

A QBS Approach

This handbook is designed to help institutional buyers of professional services to find and hire the most qualified expert firms at a fair market price.

It exposes the limitations, inaccuracies, and gross inefficiencies of the typically utilized price-based Request for Proposal (RFP) process and expands upon the fundamentals of Qualifications Based Selection (QBS) offering new ways to handle pricing during the selection process as well as new methods for evaluating the qualifications - also referred to as the expertise - of a professional services firm.

As such it is intended for use when purchasing *expertise* instead of just labour hours or commodity services.

Our goal for this book is to advance QBS processes, improve the ethicality, transparency, sustainability and quality of a selection process, and while doing so remove literally billions of dollars of wasted time from our economy.

Since legal issues will vary across jurisdictions we have not offered nor intended to offer legal advice and none should be inferred by our comments.

*Cal Harrison Dipl. Adv., BA, MBA, CMC
President, Beyond Referrals*

A Note About Language

Throughout this book we refer to professional services and consulting and intend those to be interchangeable labels to represent professions such as advertising, architecture, engineering, graphic design, IT consulting, law, management consulting, web development, or any similar professional advisory practice.

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**Why Should Buyers Use QBS?
Because RFPs Are A \$5 Billion Dollar Annual
Problem - Paid for Entirely by the Buyers of
Consulting Services**

The following is a true story with actual numbers.

A federal government department committed to a \$500,000 construction project for which they issued an RFP to select an architecture firm. The fees to the architecture firm, based on a typical 10% of the construction cost would be \$50,000.

This means the RFP was issued to make a decision about which firm to award a project worth \$50,000 in fees.

One firm shared with me the costs they had incurred to respond to the RFP. Their direct costs (primarily the salaries to cover the time for the staff writing the proposal) totaled about \$13,000 but the retail value of the work they had done was about \$20,000 – meaning that if they had charged a client for writing the proposal they would have charged \$20,000. They told me that these costs were typical and would be consistent for any firm submitting a proposal to this RFP primarily because of the need for detailed pricing (all of which had to be redone by the winner anyway).

In total 38 consultants responded to the RFP.

This means that the architecture sector incurred a cost of \$760,000 (the retail cost of \$20,000 x 38 firms) so that a client could decide which architecture firm to hire for a \$50,000 project.

So the industry cost of writing proposals was more than 15 times greater than the professional fees paid to the winning architecture firm – and almost 150% of the total project cost INCLUDING CONSTRUCTION - even without including the buyer side direct costs of issuing the RFP and evaluating 38 proposals.

It was like a 150% tax on the construction project levied by inefficient procurement processes.

Unfortunately, this scenario is not uncommon and I have estimated that this “RFP tax” totals approximately five billion dollars in wasted proposal writing each year in Canada alone.

What buyers need to remember is that every penny of this proposal writing cost ends up getting built into the fees charged by their clients – so the buyers always pay for every unsuccessful proposal written for every professional services RFP issued.

It is ironic that most RFPs have a clause stating they will not be liable for the vendor cost of submitting a proposal when in fact buyers are covering the entire cost of every proposal ever submitted by every vendor.

The Beyond Referrals RFP Experiment

A few years ago I decided to estimate how frequently the cost of writing proposals was greater than the value of the project fees being awarded in the professional services sector.

To do so I went to a popular RFP posting website and took a snapshot approach to assess all the professional services RFPs in three different categories that were available on that one day.

I gathered or calculated the following data from all the RFPs that were active that day:

- Budget identified in the RFP. If a budget range was provided I used the high end of the range in my calculations and if no budget or range was identified in the RFP then I did not include it as part of my experiment.
- Number of firms that had downloaded an RFP. I then cut that number in half to approximate the number of respondents to that RFP.
- An estimate of the retail value of the time required to respond to each RFP.

What I found was astonishing.

In the category of PAMSS (Professional Administrative and Management Support Services) **17%** of the time the industry response cost of writing proposals was greater than the fees the winner would receive.

In the category of IT & Telcom **33%** of the time the industry response cost of writing proposals was greater than the fees the winner would receive.

In the category of A&E (Architecture and Engineering) **67%** of the time the industry response cost of writing proposals was greater than the fees the winner would receive.

It is important to note that when the response costs were not greater than the fees that the winner would receive, the costs were still frequently still quite substantial – often 75% of the fee amount or greater.

My experiment was designed to explore some benchmarks and the results could be argued that the sample size was too low (I reviewed hundreds of RFPs) or that my assumptions were wrong (maybe fewer than 50% of downloads result in proposals, etc.) but my point with this is that the inefficiencies scale very quickly and that because of the sheer volume of RFPs for professional services issued every year, the detrimental costs to an economy add up quickly.

Fortunately, as demonstrated in these pages, it is an institutional inefficiency that can be fixed easily and quickly once the decision to do so has been made.

17%

33%

67%

The Goals of This Book

This book is written with the idea that somewhere there is a selection process that can be trusted to balance value for money with process efficiency. To that end we have kept a few simple principles in mind while writing this guide.

Buyers, Consultants and Taxpayers Want A Fair, Ethical, and Accurate Selection Process

Trying to select the right consultant can be a difficult task.

On the surface many consultants (and I mean this to include architects, lawyers, engineers, management consultants, IT consultants, etc.) appear to be very similar, because many have done a poor job of clearly communicating the specific and focused expertise they are selling.

Consultants aren't going to like hearing that but with respect I have worked with enough of them over my lifetime that I am quite comfortable writing that.

However, even when a consultant clearly communicates their very specific expertise, trying to determine which consultant has the most relevant and most valuable expertise for a specific project can still be difficult.

This book is designed to bring structure and insight to the evaluation of consulting expertise and the transparent, ethical and objective selection of a consultant or consulting firm.

Buyers, Consultants and Communities Want A Sustainable and Cost Efficient Selection Process

Increasingly, the world of consulting and procurement are becoming more concerned with sustainability and innovation in business is a global concern.

No surprise then, that when one single archaic practice like the RFP for professional services can drive five billion dollars of wasted time into a national economy every year it becomes an obvious target for process improvement - like the improvements suggested in this book.

These Processes Can Be Implemented Immediately

This book offers eleven principles to apply when deciding which consultant or firm to hire for an engagement.

These principles can be implemented with the simple directive to do so and will not require fundamental organizational changes.

- No new procurement policies or legislation are required to implement these standards.
- No new technologies are required to implement these standards.
- No new people are required to implement these standards.
- No new funds are required to implement these standards.

The only thing required to implement all of these is the decision and direction to implement them.