organizations have incorrectly assumed the system to be strategic. Outsourcing is, therefore, an available option.
2. Is the customer certain that its IT requirements will not change? Given the dramatic evolution of information technology, an enterprise’s requirements cannot be predicted for more than two or three years at the most. Therefore, committing to an outsourcing arrangement for longer than that period can put an enterprise at a significant disadvantage.
3. Even if a system is a commodity, can it be broken off? Many organizations decided to outsource a so-called commodity process, only to subsequently discover that the system is inextricably linked to a strategic process. For example, an organization might on first analysis designate a payroll function as a commodity, only to find it linked to an employee database, which is clearly of a strategic nature for the enterprise. Therefore, an organization must take great care in identifying what can be outsourced, without leaving itself exposed to risk.
4. Could the internal IT department provide the system more efficiently than an outsourcer? When considering outsourcing, enterprises that have internal IT departments seldom, if ever, ask these departments for a competitive quotation. Internationally, it has been found that internal IT departments can find ways to cut costs by between 30 percent and 60 percent, when asked to compete for the provision of services.
5. Does the enterprise have the necessary knowledge to outsource unfamiliar or emerging technology? An enterprise cannot control what it does not understand. Managers might propose handing over an IT process to an outsourcer because they do not believe that anyone within their enterprise has the technical expertise to assess or control
that process. If the enterprise does not have knowledge of the technology, then the contract to which it commits can be disastrous, because the organization lacks the knowledge and ability to evaluate what the RFP proposes.

6. What tools should the enterprise look for when hammering out the contract details? One of the biggest mistakes enterprises make is to sign an outsourcer’s standard form of contract. Before committing to an outsourcing arrangement, an enterprise should first have legal IT experts analyze the contract. Otherwise, when it wants to terminate the outsourcing arrangement, there might be unanticipated, hidden costs that the standard contract did not address. This oversight could cost the enterprise several million dollars or more.

Thus, when outsourcing information technology, an enterprise must retain in-house expertise regarding that technology and the evolving technologies it might have to move to, in order to protect itself and remain competitive. If organizations completely rely on the outsourcer, the latter will have the enterprise’s future in its hands.

Similarly, in-house expertise should not be confined to one person; otherwise, the enterprise will be exposed to the whims of that person. At the very least, two, three, or even four people should be responsible for monitoring the outsourcer’s performance and the technologies that the enterprise might need to adopt to maintain its market position.

WRITING THE RFP, AND PROCEEDING TO AN OUTSOURCING ARRANGEMENT

The process of writing an RFP that leads to an outsourcing arrangement is most widely used by enterprises wishing to identify an outsourcing solution and a supplier of outsourcing services. This process begins with an organization’s request for information (RFI) document, to determine the most suitable types of services for that enterprise. From the information received, the enterprise identifies the potential recipients of the requests for proposal.

The RFP contains, among other things, a statement of the enterprise’s requirements. The RFP is, in legal terms, an “invitation to treat”; and the response made by the outsourcer (often called a proposal) is usually an offer. The enterprise must ensure, either by the RFP’s wording or in the proposal’s acceptance, that the acceptance or the response is subject to negotiation of a formal agreement.

The RFP content is the key to ensure that the subsequent outsourcing contract contains the rights and remedies that the enterprise requires. Therefore, the RFP must be fully researched and comprehensive in stating the enterprise’s requirements. At an executive level, it must cover the enterprise’s business needs. At an operational level, it must address the more detailed functionality required.
Although the RFP is the contract’s cornerstone, organizations seldom seek legal and negotiation input before it is issued. Sometimes, particularly when documenting the outsourcing requirements, inexperienced enterprises wait to involve their legal and negotiation advisors until the proposed contract negotiation date is imminent. This leaves little time to negotiate the agreement terms, and to add important items that legal professionals might have originally included.

