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Procurement BPO: Seven Questions CFOs and CPOs Should Use to Vet Firms Before an RFP

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Yesterday I had the chance to connect with HfS Research's Tony Filippone, a former procurement executive who has spent his share of time not only around complex categories and stakeholder (not to mention demand) management as a practitioner throughout almost all of his career, but is also an expert in the business process outsourcing (BPO) market, owing to his firm's focus on it. In the discussion, we chatted about numerous things procurement, including the transformation of the procurement BPO market from one of fewer, larger deals to numerous, smaller transactions (at least to kick off relationships).

Upon reflecting on the conversation, I came to realize we might not be asking enough questions of potential outsourcing partners in the procurement area. In many ways, the worst possible situation is to have a BPO provider deliver a free or low-cost benchmarking project or diagnosis and then show how an organization is not up to a certain level in an area (i.e., an opportunity for engagement). This changes the basis of evaluation from one of examining objective and subjective criteria around the potential cultural and realized capability fit of a BPO firm with something as inconclusive — and potentially biased — as the identified savings from a strategic sourcing exercise that goes unimplemented.

Granted, there is absolutely a place for diagnostics. But we believe they're better delivered by an objective third-party rather than a potential BPO partner for a number of reasons, including limited sample sizes, potential bias, and lack of benchmarking expertise (e.g., surveys/KPIs developed originally by a third-party rather than the firm itself). Given these limitations, we do not recommend companies move to a potential diagnostic or benchmarking exercise outside of basic savings identification until a relationship has already started (and ideally at that point, our recommendation is to work with a firm that is expert in the area).

Having put the diagnostic question to rest, the more important matter for this analysis is how executives should begin to vet potential BPO partners even before a formal RFP process (if a BPO sourcing process even leverages one at all, given how they are becoming less frequent, especially those run by an external third-party). We believe that the following questions can be a useful starting point to help identify the ideal BPO partner from a range of perspectives including the ability to deliver savings while not creating unnecessary disruption in the business and ideally improving supplier relationships in the process:

- Is there a pre-existing relationship with the BPO firm elsewhere in the business or in procurement (e.g., a different division of a company)? How has that relationship gone? Have multiple stakeholders been surveyed? Is there more than one advocate for the relationship and results that the provider has delivered in the past? We believe incumbency can be an asset in certain cases as a leading indicator of results where a cultural fit exists and multiple stakeholders will go to bat for the provider.
- What specific category expertise (including but not limited to) sourcing does the provider bring in-house? Certain BPO providers have solid traditional procurement breadth across a range of categories, but are not expert in delivering savings outside of basic sourcing (e.g., focusing on demand management, supplier development, specification rationalization/ substitution). It is critical to ascertain the level of true internal depth in both basic and more advanced (read: higher value and riskier) categories.
- What is the provider's philosophy around category delivery? How many resources on a category level will they provide onsite? Are these shared resources? Are they experts in a specific area or more generalist procurement PMO types? The level of importance of this question and how providers respond will vary significantly between organizations depending on the value they place — and their requirements — for on-site category-focused resources to engage the business.
- Outside of sourcing and negotiation, what are examples of the types of savings you've achieved for companies across categories that we are interested in? One of the keys to the question and how it is asked is caring more about the "how" and less about the dollars. In part, executives asking for this information should look for not only look for the depth of knowledge in a response, but the degree to which the providers have delivered savings through an empathetic approach to the business.
- What is your philosophy about systems and technology across the procurement spectrum including eProcurement, e-invoicing, sourcing, contract management, supplier management and analytics? Keep this question open ended — the response that is provided will tell the potential buyer of procurement BPO services a lot about how core technology is for the BPO (how much this matters in the selection process will vary from company to company, but it is important to understand philosophically where they stand on technology rather than just seeing a list of partnerships).
- Where have you stumbled in delivering "out-year" results and what have you learned from this experience to which you are applying to clients now? This question is an ideal means of exploring not only the tactics the BPO uses, but also how they learn and adapt over time.
- How do you handle supplier management and vendor management office (VMO) requirements? Do you have customers we can speak with which have leveraged your capabilities for broader supplier compliance and development initiatives not specific to transactional or sourcing savings? If not, what are your plans in this area. Many BPOs will talk a proverbial "good game" in this area but are short on real qualifications around supplier and vendor management. Spend Matters research suggests that supplier management will become an increasing requirement for companies looking at procurement BPO in the next decade and organizations should be able to talk about their approach today and/or plans for the future.

None of these questions are substitutes for those that typically appear on RFPs or more informally during a less structured and rigorous evaluation. But these queries and ones like them can serve as a useful means to understanding the true DNA of a potential BPO partner. ■