THE A TO Z OF THE RFP

Choosing a cash management provider is an ever more complex and time-consuming task. Hugh Davies, Associate Director of Zanders, has a guide for a successful outcome.
The treasurer’s role today has significantly expanded as a partner or consultant to the business. However, the priority in cash management for the last two to three years has been ensuring compliance with regulatory impositions such as Single Euro Payments Area (SEPA) and European Market Infrastructure Regulation (EMIR). Projects focused on delivering efficiency, which enable the treasurer to play the more strategic role, have been on the back burner.

With those regulatory projects now mostly behind them, treasury teams can turn to the bigger picture: driving simplification and rationalisation to improve their organisation’s systems, processes or banking relationships.

The banking crisis of 2008 brought bank counterparty risk sharply into focus. With the greater scrutiny over bank relationships, there is a strong desire for the banking “wallet” to be well balanced and focused on core relationships; and for revenues earned by banking partners from additional services, such as cash management, to be commensurate with credit commitment (see Figure 1).

Many companies across multiple market and industry segments are going through a bank rationalisation exercise to ensure the correct selection of the optimum cash management provider from their core bank group, ideally for the next five to seven years.

Zanders Treasury and Finance Solutions is a specialist treasury management consultancy that has helped global and multinational clients to achieve this through a structured and methodical process, eliminating much of the pain often associated with an RFP process.

In this article, we share some of our key observations and recommendations.

It should be easy. You issue an RFP and the cream will rise to the top: the best and most qualified bank will emerge as the favourite. I wish that were true. Sadly, there have been too many examples of companies finding themselves in the awkward position of having been over-sold a solution that the bank then struggles to deliver.

So companies are turning to a more systematic approach to RFPS where thorough preparation, research and planning will help to prevent or minimise this risk. And let’s not underplay the risk: a prolonged, expensive, abortive or derailed implementation, disenchanted stakeholders, and strained banking relationships.

The Request for Proposal (RFP) has become the standard means of running a large outsourcing project in which suppliers compete for an existing or new contract. It is often preceded by a Request For Information (RFI), commonly used to qualify candidates.
While pricing is significant, it should not drive the decision. You are not negotiating a single transaction, but seeking a long-term partnership. 

1 Understand why you are issuing the RFP.
   There are many triggers. It could be dissatisfaction with current providers. More commonly, we see RFPs issued as a result of a strategic shift in treasury or some form of restructuring. M&A is a big driver: an acquisition, a spin-off, a new legal structure – all can result in new entrants to the bank group that are keen to participate in the cash management wallet.

A spate of acquisitions may have made the task of managing multiple bank relationships too burdensome and inefficient. In those circumstances, treasurers naturally want to centralise more activities.

Whatever the reason, the goal of the RFP is the same: you choose the best banking partner(s) for a long-term relationship to deliver the most aligned, practical and scalable solution.

2 Identify what should be in the scope.
   This sounds obvious, but understanding the scope – what to include in the RFP and what to leave out – only comes with a clear vision and list of objectives.

   If you are a company focused on establishing a centralised payments factory, for example, you may leave “out of scope” countries or affiliates that are essentially sales markets.

   Alternatively, there may be sensitive commercial reasons for leaving receivables, or perhaps payroll, out of scope, or tax-related consequences for certain business units that need to be avoided.

   Indeed, there may be some markets where the regulatory environment adds too great a level of complexity – which could very well put a successful outcome in jeopardy.

3 Who are the other stakeholders outside treasury?
   In a perfect world, the treasurer and the team own the vision, draw up the roadmap and execute the plan from start to finish. The reality is rather different. There are bound to be multiple stakeholders whose views and requirements need to be considered. Compliance with internal policies will be an issue. For example:

   **Technology and IT.** The “future state” cash management blueprint needs to align with the company’s technology strategy. The enhancements and investments required will need to be discussed and agreed.

   **Compliance, tax and legal.** A transformational cash management project requires a thorough understanding of the regulatory environment in your various markets. The trading models, the in-house bank or the liquidity management and payment structures envisaged (especially when physical sweeping to a treasury entity or Payment-on-Behalf-of models are anticipated) need to be shared and reviewed with the corporate tax and legal departments.

   **Bank relationships.** Reciprocity and commercial implications associated with rationalising cash management activity to a handful of core banks need to be reviewed. This will often influence the longlist of banks invited to answer the RFP.
Where are we going?
Drawing up a roadmap for an RFP process will speed up the task in the long run.