If a lawyer is not involved early on, the enterprise will lose opportunities to make its requirements clear and indisputable. If that occurs, the legal advisor or negotiator must try to incorporate these omissions into the contract. If legal advisors and negotiators are involved at the construction stage of the RFP, many subsequent problems can be avoided. These experts can help draft the RFP’s content for legal purposes, as well as stipulate the timeframe for the negotiation of the documentation. Instead, the enterprise invariably underestimates this timeframe, often to its detriment.

The RFP and the outsourcer’s proposal should form part of the contract. The incorporation of these documents captures the parties’ requirements and representations, so that they need not be restated in the contract document. Otherwise, if the requirements and representations are not adequately spelled out in the earlier documents, the organization must spend time to ensure correction and incorporation in the final documents, or, alternatively, in a fresh and agreed-upon statement of requirements.

The contract must allow variations to the RFP and proposal, or subsequent versions, and the later documents must be subject to the same contractual structure provided by the original agreement. The draftsperson must ensure that priority is established between different documents in the event of conflict; the later documents usually override the earlier ones. In addition, the body of the new agreement overrides the schedules, and sometimes prioritizes various provisions of the new agreement.

Even if the pre-contract documentation becomes part of the written contract, the outsourcer can still dilute or nullify the documentation. When it comes to committing to contract, the outsourcer might try to reduce the levels of commitment it made to the enterprise in the sales cycle.

The enterprise’s statement of requirements (usually contained in the RFP) must be both all encompassing and unambiguous. Unfortunately, however, the statements of requirement issued by enterprises or by management consultants on behalf of enterprises leave much to be desired.

An enterprise must thoroughly understand its functional, operational, and selection requirements, articulating them in unambiguously written terms. Throughout the process of identifying an outsourcer, the organization’s representatives should keep in mind the nature of the contract that they wish to execute with the outsourcer, and implement adequate quality management processes. Then the enterprise’s pre-contract documentation will not contain as many loopholes for the outsourcer to exploit.
Enterprises create another area of loopholes in the priority they give to requirements. Statements commonly rate the importance of requirements as highly desirable, desirable, or nice to have, which are not statements of requirement, but of preference. To avoid doubt, it is best not to qualify the importance of requirements, while the outsourcer should be required to specifically state the extent to which the requirement can, cannot, or can only partly be satisfied. It is then the responsibility of the enterprise to determine if the outsourcer’s response is acceptable.

A comprehensive analysis will produce precisely articulated requirements. The analysis objectively assesses the outsourcer’s interpretation after the written requirements are read, anticipating how a judge or arbitrator who is not computer literate might interpret them if a significant dispute were to arise.

In composing a statement of requirements, many enterprises only consider the functionality they need, while ignoring operational and selection requirements. Then, if the outsourced system were to result in five-minute terminal response times, the enterprise would find nothing in the pre-contract documentation or the contract itself that addresses the requirement for tolerable response times. The outsourcer might then agree to undertake an upgrade at the enterprise’s expense, which degrades enterprise morale and could have been easily avoided. Unfortunately, few standard or even negotiated IT contracts contain response time warranties. Even when such warranties are written into the contract, they are frequently inadequate, allowing the outsourcer more loopholes to exploit.

**STEPS TO EFFECTIVE OUTSOURCING**

Before actually writing an RFP, the enterprise should determine which functions should be outsourced and who should provide the services, as well as the measurements that are needed for success. The following step-by-step guide will help produce a highly effective and successful outsourcing RFP for those enterprises with unique needs or that cannot be handled by standard services.

1. Define objectives.
2. Identify which functions should be outsourced.
3. Develop a written RFP, including results and benefits.
4. Define the nature and scope of the contract/work.
5. Select the outsourcers who should be on the RFP list.
6. Evaluate the proposals.
7. Negotiate the final price, including fees, payments, and duration.
8. Address project completion, including additional outsourcing issues and services.
Step 1: Define Objectives
The enterprise will have specific business objectives for deciding to outsource services. These should be identified and confirmed during the enterprise analysis phases prior to selecting an outsourcing services supplier.

