ASSOCIATION FOR FINANCIAL PROFESSIONALS

How to Conduct a Successful RFP for Banking Services

Treasury in Practice Series

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AFP Members and Guests:

Fueled by emerging technologies and evolving regulation, the ongoing change in the payments space is one of the most dynamic in financial services. Despite the pace, it is critical that treasury departments take the time to evaluate their payment processes and supporting bank products. In today's fluid environment, a thorough and strategically designed request for proposal (RFP) can facilitate this evaluation by bringing together a rigorous comparison of products and services across providers while highlighting ways to run your business better. While the RFP process and resulting implementation can be time-consuming and taxing on staff, when done well, the rewards can position your company to maximize the benefits of your banking services.

To assist you in this process, KeyBank is pleased to underwrite another installment in the AFP Treasury in Practice series, *How to Conduct a Successful Banking RFP*. This piece details best practices informed by lessons learned from treasury professionals. It will guide you in developing highly effective RFPs that ensure selection of a trusted partner that can deliver the right products and services competitively priced.

This content is sponsored by KeyBank as part of our ongoing commitment to provide treasury professionals with insights and practical advice on the latest industry trends.

Best Regards,
Clark H Khayat
EVP, Enterprise Commercial Payments

Introduction

Conducting a request for proposal (RFP) for banking services is one of the most time-consuming tasks treasury teams face. Whether it's validating existing pricing and services, or soliciting proposals for new services, treasury groups are often stretched to the limit trying to get the process done in a timely and efficient manner. Still, many say the effort is worth it.

"We did a comprehensive RFP and bid out several pieces of treasury business after bank changes in our revolver," said Laura Smith, vice president and treasurer of timber company Plum Creek. "It's a really healthy process. When we first started, not everyone wanted to make changes, but by the time it was done, it was a great opportunity to upgrade services and reduce costs."

For treasury, the work involved with an RFP begins long before it's sent out and includes placing it in proper context, generating the right questions, identifying the right vendors, and setting up a plan to evaluate responses. "Organizations need to do critical preparation work before the RFP is distributed," said Daniel Carmody, CTP, managing director at TreaSolution, a treasury consultancy. "That involves documenting what services are critical and which ones are not, figuring out how to weigh each category appropriately and creating an RFP scorecard. This way, when you receive the RFP responses, your organization has the structure in place to effectively compare the vendors on an apples-to-apples basis."

The process can be littered with bank relationship pitfalls. "Companies need to be brutally honest with their banks about why they want to go through the RFP process," said Bruce Lynn, CTP, managing partner at The Financial Executives Consulting Group LLC, a treasury consultancy firm. "After all, the result will have an impact on their bank relationships, because at the end of the day you will be selecting one bank and quite possibly telling the others to go away."

According to the Association for Financial Professionals (AFP) *2011 Benchmarking Survey*, most organizations rely on 1-3 banks in their revolver with whom half of the organizations spend five years or less. Thus, the door is always open to change.

Many companies struggle with being clear about what they're trying to get out of the process and how the changes are going to affect their banking partners going forward, according to Lynn. "They have to think through their business strategy from a relationship perspective," he said. "Companies have credit needs. They also have operating needs. The question is: how do you relate the two?"

Best Practices and Tips

1. **What's your target?**
   The single most important thing to have is a very firm and clear understanding of what you're looking for before you start.
2. **Stick to your guns.**
   "There are sales people out there who can sell snowballs to Eskimos in January," said Fred Butterfield, CTP and former practitioner. "You have to stay focused."
3. **Communicate.**
   Maintain communication throughout the process with the vendors who respond to your RFP. "Stay in touch with them," said Butterfield. For example, "if a decision-maker changes a target, make sure you tell the vendors."
4. **Create a timeline.**
   Make sure that you have a clear timeline and communicate it to the vendors.
5. **Get decision-makers to sit in on final presentations.**
   "It's the soft questions that will have an impact on the final decision," Butterfield said.
6. **Negotiate.**
   Your contract is a contract. It's always negotiable. Ask for standard contract terms as part of the RFP and use this in your negotiation. You typically have more leverage in the earlier phases of the RFP in terms of pricing and contracting.
7. **Explain to the losing banks why they lost.**
   By telling the bank why they didn't get the business, "you approach it as a relationship," JoeTinucci, CTP, assistant treasurer at Colorado University said.
8. **Assign a point person.**
   Have one person who is responsible for managing the entire process in order to ensure that your company gets all the information it needs.
9. **Use solid project management.**
   Ensure that you dedicate sufficient time to the project, sufficient internal resources, and that you allocate the budget to move forward. Continue to monitor pricing, per your terms, through the end of the contract term.
10. **Involve the day-to-day user.**
    You have to get the folks who are going to use the bank product or service excited about it.
11. **Don't conduct in-person interviews back-to-back.**
    It's better to space them out and have a team meeting after each one for feedback and reflection.
12. **Check references.**
    Treasurers tend to be very honest. They'll tell you the good, bad and the ugly. "The reference calls were a huge help," said one treasurer.

