

PREPARE,  
CREATE  
& GO!

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## 3 Steps to an Effective RFQ - Request for Quotation

# CONTENTS

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Request For Quotation – Getting It Right	1
RFQ versus RFP	3
1. Preparing with Research	4
2. Design the RFQ	5
3. Go to Market	7

## REQUEST FOR QUOTATION – GETTING IT RIGHT

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While as a task it appears quite perfunctory, creating and publishing a request for quotation (RFQ) is vital to effective supply chain management. RFQs can make the difference between getting a good deal and a not so good deal on supply needs. Through a RFQ, or indeed a request for proposal (RFP), a firm is communicating what they need from the marketplace. What they get back in terms of price, quality, choice and functionality is determined in no small part by the clarity and quality of the RFQ. Effective RFQs secure for firms the best deal available. Ineffective RFQs do the opposite and leave firms at risk of paying too much or ending up with unsuitable products or services.

So just as personnel departments aim to recruit the best candidate for the job through selection techniques of varying complexity, so procurers and supply chain managers strive to get the right product at the right price through RFQs and RFPs. In some cases a standard RFQ will suffice. Other procurement projects will require more forethought. In this article we will examine recommended practices for creating and publishing requests. This process incorporates not only decisions relating to product/ service specification and evaluation criteria, but also market research and supplier awareness (Fig. 1).

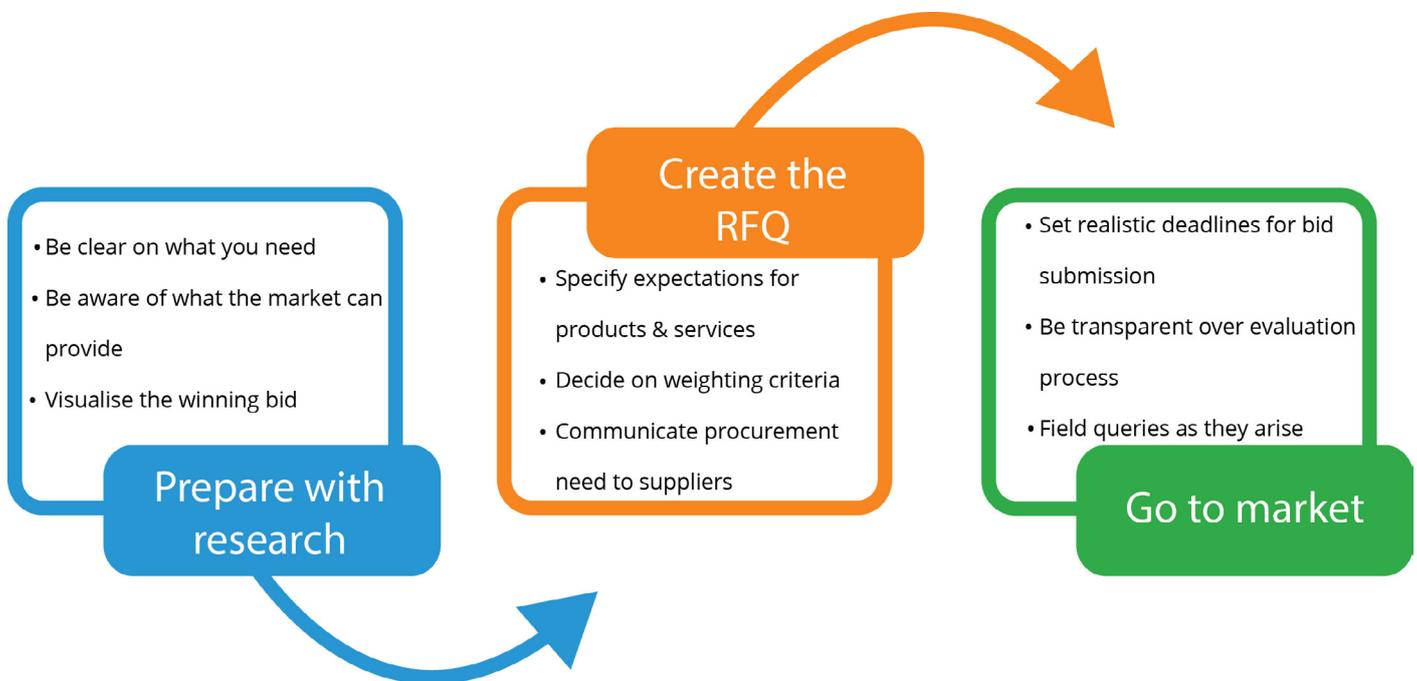


Fig. 1: The Procurement Process

Before this, we will distinguish a RFQ from a RFP – Request for Proposal.