The major objective now is to negotiate a supply agreement with the preferred outsourcer for delivery of the required services, at an agreed cost and level of performance. There are seven components to an agreement achieving this objective. These are:

- **Service specification:** sets out in specific and measurable terms the services required, how they are to be delivered, and the required duration.
- **Service levels:** sets out the performance standards or service levels that relate to each of the services to be provided.
- **Roles and responsibilities:** document the obligations of the outsourcer and the enterprise, and the boundaries of responsibility.
- **Transition period and acceptance:** sets out how any existing services will be handed over to the outsourcer, as well as the services accepted by the enterprise, and the transition of staff.
- **Prices, payment, and duration:** sets out the price and payment for delivery of the services, including the basis of charging for any additional or optional services.
- **Agreement administration:** sets out how the agreement will be managed and administered, to include provision for resolving disputes, as well as remedies in the event of non-performance.
- **Outsourcing issues:** discusses issues that are specific to outsourcing, and must be considered during contract negotiations.

In addition, although they have similar motivations, each enterprise is a little different, with a different set of priorities. Therefore, the RFP must be clear on goals. Here are some examples:

- reduce or control operating costs
- gain access to world-class capabilities
- free internal resources for other purposes
- access resources that are unavailable internally
- obtain levels of service specific to the organization’s requirements

Step 2: Identify Which Functions Should Be Outsourced
While the organization might be considering outsourcing the management of services, it need not outsource every function. Each operation should be analyzed and evaluated in terms of quality, cost-effectiveness, and overall considerations. This requires a thorough assessment of each
facility’s operation and service. Organizations should only outsource those functions that the outsourcer can operate better, faster, or cheaper.

At this point, the enterprise or purchaser has set out the services required in the RFP. These services may be specified in some detail, or set out in enterprise terms, requiring the outsourcer to propose services to meet the enterprise needs. In agreement with the enterprise, the outsourcer has submitted a detailed RFP setting out how it will provide the services to meet the enterprise’s specification of requirements. A comprehensive specification of these services will generally form the basis of the agreement, and should set out in some detail:

- the services the outsourcer is required to deliver to the enterprise, including the tasks of the enterprise’s work activities — such as help desk support or communications administration
- the deliverables that will result from the services provided
- how the outsourced services will be provided to the enterprise
- how third-party outsourcers will be managed
- how problems will be managed and resolved

The outsourcer may also be contracted to provide additional services, including training for the enterprise’s staff involved with the outsourced work activities, and advisory services for system enhancements that might be required to meet changes in the enterprise’s business needs.

Step 3: Develop a Written RFP — Results and Benefits

Once an organization decides to outsource, it is important to articulate in writing exactly what it expects to accomplish. Some enterprises have found it very beneficial to engage an outside outsourcing consultant at this point.

A good strategy in creating a comprehensive request for proposal is to meet with a few outsourcers in order to discuss the assignment. In talking about the objectives and the functions to be outsourced, as well as hearing the questions, the enterprise will get a good idea of what should be included in the RFP and how to phrase its requests. This phase, referred to as a request for information (RFI), includes a larger number of prospective service providers than in the RFP phase.

At this point, the organization should start getting a feel for the outsourcers, and begin to determine which outsourcers it should select to bid on the job. The enterprise representatives should make sure that they are dealing with very senior-level decision-makers, that they are comfortable with them, and that they could probably have a good working relationship that could extend over several years.

The tangible results of the preceding activity will be: a written functional specifications list and request for proposal outlining the enterprise
and reporting requirements, and the hardware/software required to satisfy those requirements; and a written comparative analysis and proposal summary analysis of all proposals submitted. The intangible results of this activity include:

- an unbiased opinion and evaluation of the enterprise requirements, with no regard to any particular hardware or software product
- application of technical expertise and experience to this project, gathered by the evaluation, selection, and installation of thousands of applications in hundreds of enterprises
- a review by project-oriented professionals who are not hindered by the day-to-day operation and internal enterprise structure

