



InsideOps | Insights for Asset Management Operations Leaders

Getting the Most Out of RFIs and RFPs

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Investment management firms seek new service provider relationships for a host of different reasons. They may be expanding product offerings that current service providers can no longer accommodate. Relationships with existing providers may have ceased to meet expectations, or perhaps they are testing the marketplace to gauge the suitability of present arrangements. All possible pretexts aside, the process of selecting a new service provider can be a painstaking, time-consuming process. That goes for custody, transfer agent, accounting, fund administration, audit, technology, consulting or middle and back office services, and most often involves submitting a "Request for Information" (RFI) and/or a "Request for Proposal" (RFP) to the marketplace. Busy operations leaders and their teams may have barely enough time to get through the RFI/RFP process, let alone do it comprehensively and well. However, with proper planning and organization, this process can be streamlined, leaving sufficient time to match vendor capabilities with requirements—the basis for smart decision-making.

Determine the Nature of the New Relationship

The RFI/RFP should be viewed as a means to establishing new relationships. Prior to conducting pre-screening and submitting RFI/RFPs to the marketplace, considerable thought should be given to what type of vendor relationship is desired and the "must-have attributes." Depending on the circumstance, this may include reflecting on issues and problems that have emerged with other service providers. Here are some pertinent questions to consider: Are you very price sensitive and looking for a low-cost producer? Does your team need more hands-on service? Is the nature of the work complex enough to demand best-of-breed providers? Does the firm's client's peace of mind depend on engaging a marquee partner? Once a best-case profile has been clearly defined, the process of sourcing an optimal service provider is simply a matter of determining a "best fit" for the firm that matches the profile.

Pre-screen

Before sending out an RFI or RFP it's advisable to pre-screen viable candidates as closely as possible. Filtering the number of candidates down to a select group that best fit your needs saves time later and expedites the entire process. Calling on industry contacts who are subject matter experts and have experience with various service providers is one effective screening technique. So is reading industry white papers and other thought leadership produced by practitioners in the field. Reviewing vendor websites is also helpful.

Doing basic background research on vendors is a hugely important step and will streamline the RFI/RFP process significantly. By obtaining base information, such as firm history, background of principals, reputation and service offering, the RFI/RFP process can be expedited and focused on vendors that are best matches. Operations leaders can further organize this information to suit their needs. For example, baseline information can be entered into a matrix to identify critical gaps in "must-have" attributes. Vendors that meet all the high level requirements can move on to the RFI/RFP stage.

Designing the RFI/RFP to Obtain Critical Information

Avoid general open ended questions

Do you process derivatives?

- Please explain how derivatives are processed. Include:
 - Relevant experience of the people involved
 - Key processes
 - Technology utilized
 - Quality control procedures

Describe the accounting process.

- What is your accounting services operating model?
- If functionalized, please explain the functional groups, including:
 - Tasks
 - Team sizes
 - Offshored functions
- Please explain your service model, including:
 - Who do we call with NAV questions
 - How do they research our questions?
 - What is the coverage plan if our primary contact is unavailable?

Develop the RFI/RFP

RFIs and RFPs help winnow down the number of viable vendors who are invited to an on-site meeting and, if applicable, demonstration. These documents are a channel to information that is not readily available elsewhere. To simplify the process and get the most relevant information, simply observe two critical success factors:

1. Provide detailed information about the firm's operations and desired services
2. Ask questions geared towards specific needs

To the extent possible, providing detailed information to the RFI/RFP candidates facilitates a richer, more efficient exchange of information. For example, in seeking a new fund accounting service provider, create a section that describes the current and future states of accounting attributes—number of transactions, nature of securities positions (equity, derivatives, fixed income), number of holdings, AUM, capital activity, expense accrual information, auditor, etc. This type of content-rich questioning will allow the candidates to cater their responses. In the absence of a certain level of detail, vendors tend to respond with general information or opaque statements.

With the goal of obtaining information that is not readily available elsewhere and is specific to the firm's situation, questions should be clear, concise, direct and purposeful. Avoid asking generic questions or making open-ended comments that are vulnerable to misinterpretation. An open-ended, nonspecific question like "How is the accounting process done?" is a great example of something to avoid. Conceptually, the RFI/RFP should be very similar to a face-to-face meeting in regard to the dynamics and structure of the questions. The table to the left highlights some examples.

Analyze Responses

The aim of analysis is to filter out the material differences between vendors and identify gaps in need or qualification. Once all RFI/RFP responses are in, conduct an objective examination to compare and contrast the data. Thanks to that pre-screening research, every respondent should qualify at the core level of desired service, so all that is needed is a true up to determine any material gaps in their service offerings. Further in-depth scrutiny should focus on how well the responses match up to the "must-have" attributes that have already been identified. As mentioned, it is usually a good idea to develop a matrix identifying these key attributes and graphing them against each vendor's response. If applicable, weighting and numerical scores can be assigned to calculate an overall score. While numerical scoring can be advantageous, it is not compatible with the nature of every service, particularly when getting uniform derivations from RFI/RFP responses is impossible. In these situations, a more subjective approach is appropriate.

Determine Finalists

The RFI/RFP process streamlines the vendor selection process by eliminating vendors. Ultimately, the RFI/RFP screens candidates strategically, leaving a very small group, who are then invited to progress to on-site meetings or demonstrations. Regardless of the overall quality of the RFI/RFP responses or the rigor of your analysis, these documents cannot replace the value of meeting in person, conducting walk-throughs (if applicable) and getting a "feel" for the people and culture of a unique organization. These in-person exchanges form a basis for substantive new vendor relationships and are critical to fully informed decision making in the vendor selection process.

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