Be clear about your objectives

The first step in the RFP process is to be crystal clear about your objectives. Cost, AFP research found, is not always the objective. In fact, research results show that the most important objectives are: (1) the bank's ability to support the organization from a strategic standpoint, and (2) selecting the best provider(s) for the service.

Start by asking yourself whether the services and structure you have today is what you need the new banks to offer. "Rather than asking the bank for what you want, figure out first whether you even need an RFP," said Susan Hillman, a partner with the Treasury Alliance Group. "If you have one or two banks you're comfortable with, that are capable in the region, those issues can be the subject of an in-depth conversation about how they can help you move toward a solution and save in the process. It's an opportunity for them to show their capability."

Companies need to understand why the current structure that they have may or may not be appropriate and communicate that to the bank. "You can't really talk about different services without putting it in context. You've got to be able to give the bank a blueprint of a legal structure and your cash flows and how they move from account to account," added Lynn. "Either you propose a new structure or ask the bank to propose a new structure."

Jessica Scott, CTP, vice president of enterprise commercial payments at KeyBank, also advised companies to include context in their RFP. "In addition to providing your current organizational structure, transaction volumes, and reasons for issuing the RFP, include your company's strategic goals and objectives," she said. "This gives bidders more insight and raises the bar on relevant responses."

Ask the right questions

"The reason that people struggle with an RFP is that they make it too complicated and try to do too much," said Brad Larson, CTP, principal at ReCa Treasury Services and a former treasurer. "Banking services are almost a commodity these days. People should only ask the questions that they care about so they only have to read the relevant answer.

When I've done a banking RFP in the past, I've started by first making a list of all services I think we need. Then I went through the current account analyses to see if there were any services I missed and related volumes that should be included in the RFP. My RFP included those services and volumes and a summary of how we currently do things."

Larson said he also included any changes the company was considering and asked the banks to provide suggestions and recommendations on how his company could improve upon the things treasury wanted to do.

Fred Butterfield, CTP and former practitioner, also recommended looking at the AFP website to see if there's a template for the particular service. "If there is one, it's a fabulous place to start. You can simply take out the pieces that don't fit and carve it down to a couple of pages," he said. "If there isn't a template, sit down and come up with one yourself. Make sure you specify what you want and how you want to receive the information."

"As a general rule," Butterfield added, "you don't want the RFP to be more than 2-3 pages. Even if you do limit the number of questions, you're going to get reams of information. Use your target to ask about the things that are truly important to you."

The timeshare company Marriott Vacations Worldwide Corporation issued a global banking services RFP the year before last and is working through a lockbox RFP this year. "Half the battle is getting it completed," said Tom Wolfe, CTP, senior director of global treasury for Marriott Vacations Worldwide.

As a result of the company spinoff in November 2011, Marriott Vacations Worldwide required its own international banking partners. Wolfe said that the first thing the treasury team did was look at the RFP template on the AFP website. As Butterfield suggested, the team pared it down, took out questions that weren't applicable and modified others. "We had to put things in there that were applicable to our industry and our business," said Wolfe. "Otherwise, the banks wouldn't be able to respond with the right information."

It's important to strike a balance between technical questions and questions that allow providers opportunities to bring their subject matter expertise to the table, Scott said. Successful RFPs allow the responders to give suggestions regarding process improvements and/or more efficient new technologies.