**Step 4: Define the Nature and Scope of the Contract/Work**

It is important for an enterprise to look beyond what it is doing today, in order to identify the optimal service that will ensure uninterrupted business in the future. After identifying the functions to be outsourced, the enterprise should be as specific as possible in stating exactly what must be accomplished within each function, including written standards and specifications, and quantitative measurements for success. For example, if the server goes down, it must be brought up within two hours, unless there is a catastrophic incident like a denial-of-service attack or the like. If a network cable wears out or is damaged, it must be replaced in three days. If the air-conditioning system filter within a telecommunications closet is obstructed with debris or is damaged, it must be replaced within eight hours. If the thermostat within a telecommunications closet is not regulating the temperature properly or is damaged, it must be replaced within the hour.

The organization must determine what will be considered ongoing service, and what is emergency service. It should also define what should be included as standard service, and what services could be offered for bids at a later date. Organizations must remember that anything not included in the contract’s scope becomes an incremental cost in execution.

Therefore, the enterprise should have the outsourcing consultant review the enterprise functions and accounting procedures — both manual and computerized. The review should include discussions with IT management and key personnel to determine where computerized systems might be installed or upgraded to increase efficiency, to reduce manual processing requirements, to reduce costs, and to provide better management information and reports.

Based on the findings, the consultant should prepare functional specifications that, when combined with the general specifications, will serve as a request for proposal. This will be sent to computer hardware and software enterprises that will be able to satisfy the RFP’s terms.
These functional specifications will be presented to the enterprise for review and comment. Together with the enterprise, the outsourcing consultant should then select several outsourcers who are known to be qualified to handle a project such as this. The RFP will be mailed to these outsourcers, whereupon the consultant should hold a conference with those receiving the RFP, in order to answer outsourcer questions, to allow the outsourcers to meet enterprise personnel, and to let the outsourcers see who else is bidding.

The consultant should assist in the final selection of an outsourcer by joining the enterprise in reviewing the proposals submitted. The consultant should then prepare a comparative and summary analysis of the proposals, based on factors believed to be important indicators of the outsourcer’s capability to deliver a system. Once an outsourcer is selected, the consultant should assist in the preparation of a contract by helping negotiate equipment delivery and program payment schedules with the outsourcer, and by providing the enterprise’s attorney with draft contract clauses that are generally acceptable to outsourcers, while providing the greatest available protection to the enterprise.

**Step 5: Roles and Responsibilities — Select the Outsourcers Who Should Be on the RFP List**

Out of all the possible outsourcers, the enterprise should narrow the list down to three to five that will likely provide the best solutions. It should then check their references, consider their track records, and visit their sites — all before offering them a chance to submit a proposal. The enterprise should only consider outsourcers that have successfully managed similar facilities.

The enterprise should consider whether a single outsourcer can perform all the functions that are currently accomplished by multiple departments. If not, it must determine which combination of outsourcers will be needed to provide the required quality and level of service. The enterprise should also consider how a team of outsourcers would interact, and how to manage that team.

In addition to selecting who should be on the RFP list, the roles and responsibilities of both the outsourcer and the enterprise in the delivery of the outsourced services must be documented in the agreement. Roles and responsibilities for the enterprise should include:

1. reasonable access to the enterprise’s site as required for the outsourcer
2. the appointment of a suitably qualified and experienced in-house person to act as an account or relationship manager between the outsourcer and the enterprise
3. allowance for the outsourcer to conduct due diligence before taking up the agreement, to ensure that the enterprise’s expectations are reasonable
4. reasonable access to the information, institutional, and enterprise knowledge and documentation of the enterprise’s business
5. timely response to any requests from the outsourcer for information, advice, or any action required by the enterprise
6. negotiating new contracts and renegotiating existing contracts for specified service level agreements with secondary service providers
7. identification of the staff that the enterprise would like to transition to the outsourcer

Roles and responsibilities for the outsourcer should include:

