



An Invitation to Tender checklist

**Prepared by Martin Williams, Director, Bisham Ltd
For the
Outsourcing and Procurement Forum**

**Published by
The Chartered Institute of Logistics and Transport (UK)
Logistics and Transport Centre
PO Box 5787
Corby
Northants
NN17 4XQ**

This document may be photocopied as necessary for convenient use within a CILT member's organisation only but may not be further copied, nor reproduced nor transmitted electronically, without the written permission of the author.

Background

The case for outsourcing, particularly the outsourcing of business processes that directly interface with your customers, needs careful thought and meticulous planning. A full analysis of the possible risks and an on-going commitment to the agreed strategy and overall direction of the outsourced area are also required. Not fully engaging in any of these activities will probably ensure that the outsourcing results will be less than optimal.

This document prepares the ground and leads you through the tender process for the outsourcing of logistics services.

This paper has been produced under the auspices of the Outsourcing and Procurement Forum of the CILT and the author would like to thank those members of the Forum who assisted in its production.

The Role of the Forum is:-

- To initiate original thinking and discussion in areas of outsourcing and procurement, relating to supply-chain.
- To produce papers and reports and set up events and workshops on subjects identified by the membership of the forum and other CILT(UK) members.
- To work with the regions through two-way communications process.
- To assist the regions in the identification of key supply-chain and transport issues and facilitate the development of responses.
- To assist the regions in setting up local O&P Forum, thus involving a greater proportion on the membership.

Bisham Consulting is one of the UK's fastest growing independent supply change consulting firms. It has been providing practical logistics solutions to manufacturers, retailers, third party logistics and distributors for more than 12 years. For more details see www.bishamconsulting.com

Martin Williams has been working in the logistics field since the mid 1970's. He has held senior management or board level positions for some of the major global logistics and container shipping companies. He has lived and worked extensively abroad, including the USA, Japan, Netherlands and Norway. He has been a director of Bisham for 3 years.

1.0 The Invitation to Tender

1.1 The Typical Contents

The following sections are those that most commonly appear in ITTs. Obviously the larger and more complex the activities to be outsourced, the more details that will have to be included. The more time spend preparing a comprehensive and accurate ITT, the more that will be saved further down the process. Answering questions, providing additional information and clarification and communicating to all potential responders can be very time-consuming.

1.1.1 Background

In this section you need to set out the background and reasons why you are looking to outsource. You will also need to describe your company with some quantitative examples of size.

In this section you should 'sell' your company, you need to make the receiver of this document want to respond and win the business. If you are part of a larger organisation, make sure this is known. If this is stage one of a process where you will ultimately be outsourcing all of your supply chain, make this known.

If you already have senior management approval to go ahead and full budgetary approval, say so.

Many third party logistics companies, particularly the larger ones, have become suspicious of the ITT process. It costs significant money to produce a professional response, so many have their own criteria before considering responding. You must demonstrate that you are a worthwhile opportunity for them.

In this section you will also be giving the first clues of what constitutes success in your eyes, by outlining in some detail the reasons you believe outsourcing is going to add value to your organisation.

1.1.2 The current operation

In this section a detailed description of the current supply chain must be given. Examples of the type of operational data required are:

- Sales volume data
- Split of sales by region
- Split of sales by product type or group
- Seasonality and other demand fluctuations
- Sales forecasts by product, by region
- Weekly production plan vs actual
- Supplier deliveries actual vs plan
- Component or raw material sourcing and volumes
- Breakdown of primary transport details
- Port of entry for imported products and customs requirements
- Current stockholding of raw materials and finished goods
- Average, peak and low stockholding data
- Number of sku's
- Current stockholding locations, size and type
- Mechanical Handling Equipment used
- Product dimensions and weight
- Product handling characteristics
- Distribution data, including delivery points, order sizes, lines per order vehicle types, pallets etc.
- A complete product master file with Item number, EAN/ITF codes and case and pallet specifications,
- Any trunking details
- Any security issues
- Systems used, including a description of any warehouse management system and vehicle routing systems.
- Any planned changes to the business that will have an impact on any aspects of the current operation
- Ideally a 5 year forecast of sales etc

It is not uncommon for organisations not to have all this information readily available. Yet this is the most important part of the ITT document. Inaccurate or incomplete data can result in the wrong solution being chosen and implemented. Many failures in outsourced operations can be directly traced back to poor initial data.

