Mary A. Redmond
Speaker, Author, Consultant

How the RFP Process Saves You Time and Money

If you are like many managers, the search for a new copier, telephone system, computers or furniture begins with a telephone call to the usual suppliers. You request quotes, then don your negotiation hard hat and prepare for the battle of wills. Who wins?Usually the victor is the one with the most patience and perseverance.

Why waste time writing out equipment specs and financial options for new equipment? After all, writing a Request for Proposal (RFP) is something companies do when purchasing equipment worth $1 million or more. Why invest time writing an RFP when a phone call will get you what you want?

While managers might begin the process full of optimism, they often find themselves stuck in the beginning phases of negotiations for too long. However, using the RFP process can save you time and money.

Large and small companies, accounting and law firms, insurance agencies and most county, state and local governments use the RFP method for acquiring goods and services. Using a modified RFP or Term Sheet is sufficient when buying equipment with a value of less than $100,000.

Case Point – Printer Saves 14%
Kevin Carlisle, owner of Perfect Image Inc., a small commercial printer located in Charlotte, NC, used an RFP when purchasing a new digital copier for his business. Carlisle used the services of an independent lease review expert who helped him draft the RFP. When he began the process, he had one proposal from the equipment supplier's leasing resource. He decided to invite four additional lease companies to present financing proposals in response to his RFP Term Sheet. He was surprised to find the best pricing came from his bank's leasing company. He saved $7,200 (14% of his total investment).

Case Point – Law Firm Saves Over $1 Million
Shook Hardy and Bacon LLP, a large law firm in Kansas City, used the RFP process when they were preparing to move into their new corporate headquarters. They chose to lease telephones, furniture, computers and video conferencing equipment. Dale Chaffin, Chief Operating Office of Shook Hardy and Bacon LLP (now retired), knew what managers and business owners everywhere knew – leasing equipment makes good business sense. According to the U.S. Department of Commerce, 80% of U.S businesses, large and small, lease rather than buy when adding or upgrading equipment and needed assets.

12405 Pine Valley Drive | Kansas City, KS 66109 | 913-422-7775 (Office) | 913-515-7779 (Cell) | Mary@FearLessNegotiator.com

Chaffin, like Kevin Carlisle of Perfect Image, agreed the best leasing deal does not always come from the equipment supplier. Thirteen leasing companies and financial institutions responded to the RFP. After a full review of all proposals and lease contracts, four leasing companies were invited to continue the process. The firm conducted negotiations with all four leasing companies simultaneously. During the negotiations, one leasing company resisted making changes that Chaffin required. Because he had three other leasing companies to meet his terms, Chaffin could shift lease business at any time before the contract signing.

Using the RFP process leveled the playing field. It was easier for the Shook Hardy and Bacon RFP team to spot the differences in various financial solutions and the equipment benefits. Supplier presentations changed from glitzy sales sizzle into firm offers and contracts. Once the selling price and lease terms are on paper in a proposal, negotiation can begin.

The result of following the RFP process shaved more than a million dollars off the total lease cost for Shook Hardy and Bacon.

Tailor the RFP + Drive the Process = Save Time & Money

1. Recruit the team

- Select the RFP team from staff involved in the financing, maintenance and operation of the equipment. Depending on the size of the financing request, RFP teams often include managers from the following departments or areas: plant or facilities, equipment operations, finance, tax, maintenance, information technology, sales and marketing.

- Consider hiring an RFP specialist experienced in drafting and analyzing the leasing portion of the RFP. The specialist guides you through the confusing double-talk of leasing and helps save time and money. This allows you to keep focused on your day-to-day operation.

- If leasing is an attractive option, discuss the tax benefits and implications of leasing with your accountant.

- If the dollar amount of the investment is large or the leasing companies want a personal guarantee to do the financing, include your attorney in the process.