1. the appointment of a suitably qualified and experienced account manager to manage the delivery of services and the relationship with the enterprise
2. delivery of the agreed services
3. compliance with the enterprise’s policies and procedures as they relate to the delivery of services and occupational safety and health
4. confirmation that the skills and competencies of the enterprise’s staff, identified by the enterprise as transitional, are appropriate for the delivery of the required services
5. securing the services of the staff confirmed as transitional
6. provision of additional and suitably skilled staff to perform the services
7. management of any agreements with third-party suppliers of information technology services
8. quality assurance of the delivered services
9. compliance with security and confidentiality obligations
10. reporting on the delivered services
11. provision of warranties for delivered services
12. service transfer assistance in the event of termination

**Step 6: Evaluate the Proposals — Transition Period and Acceptance**

Once the enterprise receives the proposals, there is a period of transition and acceptance. An analysis and evaluation of the solutions must be undertaken, assessing the strategic advantages, alignment of personnel, and the risks involved. Some other considerations include:

- Do the outsourcers have a good solution? Can they manage the process better than the enterprise can?
- Have they precisely offered solutions to meet the enterprise’s objectives?
• Have they responded to all the points in the RFP? How crisply and specifically did they respond? Do the answers sound boilerplate, or did they consider the enterprise’s unique situation and provide customized solutions?
• How will they handle the transition? What are the costs involved?
• Does their culture match that of the enterprise? Are these people with whom the enterprise wants to work for a long period of time? Will they work with the enterprise to achieve mutual goals?
• Is the pricing fair?

Transition management is a key part of the outsourcing process. As such, it should be priced, should form a part of the agreement between the outsourcer and the enterprise, and should appear as a schedule to the agreement as new services.

**Step 7: Negotiate the Final Price — Fees, Payments, and Duration**

Once the enterprise determines the outsourcer with whom it would like to establish a relationship, there may be points in the proposal that need further negotiating. Price can be one of those points. However, while pricing is important, it should never be the only criterion for selection. It is critical to weigh the solution and the mitigation of risk against the cost.

If, however, the organization needs to drive down the price, or the favored outsourcer is substantially more expensive than all other bids, it is important to remain flexible and try to operate in a full-disclosure atmosphere when discussing the costing process. The organization should remember that it could be in business with the outsourcer for many years to come. It might even be possible to unbundle the solution, and relinquish some less important services for a more favorable cost.

**Fees and Payment.** The outsourcer’s fees should be on a per-diem basis. The outsourcer should provide an estimated range of fees before beginning the engagement. Most outsourcers require a retainer to begin the project, and will work out a payment schedule with the enterprise.

Prices and payment terms should be provided by any agreement. For each component service, the terms should include:

• a pricing model for each work activity to be outsourced
• a total fixed fee for all services provided
• a specification of which services are part of the agreement and which services will require an additional charge, if the service is needed by the enterprise at a later date
• pricing models for any optional services or resources that the enterprise may require and that do not form part of the standard outsourcing service
• the one-time costs for the transition period
• a formula for charging for additional services delivered, or where service levels are exceeded
• a formula for rebates that would apply in the event that services are not delivered, or service levels are not met
• the basis for a review of charges, in the event of any extraordinary reduction or increase of outsourcing work as a result of changes in the enterprise’s business
• a basis for any review of charges over the term of the agreement, and any index for capping or linking any increases, such as the consumer price index
• any charges that will apply on termination, including any transfer of assets

The agreement should set out in some detail how the pricing is arrived at, and state the assumptions or constraints that underpin the model. This will support the calculation of any future variances, and will avoid disputes arising from differences in interpretation of the pricing model. Also, the procedure for invoicing should be clearly defined, as should the terms of payment.

**Time and Duration.** The agreement should also specify the term during which the outsourced services will be provided. This may include the basis for any right of renewal of the agreement, and any milestones for reviewing the agreement during its term. It may also cover any termination charges for early termination of the agreement by either party.

**Step 8: Project Completion — Additional Outsourcing Issues and Services**

Finally, the enterprise might require additional services. The scope of every outsourcing RFP will vary according to the enterprise’s requirements and its special business, technical, or service needs. Such additions are likely to include the following.