Once completed, the new solution design is developed, driven by a series of workshops including the critical stakeholders. Ask an independent expert to facilitate the workshops so that a thorough examination of all the options takes place and the results are properly documented. Then you build the business case and the roadmap.

The business case articulates the value of the project, estimating quantitative/qualitative benefits and project costs. The roadmap sets out the timelines and resources needed across what are likely to be multiple sub-projects.

Figure 2 sets out the various steps to be followed for the RFP itself. The RFP response should begin with an Executive Summary and end with a Solution Summary. Always include a detailed questionnaire. Don’t rely on a generic cash management questionnaire: it is critical that the document be customised to your specific requirements. This will enable you to score responses objectively and highlight what differentiates respondents.

Scoring models are a regular feature of RFP. They provide an objective basis on which to invited shortlisted banks to the next round. This six-sigma methodology is often used. All the questions are listed, by section (for example, Connectivity, Payment Factory, Customer Service Model, etc) alongside “risk factors” – how you rank the question in order of importance. A risk weighting per section can then be generated.

Any “knockout” questions – ones that automatically exclude a respondent if their reply isn’t satisfactory – should also be identified.

Decide how you are going to approach the project.
One of the most important steps is gathering data from the business/affiliates. Consider circulating a detailed questionnaire requesting information about the banks you use, instrument types and volumes and current payment processes and costs. Take care to construct the questions in a way that eliminates misinterpretation due to cultural or language issues. The old software industry adage “Garbage In=Garbage Out” (GIGO) applies.

From the input of business and treasury, the “current situation” can be documented.

Human resources. Centralisation and efficiency initiatives such as shared service centres have significant implications on resources. It is critical to define where these activities are performed and where they are migrating to.

The business/affiliates. Engage stakeholders early in the process, too. They will have a view on how any new structure(s) will affect the supply chain or customer relationships – and those views need to be heard.

When critical players aren’t consulted or included in the core team, or if they feel somehow disenfranchised, the entire project might grind to a halt.
Questions are scored according to the quality, accuracy and relevance of the response:

- Requirements partially met, with a partial solution (1 point);
- Requirements partially met, with a viable workaround (3 points);
- Requirements fully met (9 points).

The result is a weighted score per bank, per section, and an overall weighted score per bank to identify those that go through to the next round from those to be eliminated at this stage. Shortlisted banks are then invited to present their solution and capabilities. This is often the first opportunity for the broader teams to meet face-to-face. It’s an important step in establishing empathy and, for the bank, demonstrating a deep knowledge of your business and showcasing their expertise. The main purpose, however, is to ensure that the required solution is fully understood by the bank and can be delivered and implemented with minimal risk. The scoring model is often revisited and the weighted ranking of the respondents changed following these meetings.

The final Selection and Negotiation phase will analyse the pricing offered in detail. While pricing is, of course, a significant consideration, it should not drive the decision. You are not negotiating a single transaction, but seeking a long-term partnership with the bank. A partnership is built on mutual trust and respect, so while undertaking an objective RFP process, historical relationships often do play an important role in the final selection. Only once a bank is confirmed as a true contender, when meetings, site visits and reference calls have all taken place, is detailed scrutiny of pricing worthwhile. Normally, a handful of individual price points have a significant bearing on the overall costs. We recommend focusing pricing negotiations on these points rather than on getting the lowest price for every last item.

Finally, the timeline associated with such an RFP project should not be underestimated. While it will be determined by the scope of the project, Figure 3 shows some approximate guidelines for the time required for each step and the commitment expected from the project team - which comes, of course, on top of the day job.

Why it’s worth it

The objective of any RFP should be to ensure the selection of the right banking partner through a fair, objective but robustly competitive process that stands up to rigorous scrutiny. Regulation has made the cash management services business more complex. At the same time, the competition is more concentrated among a smaller number of players. So differentiating factors, even between a firm’s core credit providers, can be harder to identify.

Corporate governance, counterparty exposure and compliance are all under the microscope, so a methodical, structured and objective approach is vital. Only then can you ensure the new partner delivers the benefits you outline in the business case faster, more efficiently and with reduced risk.

The banks that are not chosen also deserve proper feedback. Bear in mind they may become an important partner in the future. The detailed analysis resulting from such a structured RFP process can also support these sometimes difficult discussions.

All sides put enormous effort into RFPs. If that process is fair, transparent, rigorous and objective, all parties should see it as worth the investment in time and resources.

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