## RFQ VERSUS RFP

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The request for quotation (RFQ) and request for proposal (RFP) acronyms are used widely when it comes to discussing sourcing and procurement. There is, however, an important distinction between the two terms. RFQs are used in cases where the buying firm has a clear idea of what it wants from the marketplace. The decision comes down mainly to price, product standards, and level of service on offer. RFQs are the most common form of marketplace engagement. Many firms never go beyond issuing RFQs as their supply requirements are defined and predictable. In contrast, RFPs are more open-ended and request the marketplace to come up with solutions to a particular supply need. They represent an attempt by buyers to tap into external sources of innovation by letting suppliers put forward what they think is the best solution.

Among recent examples where the RFP approach has proved fruitful are local council authorities engaging with software firms to develop virtual payment methods for parking charges. The procuring organisation has a supply or operational issue to address and so goes to the marketplace for actionable ideas. While RFQs and RFPs are distinct, in practice there is often an overlap between specifying a particular good or service

and requesting innovative solutions. Even fairly standard competitions may allocate a certain percentage of marks to innovation and nowadays buyers are certainly more alive to the benefits of supplier expertise and innovation.

## **1. Preparing with Research**

Before designing or even publishing a RFQ, buyers must do the groundwork. All successful procurement projects start with market scanning. The amount of time and resources dedicated to researching the marketplace should be proportionate to the financial value and strategic importance of the product or service required. Items that account for a significant percentage of category expenditure deserve a corresponding level of effort. Hence the importance of knowing where the intended purchase sits within a particular category and its relative weight or importance.

Buyers need to know who is entering and exiting the market and who can supply what at the best price. Ideally they should be able to anticipate the main suppliers who are likely to bid. Buyers should not be issuing RFQs blind as to what the supplier pool can come up with, especially in the case of 'big ticket' items of expenditure. Equally, buyers should hold a reasonable idea of what the winning bid will look like. Knowledge of technological trends and marketplace innovations is also vital as it gives buyers a sense of the possible solutions on offer.

Thus, the key points in laying the groundwork for a RFQ include:

- Analysis of previous purchasing activity concerning the product or service
- Awareness of pricing levels and the cost/benefits of switching supplier
- Familiarity with main suppliers likely to bid
- Knowledge of technological developments in the marketplace

## **2. Design the RFQ**

The RFQ is the opportunity for the buying organisation to communicate its supply needs to the marketplace. To be effective a clear supply requirement needs to be articulated. Vagueness on the part of the buyer will tend to elicit vague or confused responses from suppliers. To begin with, RFQs should be kept as brief as possible. Buyers should aim not to weigh too heavily on the time and resources of suppliers. This will help to ensure healthy interest from a range of suppliers, particularly small firms. Complementary to the above, a good RFQ should use simple-to-understand language. Jargon should be avoided. In these ways potential suppliers will at least know what the buyer is looking for and not have to second guess his/her requirements. Summarising the key aspects of the request at the beginning of the RFQ is therefore recommended.

It is important for buyers to be precise as to product or service specifications as well as key deliverables and milestones. This not

only ensures that buyers get what they are looking for but also enables suppliers to make a fully informed decision on their ability and willingness to meet the contract demands. As with language use, buyers should accommodate suppliers with a user-friendly pricing schedule. This reduces the risk of confusion or error. Equally, it allows buyers to better compare bid prices and award points accordingly.