**Insurance.** The outsourcer should have adequate public liability insurance. The insurance should cover loss or liability through injury or damage.

**Other Third-Party Suppliers.** Arrangements should exist as to which party (enterprise or outsourcer) will hold, and which party will administer the terms of any RFP currently in place between the enterprise and other third-party suppliers. Maintenance contracts must be transferred to the outsourcer unless the outsourcer has agreed to provide maintenance services for all equipment and software.
**Software Licenses.** Where software that is used to provide outsourced services is supplied by third parties, the appropriate licenses must be obtained. Any licenses currently held by the enterprise that relate to services being provided may need to be extended to cover the activities of the outsourcer.

**Ownership of Information.** The ownership of data and information needs to be agreed. Should a dispute arise and the agreement be terminated, it needs to be clearly stated who owns the information and data.

**Scope of Work.** Identification of the key work activities to be performed by the outsourcer is essential and is typically set out in the RFP. The enterprise should specify in detail the nature of the services that will be outsourced and the requirements of the enterprise in relation to those outsourced services. The outsourcer will have responded to the RFP with a proposal, setting out how it will perform the work activities. Both the RFP and proposal may be incorporated into the contract to support the definition of the work that must be performed, and the requirements that must be met by the outsourcer. In defining the scope of work, the following additional issues should be considered:

1. What, if any, technology, personnel, or other resources must be provided by the enterprise? Will there be any transfer of personnel or assets from the enterprise to the outsourcer? If so, how is that to be achieved? The transfer of personnel is fraught with employment law issues that must be carefully considered. If information technology facilities are to be provided, where will they be located?
2. What will be required to maintain these facilities, and who will do the maintenance? Is the outsourcer likely to rely on another outsourcer to provide maintenance?
3. Is the outsourcer responsible for information technology planning, or will this be done by the enterprise?
4. Is the outsourcer responsible for ongoing system design and system modifications to meet new or changed future requirements of the enterprise? This issue should be made clear during the RFI and RFP stages, but often is not.
5. Is the outsourcer responsible for the development of software and, if so, is there a component in the charges for this activity?
6. What are the procedures for maintenance and support of software? That is, who pays for upgrades and who supports software licensed to the enterprise?
7. Who is responsible for disaster recovery and enterprise continuity arrangements?
8. Who is responsible for asset replacement, capacity planning, and software upgrades?
The parties should recognize that the enterprise’s business requirements will most likely change during the term of the outsourcing arrangements. It is also likely that the technology requirements will change, as existing equipment and software becomes outdated or relatively more expensive to support. Over the term of the agreement, new technology may also become available that reduces the cost of service delivery. There should be provisions that enable either party to request and benefit from additional services, changes to the scope of existing services, or the deployment of new technology during the term of the agreement.

**Contract Duration and Commencement.** The commencement date of the contract should be decided as early as possible to minimize transition difficulties when service provision is handed from the enterprise to the outsourcer. Given the complex problems that can arise during the handover of information technology services, it might be wise to include a defined transition period as part of the term of the contract.

The length of term will depend entirely on the nature of the outsourced services and the business requirements of the enterprise. From an outsourcer’s perspective, the price of the services will likely be influenced by the capital costs involved in providing the resources required to maintain service delivery. An initial term of three years is typically seen as a minimum term. The terms of renewal should be based on performance and current conditions at the time.

**System Specification.** The system specifications should be defined for function, performance, and availability as part of the RFI and RFP phases. The service specifications, such as response times and system reliability, should likewise be defined at the RFI and RFP phases.

**Service Level Agreements.** Service level agreements (SLAs) are put in place to define the minimum level of service that must be provided. They are, therefore, the basis for measuring the outsourcer’s performance. SLAs will typically be included in the contract schedules and cover a number of areas of service, including system availability, response times, and quality standards.

