

## **Preparing and Evaluating A Request for Proposals: How to Select a Vendor**

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Although sometimes thought of as a “necessary evil” for sponsors of defined contribution plans, the request for proposal (RFP) process, if conducted effectively, can often produce several opportunities for the plan:

- A benchmark of the current services with those available in the market
- Contract enhancement offers from incumbent providers
- Alternative service offerings from other providers

The negative perception that occasionally accompanies the RFP process is typically rooted in a combination of issues that include the amount of time involved with preparing and evaluating proposals, the difficulty in selecting the “best deal” for participants, and the fact that contracts are often required to be taken out to bid frequently, such as every five years. While conducting an RFP process is complicated and time consuming, it is also a real opportunity to obtain enhancements for the plan and the participants. This brochure will discuss:

- Steps for preparing an RFP
- Evaluating proposals
- Selecting a vendor

While volumes could be written on each of these topics, this brochure is intended to offer a few suggestions that can help keep the process efficient and streamlined, and also offer tips to help the plan sponsor achieve the desired goals of the RFP.

### Steps for Preparing an RFP

#### *Decide What You Want*

Before an RFP is produced, the plan sponsor should consider what objectives it wishes to reach as part of the RFP process. Examples of goals that are often important to plan sponsors include offering strong communication programs and providing competitively priced programs.

In considering the goals for the RFP process, plan sponsors have an opportunity to utilize feedback from participants. Often the past experiences of participants can help identify opportunities to improve the plan. Some plan sponsors informally monitor participant satisfaction with the plan by tracking complaints and feedback, while others periodically survey plan participants to determine satisfaction levels. Plan sponsors can also rely on their own experiences to help identify any areas of the plan that may be improved during the RFP process.

While a common approach to the RFP process is to think “let’s see what’s out there,” there are benefits to identifying objectives and expectations in the RFP in key areas such

as investments, administration, education, and communications. These benefits may include:

- Limiting responses to qualified companies – identifying the core products and services that are desired can help avoid receiving proposals from companies that will not ultimately meet the needs of the plan.
- Providing an apples-to-apples comparison – it can be difficult to compare proposals that offer different products and services. By identifying core products and services desired in the RFP, the plan sponsor is less likely to have to compare proposals that are vastly different.
- Helping vendors provide quality proposals – by identifying the core products and services in the RFP, the plan sponsor is providing useful guidance to the vendors. It is important to recognize that most companies will strive to meet all the goals of the plan, but they will stand a better chance of hitting the mark if they know what the goals are.

Some examples of useful information to include in the RFP that will help meet the above objectives are:

- Plan statistics such as assets in the plan, number of eligible employees and participants, amount of annual contributions and distributions, etc.
- Core investment option categories desired
- Servicing model desired, such as a minimum number of annual group meetings or communication and education strategy, if set in advance
- Administration requirements, such as payroll formatting requirements or vendor involvement with unforeseen emergency/hardship requests
- Performance standards desired, if set in advance
- Standard contractual language that vendors need to agree to
- Copy of the plan document

These items are typically provided in the Scope of Services section of the RFP. Considering these issues before the RFP is released is time consuming, but time spent up front can provide the benefits outlined above, and can help avoid “re-work” later in the process.

## 20 Hours Now or 40 Hours Later

Determining a core set of products and services to be a part of each proposal can help the plan sponsor develop an effective questionnaire as well. For instance, consider the following general (A) and more specific (B) questions regarding participant servicing:

<i>Scenario/Background</i>	<i>Sample RFP question</i>
A. Plan sponsor uncertain of level of in-person servicing currently provided, and plans to evaluate whatever servicing models are proposed.	Describe the in-person participant servicing included in your proposal. Identify the amount of in-person servicing that is included.
B. Plan sponsor knows that the current provider performs two group education meetings per month at each of four locations (total 8 per month), but also knows the meetings are well-attended and there is demand for more.	Describe the in-person participant servicing included in your proposal. Current servicing includes two group education meetings per month at each of four locations (total 8 per month), but the plan sponsor wishes to expand the number of meetings to 12 per month based on demand. Identify the number of monthly in-person group education meetings included in the proposal. If your proposal includes an alternate servicing level, describe the benefits of the alternative.

Using the general question from scenario A, there is increased opportunity for several issues to arise:

- The plan sponsor is likely to receive several varying service model proposals. While this general question allows the proposing company to offer the servicing model it deems to be most appropriate, it may not be the best fit for the plan.
- As part of the evaluation process, the plan sponsor may rate “Company X” lower for suggesting 8 meetings per month in response to the scenario A question and rate “Company Y” higher for suggesting 12 meetings per month. While the rating may accurately reflect the proposals, Company X may have been willing to also offer 12 meetings per month with no changes to the fee structure if it only realized this was the amount desired for the plan.
- After reviewing the varying responses from the general question, the plan sponsor may feel the need to go back to each proposing company to obtain revised proposals using common marketing strategies in order to obtain comparable service offers. This can cause significant re-work for the plan sponsor and the proposing companies, and can potentially slow down the evaluation process.

Using the more specific question from scenario B provides more detail regarding the desired services; therefore more proposals are likely to contain the optimal level of in-person servicing.

Regardless of which scenario applies, the plan sponsor will ultimately select a vendor (and its proposed servicing model) as part of the RFP process. The example above is provided to demonstrate that since the servicing model decision will ultimately be made, considering the issue earlier and providing guidance initially in the RFP affords the opportunity to receive more apples-to-apples proposals for comparison. Most plan sponsors would agree that both the plan and participants will ultimately be served best if time is spent evaluating a set of quality proposals in order to select the best offer, instead of spending time “weeding out” the proposals that don’t meet the plan’s needs and selecting from those that are left.