Compiling all this data in a manageable format is time consuming and often companies do not have the luxury of spare capacity (people) available to undertake this work. It is often well worth the expense to bring in external support to assist in data capture and manipulation.

It is also true that not all required data can be obtained or that some data falls under the category of 'nice to have' rather than 'must have'. In this situation

educated guesswork or estimates are acceptable, but where this is the case it must be clearly stated.

1.1.3 Scope

The ITT must clearly state what activities are to be outsourced at this stage. For example if you are purchasing all raw materials delivered factory and are not seeking to change at this time, make sure this is clearly shown to be outside the scope.

1.1.4 Current service measures

The type of data included in this section involves the service being given to the organisation's customers and would include measures such as:

- ❑ order lead times,
- ❑ delivery windows,
- ❑ customer communication issues,
- ❑ specific large customer or customer group distribution arrangements
- ❑ booking in times
- ❑ POD issues
- ❑ specific delivery issues
- ❑ any likely changes to customer profile or customer requirements

1.1.5 Logistics Service Providers (LSP) Responsibilities

Here the responsibilities of the LSP are clearly stated. This will include all the in scope operational activities, customer service issues, documentation and reporting requirements, security issues, IT issues, inventory management, stock rotation and checking issues, resourcing and seasonality management.

1.1.6 Costs and pricing

In order to ensure that you are comparing like for like, it is common that a set of standard cost pro-forma are attached to the ITT. These can be broken down into as much detail as considered relevant and appropriate.

Make sure that each cost element is well defined and explained. It sometimes appears that LSPs deliberately try to come up with novel definitions of cost components and no two are the same!

In this section you should also describe your preferred pricing mechanism, which hopefully the pro-forma will reflect.

As the cost and method of charging are likely to be the number one choice criteria, it is important to get this right.

There are three guiding principles:

- Transparency – costs must be related to specific activities
- Equity – the pricing arrangement must be seen to be fair to both parties
- Easy to administer – pricing structures should fit with the existing business structures of both parties. It should not be necessary to create additional systems and procedures

The pricing method chosen will depend on the nature of the outsourcing work to be undertaken. There are two main methods (with variations) – **Open Book** (cost plus management fee) and **Closed Book** (cost per unit stored, delivered, throughput rate).

Open Book allows visibility, relates to agreed budgets, allows regular reviews of volumes, product mix, service levels and costs. It allows for easy analysis of variance reporting, the client normally has the right to undertake audits and can incorporate benefits/penalties for performance against budget. But it is often criticised for removing the incentive for the LSP to improve, become more efficient and institute cost saving measures.

Closed book rate structures usually have in built productivity savings in place. There are usually min/max levels in place. But there is no direct apportionment of cost to activity. It can become expensive if volumes grow and there are no in built unit savings. There are often minimum guaranteed throughput levels to protect the LSP.

Where there is a concern over the integrity of some of the key data, the open book approach is less risky. Therefore some companies when first embarking on outsourcing, start with an open book structure and later move to closed book.

It is common for a combination of open and closed book to be used in a contract. For example a basic monthly charge to cover fixed costs (e.g. rent, rates, depreciation, management, core staff), with rate tables for standard transport legs and open book accounting for all other services and ad hoc activities.

There should be a range of identifiable cost saving projects that occur in the life of any agreed contract that will generate benefits to both parties.

You may well wish to ask the LSP to suggest pricing structures together with a rationale. This can take the advantage of LSP experience and avoids being too prescriptive.

Pricing structures will probably include contingency clauses to cover large changes in the contract environment e.g. fuel surcharges, war risk insurance, unplanned demand surges. These may require subsequent re-negotiation.

1.1.7 Evaluation Criteria

The ITT should also include a section that allows the LSP to see the basis on which you will decide on the preferred service provider. A list of the factors that will be used to choose the successful LSP could include:

- Cost
- Service reliability
- Experience with similar operations
- Experience within your business sector
- Demonstrated understanding of the ITT
- Innovation
- Flexibility
- Systems expertise
- Robust implementation planning
- Simplified billing
- Management reporting
- Personal relationship
- Long term partnership potential
- Importance of your business to the LSP
- Operational competency
- Reputation
- E-business offering
- Ethical and environmental policy
- Financial position and stability of the LSP
- Geographic coverage

You should put a weighting factor against all the chosen criteria, although this is seldom shared with the bidding parties.