Measuring and monitoring service levels can be achieved through user satisfaction surveys and analysis of performance data, such as system response and job turnaround times. It is not always easy to identify performance measures that accurately reflect the standard of service required by the enterprise’s users. Moreover, SLAs can be ineffective documents, unless the enterprise has practical and realistic remedies in the event of non-performance. Such remedies might include withholding or deducting agreed rebates from fees otherwise payable to the outsourcer, should the agreed level of performance not be maintained. Both enterprise and outsourcer must be aware that SLAs are flexible, and there should be a
review period in the SLA to cover changing enterprise requirements and new technology.

**Reporting and Review.** Closely linked to the SLA is management reporting and review of performance. Procedures for reviewing the performance of the outsourcer should be defined by consultation between the enterprise and the outsourcer during regular meetings. Each party should nominate dedicated representatives who will be responsible for meeting with the other party’s representative, and communicating information and decisions. Such meetings should regularly involve the senior management from both parties, and include adequate focus on future developments and forward planning.

**System Access and Security.** Access to enterprise systems by the outsourcer must be considered in the context of current privacy legislation, which is intended to protect personal information about identifiable individuals. Outsourcers may only require system access at certain levels to enable them to perform their service.

The level of security measures required to protect the enterprise’s system and information from unauthorized access will continue to require rigorous planning, implementation, and management. Outsourcing services will bring additional issues of protection, confidentiality, and ethics that the parties must document and agree to, with regard to their responsibilities and obligations.

**Facility Ownership and Control.** If the outsourcer is to perform certain services using the enterprise’s equipment, who will own these assets? The outsourcer may enter into an arrangement to purchase these assets, or they may be handed back upon termination of the outsourcing arrangements. In either event, a detailed inventory of assets must be compiled.

What will be the relationship with suppliers of third-party services such as communications or network services? Outsourcers may need to rely on competitors to supply services to enable them to provide service to the enterprise. This may require facilitation by the enterprise.

**Personnel Issues.** Although the issue of personnel is often crucial, it is sometimes overlooked by those involved in outsourcing. People are fundamental to an enterprise, and are required to maintain enterprise continuity during the transition period.

The arrangements for the retention, redeployment, or other options for existing staff must be negotiated. This issue is critical, because the outsourcer will require the institutional knowledge of enterprise staff. Enterprise continuity must be maintained during the transition, which requires that enterprise staff be kept fully informed where appropriate.
The staff’s payroll may need to be transferred from the enterprise to the outsourcer. A transition plan should be used to minimize the risk of service disruption and employment-related legal claims.

The employment contracts or collective agreements under which enterprise staff are employed may require that negotiations be held with the relevant staff or their representatives. The early involvement of professional human resource managers and employment law specialists to advise and assist with contractual and privacy issues, is critical to any transition to outsourcing.

The enterprise may also specify that a certain number of staff should be hired by the outsourcer, and the outsourcer may require a certain number of people for the purpose of acquiring system and enterprise knowledge. In these cases, there should be an agreed process for the outsourcer to select, assess, and engage the appropriately skilled staff from the enterprise. The enterprise should also be made aware if any of the outsourcer’s staff are being shared with other clients.

**Intellectual Property Indemnity, Warranties, and Disaster Recovery.** Each party should generally indemnify the other against claims of intellectual property rights infringement, arising from the use of facilities and resources that they supply to each other as part of the outsourcing arrangements. Appropriate warranties should be provided, including:

- warranty of authorization and title
- performance warranty
- compliance with specifications
- service quality

Finally, the enterprise and the outsourcer should agree about enterprise continuity, should any of the outsourcer’s facilities fail.

**CONCLUSION AND SUMMARY**

A two-stage proposal process is recommended, with plentiful scoping time built in. During the first stage, the enterprise should select a short list of outsourcers to bid on the RFP. It should find three or four promising outsourcers, although they have not yet supplied a proposal with numbers. This requires a scoping document that interested parties can use as a starting point to talk with the enterprise.

This initial document should be heavy on goals and vision. For example, if the enterprise is putting up a World Wide Web site, what does it want the site to do? What is the enterprise’s reason behind the site? The document should state more than just the project’s vision.