Again, there are available resources like the AFP templates to get you started. "There is no reason to re-create the wheel," said Scott. "That said, be sure to read through the document carefully and eliminate questions that are irrelevant to your company or industry's needs. Finally, don't forget to ask your current provider for advice prior to issuing an RFP. Banks see hundreds of requests for proposals every year and can give suggestions on how to get the most from your process and the bidders."

Companies tend to send RFPs with tons of questions, and sometimes the same question asked twice, said the cash management leader of a large international bank. She said that junior treasury staff are often tasked with filling out lengthy RFPs using computer programs and boiler-plate answers. "A lot of the time they don't even know what they're putting in there," she said. "Those are not the RFPs that we want to get. The RFPs we want to get are the ones that have very clear objectives. They are also not trying to encompass all regions in one process but taking a phased approach. When we receive RFPs with fewer questions that are also very concrete in the context of the regular relationship it's a much more productive process."

Narrow the list

"Sending [an RFP] blindly to a number of banks, and without having a preliminary conversation with the bank, is not fair to the bank and is not going to get the response you want," said Hillman. The solution is to do a "pre-RFP," depending on what you're looking for. "Consider which banks would be able to help with the situation and then narrow down the list," she said. "Then have a conversation with each of them, whether you're a customer or a potential customer — realizing that some of them may not be interested in your business. Ask them to get back to you with their thoughts and to tell you whether they're interested in your business. Only then should you send out the RFP."

According to Carmody, one tool organizations can use to narrow down a large list of vendors is a request for information (RFI). "Whereas an RFP is very detailed and comprehensive," he said, "an RFI is a relatively quick inquiry tool that can be sent to the large list of vendors before the distribution of a formal RFP. Its primary goal is to discover each vendor's main critical functionalities, which can help your organization in narrowing down the list of potential vendors."

Share your timeline

Treasury should share a clear timeline with banks. "Typically, you should provide banks with no less than 30 days to respond. The longest that I've done was 45 days," Butterfield said. "You don't want to give them too much time; they'll park it in a drawer and do it at the last minute. At the same time, don't make it too short because even though they're accustomed to doing it, it takes time. The vendor has to evaluate you. That doesn't happen in 10 minutes."

Based on the initial set of responses, Butterfield continued, you may need to go back with clarifying questions. That could easily take an additional 2-4 weeks, which is why it's important to include a timeframe with the RFP that includes the respond-by date and the date by which you're going to make your final decision. "You want to put a timeframe in there so vendors have a clue that if they don't hear from you on time, they know they're out," he said.

In the meantime, it's important to keep in touch with the vendors. "Often you send out an RFP, and if you don't follow up and keep in touch with the vendors, many of them will reach out to you to find out the status," Butterfield said. "You want to get in front of this and be proactive. You don't want to appear as if they are in charge and you're just responding to them."

Focus on service

"I caution companies not to go into an RFP process just to save money," Lynn said. "It may happen, but I'm not sure that I would advise clients to change banks based on cost alone. The bigger savings may be the reduction in the company's own operating costs. Be honest up front with your bank about what it takes to get your business. The lowest cost may not be the most important factor."

When the University of Colorado sent out an RFP, the treasury team agreed that saving money was not the primary goal. "Our goal was to get the best value," said Joe Tinucci, CTP, assistant treasurer at Colorado University. "Indeed, the evaluating committee assumed many of the treasury services were a commodity. The value drivers, therefore, were considered to be support and consulting services."

Tinucci recommends that other organizations look carefully at the things that truly add value, such as customer support, the ability to partner with the bank, and online information reporting. "Concentrate on these rather than price," he said. "It's okay to leave something on the table. In fact, during our RFP process the evaluation team rejected outright the lowest cost bidder because we felt the bank could not provide the expected service and support for the price they were quoting. Price was weighted only at 15 percent [of the goal]. Make sure you tell that to the banks up front."

During its RFP, Plum Creek focused primarily on services and product features. "Your main objective should be to select the provider with the best product and capabilities for your organization's needs," Smith said. "Once that is determined, ask that provider to meet or beat the lowest cost provider's pricing."

Compare apples to apples

Being able to compare multiple responses is critical to making the right decision. "What I'm interested in are the specific responses to the questions that I've asked and the ability to hit the targets I'm seeking," Butterfield said. "I've asked for a pro forma analysis statement. I've asked for information to be provided in a spreadsheet. I can take a workbook and make it uniform with the others and compare apples to apples."