Be honest about the criteria. Most LSPs will be suspicious of a criteria list that does not include cost. Also make sure that your choice criteria correctly reflects your reasons for considering outsourcing in the first place. Also ensure the choice criteria reflect your company's values and culture.

1.1.8 Innovation

Each LSP responding to the ITT should be given every opportunity to demonstrate that they can offer creative solutions and innovative thinking. The ITT should include a section encouraging the respondent to give examples of innovation in other operations, as well as suggestions of areas of possible exploration for innovation in your operation.

1.1.9 IS/IT Issues

In most cases you will wish to see a demonstration of the LSP competence in the area of IT. What systems do they have direct experience in implementing and operating? Will their in house systems interface with yours? How will they manage issues surrounding legacy systems? What is their use of emerging technologies?

But if your requirements are relatively simple, do not be swayed by over-elaborate and probably expensive IT solutions.

There are some important issues here regarding scalability and flexibility.

1.1.10 HR Issues

In some outsourcing solutions, there is a HR element, normally around redundancy or redeployment. Does existing legislation become relevant? What is the LSPs experience in areas such as TUPE legislation? Does the LSPs attitudes to personnel match yours or will there be a culture clash?

These issues must be covered in any response to the ITT, so there must be a section that refers to this subject. Ensure that potential redundancy costs are covered in the event that the contract is not renewed. Also that redundancy costs are included in the transition costs.

Also you will probably want the LSP to give a description of their employment policy, training methodology, career planning as well as demonstrating that those who will be running your operation have the appropriate knowledge, skills and experience.

1.1.11 KPIs and Performance Measures

You will probably already have a number of Key Performance Indicators in place to assisting in the measuring and monitoring of your supply chain. Identify these in the ITT. Ask the LSP to comment on them and propose amendments and additions. A professional LSP will have a suite of KPIs instantly available from their in-house systems.

If you do not have a regime of performance measuring in place, request the LSP to propose one.

Do not over-elaborate the KPI issue. Remember the critical word is 'Key'. The establishment of the huge list of KPIs will diminish their credibility. Concentrate on a few measurements that will really show you how the activity is performing against agreed levels.

KPIs should be mutually agreed. They must be realistic and achievable. They must be designed in line with the processes involved and data available. They must be flexible and challenging.

Measurement alone is not enough, look to see what processes the LSP proposes to monitor progress, set targets to reflect a culture of continuous improvement, communicate successes and failures. Look for examples in other operations.

A system of bonus and penalties can be derived from a set of KPIs and associated measurement and monitoring. Your ITT should encourage proposals in this area.

1.1.12 Contractual Issues

The ITT should also give an indication of the key contract issues and terms you will wish to have. Most importantly the ITT should indicate likely contract length and payment terms. If any asset transfers are envisaged, these must be clearly stated and a valuation methodology outlined.

1.1.13 Timetable and Communications

In this section you need to describe the process you intend to use to select your chosen service provider.

The deadline for the submission of responses should be stated. Remember to be realistic and give sufficient time to ensure good quality responses.

Will all those responding be asked to make a formal presentation of their proposal? Or will it be a staged approach, with only those going forward to the final stage making a face to face presentation.

During the period between receipt of the ITT and submission of proposals, how will questions be handled. You should give contact details of personnel who can be contacted to respond to questions and enquiries. Remember to allow for holiday absences during certain stages of the year.

You should also advise what format you wish to receive the final submissions and how many copies.

1.1.14 Implementation Planning

The reason why so many outsourced logistics operations fail is in the implementation stage. In this section you are seeking some examples of how the bidder approaches this area. Do they have a proven methodology? How will they resource this aspect of the project?

1.1.15 Why LSP XXX?

If you intend to do a first cut selection for a short list from the responses to the ITT alone, without any presentations, then it is preferable to include this section. This is an open section that allows the respondents to sell themselves. Here they can emphasize their key attributes that they consider differentiates them from the competition.

1.1.16 References and Case Studies

Finally you should ask for references and perhaps some relevant case studies. Also ask for a visit to a similar operation being run by the possible contractors.