The enterprise should describe itself and its products, providing information about the time the project should take, and describing the re-
sources it intends to devote to the project. It should also talk to the people who respond, and set up short meetings with those who are recommended, and those who produce a positive feeling. Then, if it is not going to use an Internet strategy consultant, the enterprise should get ready to prepare the proper RFP.

The bidders should be restricted to three or four outsourcers. If it is a big project, the enterprise might consider giving the final bidders $3000 each to offset the cost of preparing their proposals. While this might sound like a waste of money, a well-prepared proposal for a large project will take considerable amounts of time and resources to produce. Because quite a few proposals come to nothing, a paid pitch means that the best outsourcers can devote the time they need to prepare the best proposals.

The enterprise should specify that the proposals be arranged for easy comparison. For example, proposals shall contain the following sections:

- an executive summary, containing a brief description of the project development approach and costs
- enterprise information, including financial details
- qualifications, including previous clients, with contact information and relevant URLs
- a description of the development process
- asset and draft delivery methods
- project stages
- milestones
- quality control
- testing
- the proposed team and their qualifications
- the proposed schedule
- the costs and payment details
- the terms and conditions

The organization should keep in mind that it is trying to select an outsourcer it trusts. During the development process, both sides will make mistakes and be late with deliverables, so both sides should be accommodating. Although the enterprise should try, it is almost impossible to include everything in an RFP or in a proposal. Therefore, the proposal must set out the way the enterprise and outsourcer will work together, and what will happen when either party is late with deliverables. In addition, the RFP should set out a schedule for the proposal and development process. For example, a schedule for outsourcing Web site development could be:

- March 10 — Request for qualifications goes out
- March 20 — Qualifications due
• March 22 — Short list of outsourcers selected
• March 30 — RFPs sent to short list of outsourcers
• April 15 — Response to RFP due
• April 20 — Successful outsourcer notified
• April 22 — Purchase order for project issued
• April 24 — Initial project scoping meeting
• May 30 — Project development begins
• July 30 — Site goes live

There will be several other milestones set out once the project gets under way, but outsourcers need to know these dates up front.

If the enterprise has spent some time talking to the short list of outsourcers, it can probably write the RFP to clearly state the project goals and vision. If the enterprise has given the outsourcers a good idea of the budget range, it probably has a reasonable idea of what the project will entail. The RFP should focus on the details of how the enterprise will relate to the development outsourcer during the build process.

It is vital to give the outsourcers on the short list a contact person they can question about the project. It is in the organization’s best interest for the outsourcers working on proposals to feel free to find out what the enterprise really wants. Therefore, the enterprise should set aside some time to explain the project, when the outsourcers are working on their proposals.

The enterprise should be sure to mention who is going to pay for corrections. If the copy the enterprise provides has errors in it, who will pay to fix them?

The enterprise might want to mention that its RFP is a private, copyrighted document that may not be shown to others. Because many development outsourcers use freelancers and part-time help, the enterprise should make sure its RFP does not get into the hands of competitors. Therefore, it might consider asking the outsourcers on the short list to sign a non-disclosure agreement.

Finally, it is great if the enterprise can detail exactly what it wants. But it should not forget to set out a comfortable working relationship. The enterprise should hire a specialist development outsourcer because the provider knows more about all this than the enterprise. Therefore, if the outsourcers say the goals are unrealistic and the budget is absurd, they may be right.

This article has provided constructive guidance to help participants involved in the procurement of outsourcing services to understand the key issues involved, so they can write a highly successful outsourcing RFP. Hopefully, the article will assist many enterprises in reaching early and constructive agreements on the requirements of an outsourcing RFP agreement.
John Vacca is an information technology consultant and internationally known author based in Pomeroy, Ohio. Since 1982, he has authored 29 books and more than 360 articles in the areas of Internet and intranet security, programming, systems development, rapid application development, multimedia and the Internet. He was also a configuration management specialist, computer specialist, and the computer security official for the NASA space station program (Freedom) and the International Space Station Program, from 1988 until his early retirement from NASA in 1995. He can be reached on the Internet at jvacca@htl.net.