2. Budgets and timelines

- Don’t get carried away with all the bells and whistles that you read about in equipment trade publications. The needs of the business are not the same as the wants of equipment operators.

- Your budget is your business. Don’t let the supplier know exactly how much you plan to spend.

- Include your desired financing alternatives in the RFP. Suppliers and manufacturers may have interesting financing options including special leasing plans or low interest finance plans. Always remember, there is no such thing as a free lunch or interest free money. Free is never really "free."

- Always ask for the total equipment cash purchase price. Never focus exclusively on the monthly payment. Remember to step back and look at the total cost of the lease over the life of the contract.

- Find suppliers and leasing companies you can trust and stay in contact with them.

- Establish timelines and require all the participants to adhere to them.

3. What goes in, what stays out?

- Company history: Include company background such as number of employees and a general description of the type of business you specialize in.

- Equipment: List the equipment specifications that are essential and options you might consider. Prioritize the equipment features as either mandatory or optional.

- Seasonal payments: If you have seasonal fluctuations in your cash flow, consider requesting structured lease payments – higher payments when cash flow is strong and lower payments in the off season. Some traditional banks and financial institutions are not big on flexible payment plans. Leasing companies understand structured payments.

- Trade-in: Will there be trade-in equipment available?

- Maintenance: Who will maintain the equipment? Will the equipment supplier provide maintenance or will you need an additional maintenance company?

- Lease quotes: Always get lease quotes from at least three independent leasing sources in addition to the equipment vendor's usual leasing sources. Independent leasing companies have no affiliation to the equipment supplier. Their only business is financing and leasing.

- Bank quote: Don't forget to contact your banker. Many banks have leasing divisions that provide excellent financing options and they already have a history with your company.

- Require all bidders to submit their proposals with copies of all documentation required to do the deal. If leasing is involved, include copies of all standard lease documents, proof of

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insurance requirements, guarantees and down payment requirements. The lease contracts can have added "gotchas" in them that increase the total cost of financing.

4. The final steps

- Analysis: The lowest selling price or lowest lease payment is not always the BEST deal.

- Read Terms and Conditions: Examine all maintenance and service contracts from each equipment supplier. Who will maintain the equipment according to the manufacturer's recommendations? It is extremely important that someone commit to delivering timely preventative maintenance to avoid expensive emergency service calls.

- Discounts: Check and compare prices and terms with other business owners in your area. Include all used equipment suppliers for the value of your trade-in equipment if that is applicable to your situation. If there are equipment research organizations in your industry, consider subscribing to their news sources if they write and track equipment selling prices.

- Lease quotes: If you consider leasing, get quotes that include a fair market value purchase option lease, fixed purchase option lease and a $1.00 purchase lease. The lease term should be one that works not only because the monthly payment fits company cash flow but because the length of the lease parallels the time the equipment will be of value in your company plan.

5. The clock is ticking

- Don't let the process drag on forever. Limit analysis time.

- Timing of supplier discounts should work in your favor. Sales teams face production quotas at various times of the year. Coordinate the RFP process with the selling cycle and receive maximum discounts.

6. Know when to walk away

- Always be prepared to walk from the deal. Be ready to tell the sales rep, "We do not have to do this deal now. We can wait until next month, quarter or even next year."

- Negotiate the price of the equipment first. The lease negotiation comes second. The bigger the discounts on the selling price, the lower the monthly payment will be.

- Use the Kenny Rogers technique. Know when to hold them; know when to fold them; and *know when to walk away*.

The RFP process saves many business owners time and money. Analyze your savings and see if you want to use it the next time you are in the market for new equipment.

Mary A. Redmond

Mary A. Redmond, The FearLess Negotiator, works with business professionals who want to become stronger negotiators. After attending one of her workshops or coaching sessions, clients feel more confident in stressful business situation whether they need to close bigger and more complex sales, secure the perfect new job, ask for that well-deserved raise or improve communication with their colleagues, bosses or families.

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