Butterfield cautioned that banks don't like to be compared to one another. In response, they tend to bundle services to prevent treasurers from making direct comparisons on the RFP. "You want them to be specific in listing the services and fees you're soliciting and include open questions related to additional fees, such as one-time set up fees," he said. "When you get it back, you massage it, consolidate it, and you can look at service per vendor."

Organization and structure of the actual RFP document also are critical factors in receiving comparable responses from providers, said Brandon Nowac, vice president and sales manager, public sector, with KeyBank. "Often, if the RFP questions aren't grouped in a logical way, responses end up inconsistent," he said.

The same is true for pricing. Nowac sees larger companies provide consistent templates for how banks should present their pricing for services. "That's not true yet for medium and small-sized RFPs," he said. "If there's no standardization around pricing, it's hard to compare the pricing of apples to apples."

"Utilizing AFP's Bank Pricing Data is a wonderful way to help companies compare apples to apples as the codes are streamlined and relevant for approximately 80 percent of a company's typical cash management needs" said Tom Hunt, CTP, AFP's director of treasury services.

The University of Colorado went so far as to require banks to break their prices out by AFP's bank service codes. "So we had some way to compare them," Tinucci said. Here, too, Tinucci was surprised by how many of them used microcodes. In the end, "we were only able to compare totals by general service code categories, such as ACH, total lockbox, and total disbursement," he said. "The three finalists were in the same pricing ballpark."

Conduct one-on-one interviews

Inviting the finalists to an onsite interview is a critical step in the process. It's important to ensure both internal and external teams include the right participants. "I try to sit down in advance with the internal people who will be attending the presentation to be sure they understand what is going to be covered in the presentation, and what isn't included in the project," Larson said. "I like to be able to anticipate the kinds of questions people are going to ask so I can have the presenters be prepared to address those things. Knowing your audience of internal people is very important."

While adding people to the process runs the risk of a longer decision timeframe, Scott said, it is critical that all parties involved in large-scale change have the opportunity to provide input and feedback. "This should ultimately save you time during the implementation," she said. "In many cases, these stakeholders are able to test the validity of the technical responses without being oversold by what sounds really good."

According to Hillman, the onsite meeting with finalists should be set up at least three weeks in advance. "Give them guidelines and prepare an agenda, including allotted timing for each section," she said. "You only want the bank implementation manager and product specialists. Limit the number of sales people."

Many treasurers echoed her sentiments. Too often, they felt, banks send teams of sales people to the meeting. They may be slick but they don't add value. The bankers at the meeting need to be product specialists and the implementation contact and relationship managers. The idea is for the company to meet the teams it will work with if it chooses that bank.

According to Nowac, many companies still award business solely based on written RFP responses. He advised strongly against making the decision without a one-on-one interview with the finalists. "Without that face-to-face meeting you're making the decision in a vacuum," he said. "The interview allows the companies to ask questions and evaluate providers on subject matter expertise and not whether they can write a nice RFP response."

Conclusion

While the process of conducting an RFP from start to finish can take 3-4 months, the real work often begins with implementation. "You must first define the business requirements," said Nowac. Once an RFP reaches the interview stage, the bank and client can discuss a more detailed plan.

That's not to say the implementation is not critically important. "You've got to be very careful about who is pitching the business and who is on the implementation team, and are they the same people," Smith cautioned. Selecting a provider and then finding out that they have a poor implementation team can stall or even cause the project to fail.

She recommends that treasury stay involved during implementation. "You have the most leverage [in this phase] to get problems fixed early in the new relationship," she said.

About the Author

Nilly Essaides is Director of Practitioner Content Development at the Association for Financial Professionals. Nilly has over 20 years of experience in research, writing and meeting facilitation in the global treasury arena. She is a thought leader and the author of multiple in-depth AFP Guides on treasury topics as well as monthly articles in *AFP Exchange*, AFP's flagship publication. Nilly was managing director at the NeuGroup and co-led the company's successful peer group business. Nilly also co-authored a book about knowledge management and how to transfer best practices with the American Productivity and Quality Center (APQC).

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General Inquiries	AFP@AFPonline.org
Website	www.AFPonline.org
Phone	+1 301.907.2862