## Evaluating Proposals

Evaluating public sector proposals often includes conforming to procurement guidelines that can vary by organization. With this in mind, evaluating proposals typically involves scoring the responses based on core evaluation categories. An example of evaluation criteria categories might include:

- Company background and experience
- Recordkeeping and administration
- Participant servicing and communications
- Investments
- Fees

Specific weightings for the evaluation categories are typically customized based on the goals of the RFP and the experiences of the plan sponsor. The evaluation categories and the related weightings form the framework for evaluating proposals.

### *Where to start?*

Evaluators typically view the proposal as an indication of how the vendor will approach its contract. If the proposal is well organized and thoughtfully presented, the vendor is likely to take that approach in its work with the plan. The opposite could be true as well. If a vendor cannot clearly and carefully communicate through its written proposal, how will it do that with your employees?

In preparation for evaluating proposals, it is often a valuable exercise to review the scope of services outlined in the RFP. Although not everyone processes information the same way, many find it helpful to take a little time to review each proposal to get a “feel” for the vendor and its approach. The vendor’s cover letter will often provide a valuable summary of what is contained in the proposal.

Evaluators typically wish to determine whether the vendor has demonstrated that it has carefully read the RFP, and has given thought to the services it is proposing and is not just responding with boilerplate RFP language. Attachments, particularly sample communication materials, forms, and reports, are important and should be reviewed carefully. This is an area where companies often differentiate themselves.

## *How to Compare Proposals*

In evaluating the responses, many evaluators use a “side by side” approach, after deciding how much information they feel comfortable evaluating at a time. For example, some may want to evaluate all of the responses for an entire evaluation category (e.g., Company Background and Experience) before going on to the next proposal. While knowledge of industry standards is of use during the scoring, evaluators can compare the vendors against each other in order to award the scores.

In awarding points, questions or groups of questions are typically assigned to the specific evaluation criteria categories. Many evaluators have found that using a numerical system for evaluating responses helps them translate “merit” into points, such as the rating system that follows:

Unresponsive to Questions = 0  
Does Not Meet Criteria = 1  
Meets Criteria = 3  
Exceeds Criteria = 5

Some organizations prefer to use a letter scoring methodology (A, B, C, etc.) for responses. Regardless of the ranking method, each can be converted to a numerical score based on the evaluation criteria weighting.

Evaluation of the proposed investment options is particularly important because their performance will directly impact the value of participant accounts. Characteristics often considered in this evaluation include:

- Investment performance over various time periods
- Return/risk characteristics
- Investment manager philosophy and process

In today’s competitive market, many companies offer an open architecture platform that allows the plan sponsor to select investment alternatives if one of the investment options is not attractive.

Lastly, a common method for evaluating fees is to award the maximum points available to the company that offers the lowest fees, and all other companies receive a percentage of the available points based on a ratio of the fees proposed to the fees of the lowest bidder:

$$\text{Maximum points available} \times \frac{\text{lowest fees proposed}}{\text{fees of proposing vendor}} = \text{score of proposing vendor}$$

The evaluation of fees can be complicated if vendors propose different fee structures such as asset based or per-participant. In addition, many vendors receive compensation from the investment companies for assets that are invested in specific funds. A detailed cost

proposal questionnaire can outline the types of acceptable fees (asset based and/or per-participant) and will help the evaluators understand all fees received so that the total amount received by each vendor is understood.

Evaluators should take notes during the evaluation process. Items may seem memorable when being scored, but written comments will help the evaluator remember later the reasons that a vendor received a specific ranking. Also, taking notes can flag issues for follow-up or clarification during the finalist interviews.

## Selecting a Vendor

Once the proposals have been scored, the evaluation committee typically selects a group of companies to participate in finalist interviews.

### *Finalist Interviews*

The goal of finalist interviews should be to further consider those companies that have a legitimate chance of winning the RFP based on the initial evaluation. Finalist interviews can accomplish this with the appropriate planning:

- Based on the evaluations and scoring earlier, the plan sponsor or evaluation committee should understand where each company's strengths and weaknesses lie.
- A list of specific questions to be covered should be developed and forwarded to companies well in advance of being interviewed.
- Companies are typically allowed to provide best and final offers as part of the interview; vendors sometimes offer enhancements to the proposal once they have made it to the finalist stage.
- Finalist interviews often allow the selection committee a chance to meet with the personnel who will directly serve their employees by having them attend the interview. This allows the opportunity to further evaluate the strengths of the staff.

After the finalist interviews, a selection committee will typically discuss the results and make any scoring revisions based on enhancements proposed or additional information obtained during the interview. The final scoring is typically the basis for awarding a contract.

### *Contract Negotiations*

Once the company has been selected, it will be necessary to finalize contract terms and enhancements in writing.

The contracting process generally works most efficiently if the selected provider creates the first draft of the administrative service contract using the plan's standard contractual terms and conditions, the RFP, and the provider's proposal. The plan sponsor can then

review the draft to make sure that it reflects the terms as offered under the company's original proposal and subsequent verbal and written enhancements.

The defined contribution market is particularly competitive and plans should be able to obtain favorable terms. Contracts typically include specifics on services to be provided and possibly penalties for poor performance, such as delays in standard processing. The objective of contractual performance standards should be to ensure the level of servicing provided, not to unnecessarily penalize a company beyond appropriately compensating participants that may have been harmed. In the end, the plan sponsor, the participants, and the servicing company will all benefit the most if an appropriate level of fees is collected for the appropriate level of servicing.

In conclusion, the RFP process for defined contribution plans is typically a complicated and time consuming process, but it often can provide enhancements for the plan. The process is often most effective (and less time consuming) if the appropriate planning is conducted at the beginning of the project.

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