2.0 Some frequently asked questions

When preparing an Invitation to Tender there are some further points which may be relevant and should be taken into account.

- A) **Open and closed formats, which is better?** – you need to consider how prescriptive or open you wish to make the ITT and thus the responses you receive. In certain areas you need to be sure that the responses received are comparable, especially when comparing costs, therefore the use of pro-forma is recommended. But to encourage free and innovative thinking as much as possible should be left up to the LSPs to use their own initiative. Remember the more free form you allow in responses, the more time consuming will be the evaluation of the responses.
- B) **To whom do I send the ITT?** – Some companies send out a Request for Information as a first stage. The ITT only then is distributed to a limited number of companies who fulfil the initial criteria set. This can be quite a time consuming approach. If you have had no dealings with Logistics Service Providers until now, it can be quite a daunting task trying to identify who the potential candidates should be. You could ask the Chartered Institute Of Logistics and Transport for some guidance, but all they can really give you is a list of LSPs who are members. You can ask other companies who have outsourced. You can search the web. You can see who advertises in publications such as Focus. Or you can employ the services of a consultant. Also how many potential companies should you approach? There is no right or wrong answer to this. Some organisations send the ITT out to 20+ potential bidders, while others are much more restrictive. If the potential LSPs learn that the ITT has gone to a large number of them, it may make them more reluctant to respond. The more responses you receive the greater the choice but the more time-consuming to decide. If the operation to be outsourced is relatively simple and there is limited opportunities for the LSP to add real value and thus

make significant returns, you may be better served sending the ITT to a limited number of regional or smaller players.

- C) **Should I use a consultant?** - As was previously mentioned, data gathering and preparation can be very time-consuming, but is a critical activity. It is an area where a well chosen consultant can add real value. They know what is required, they have done this work many times. Indeed compiling a detailed and comprehensive ITT is a relatively specialist piece of work. This is an area in which certain consultants specialise. They will have a number of previous examples and templates that can speed up the process. Also consultants can help in the selection of potential LSPs, they have direct experience in dealing with them. Identifying potential LSPs is only half the battle! You need to identify the correct individual to whom to send the ITT and within big organisations this is easier said than done!
- D) **Should I see all potential bidders in face to face meetings?** – If your requirements are complex and you have the time, then do so. It will give you the opportunity to begin to develop a relationship and it allows a more interactive dialogue. You should certainly see all short-listed candidates. You would never think of employing personnel sight unseen!
- E) **Should I visit potential LSP operations?** – Certainly you should visit those of the short-listed candidates. Look to visit similar type of operations as yours. It may give you some good ideas!
- F) **Non-conforming responses, should I accept them?** – In some cases the ITT is fairly prescriptive and leaves the LSP little opportunity to demonstrate original thinking. As a consequence some will submit a non-compliant response along with or instead of the stipulated response. This makes comparisons difficult, but does show initiative. Is that important to you?
- G) **How do I stop the LSP changing the team?** – A frequent complaint is that once the LSP has been awarded the business. The team you have become familiar with disappears, to be replaced with a brand new group. Relationship building has to start all over again. This is particularly the case with the larger LSPs, who seem to have groups who sell and close deals and others who then operate. One way to reduce this happening is to insist that in the ITT response the LSP identifies who will be the Client Account Manager and who will be responsible for the operation. These individuals will be present during the formal presentation phase and the subsequent implementation. You can seek to have written in the contract that key individuals, while they remain in the employ of the LSP, will remain in place for an agreed period. Always ask for the names, skills and experience of the LSP team.
- H) **Should we allow the chosen LSP to use sub-contractors?** – In complex and geographically diverse operations it is quite likely that the LSP will have certain gaps in their offering and will augment them with sub-contractors. The ITT should refer to this and state that if the LSP intends to use sub-contractors, this must be clearly noted, together with details of which areas are involved, names and background of the company. Plus the LSP assumes full responsibility.
- I) **How do I evaluate risk?** – Again any professional LSP will include in the response a section detailing a risk and sensitivity analysis together with fall-backs and contingencies.

- J) **Do I share additional information will all bidders?** – During the process it is normal that a LSP will ask for information not contained in the ITT. On the assumption the information is relevant, should it only be given to the organisation who asked or to all bidders. Normally it is decided to give the information to all, to keep the playing field level. But the originator of the question scores a point for initiative.