Perhaps the most critical aspect in the design of any RFQ is deciding on weighting criteria. Buyers must make decisions on what weighting they will assign to cost and, depending on the nature of the competition, to factors such as quality, experience, innovation in service delivery, environmental credentials. How a competition is weighted influences how the market responds. Depending on the procurement project in question and the size of the firm, input should be sought from stakeholders in departments across the organisation. For example, the purchasing of IT equipment may benefit from the input of not only procurement officials but also IT end users, finance personnel, production and operations managers and even sustainability officers.

Finally, buyers may consider furnishing general information on their own operations and supply needs. This can help to give suppliers a better insight into a firm's position in the marketplace, its mission and business goals. Having this panoramic view of the buying organisation should be of benefit to suppliers in learning more about their potential client and identify areas in which they can add value. In creating a RFQ the following summary points are important:

- User-friendly considerations should drive the design of the RFQ
- Emphasise needs and avoid being overly prescriptive
- Create a transparent pricing schedule for suppliers to complete
- Devise a clear rationale for the evaluation criteria and their relative weighting
- Obtain input from a number of different stakeholders across the organisation

### **3. Go to Market**

When the groundwork has been prepared and the procurement need articulated it is time for the buyer to go live with their RFQ. While it would seem that the process is now complete and all that remains is to wait for tenders, several things will still need doing. Firstly, the deadline date for receipt of bids needs to be highlighted to suppliers. It is common among buyers to find suppliers requesting that their bids and proposals be given consideration after the deadline. One way of mitigating this problem is to flag the deadline date and issue reminders as the date approaches. It is important also to give the suppliers sufficient time to compile their bids. The timeframe should match the complexity of the procurement project. Details on when the bids will be evaluated and how the winner will be notified should also be stated. Again, this is all about enhancing the transparency of the process for suppliers.

Secondly, instruction needs to be given on the exact format in

which documentation accompanying the bid is to be submitted. This helps at the evaluation stage as all documentation will be in standard format and can be compared more easily. Thirdly, firms should be willing to handle queries from potential suppliers during the competition phase. Suppliers may have queries on particular points pertaining to the competition. Nominating a contact person is one way of managing the competition as it is in progress. Making questions and answers surrounding the competition available to all interested suppliers via online media is also recommended. To sum up, from a buyer's perspective the procurement process should not end when the RFQ is published and attention needs to be given to the following:

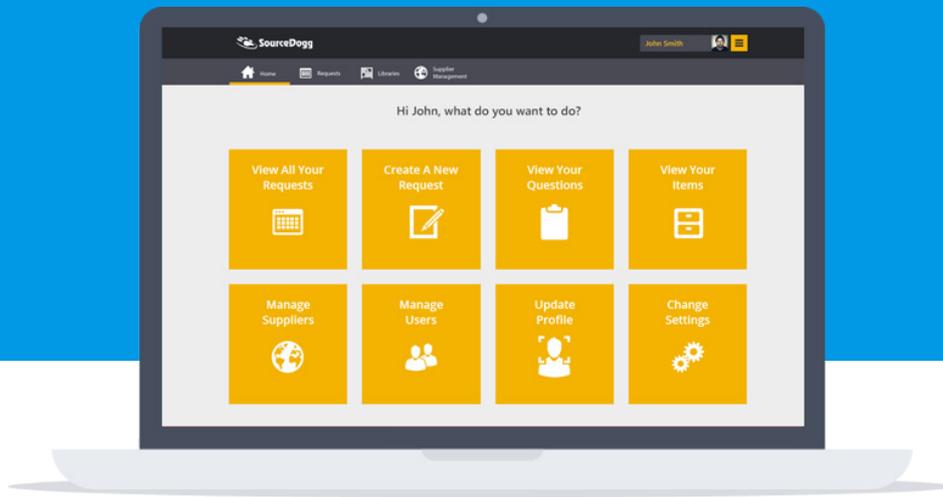
- Deciding on an appropriate timeframe for bid submission
- Highlighting the deadline date
- Issuing instructions on the type and format of documentation that is to accompany the bid
- Fielding queries from suppliers as they arise

### **About the Author**

Anthony Flynn works as a researcher in Dublin City University Business School (DCUBS) and specialises in the area of procurement.



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