



## The risks of not identifying risk

by Michael Asner

RFPs cause problems. There are reasons that Requests for Proposals are the procurement vehicle of last resort. We use them only when we have to – when we can't use a quote or a simple bid, and when the requirements dictate that the award be based on more than simply price – on technical merit, or on company capabilities, for example.

RFPs invite solutions to problems and these solutions are inherently risky. Some of the best proposals have led to disasters – failed projects, massive cost overruns, and unanticipated results. In the last few years, these disasters have become newsworthy and now major RFPs are regularly followed and scrutinized by the media.

I recently gave my first Webcast, a two-hour interactive presentation with National Institute of Government Purchasers (NIGP) members all over North America. It dealt with problems during the RFP process – problems frequently encountered and problems that could be prevented. The presentation focussed on some commonly occurring but preventable problems:

- Every proposal exceeds your budget.
- The best proposal is too risky.
- The project team lacks expertise.
- The project plan is deficient.
- You can't determine who is going to do the actual work.
- You can't evaluate the suppliers past performance on similar work.

While each problem found a willing audience, the discussion of risk attracted the most attention.

Let's pretend that you are the procurement manager for a city, somewhere in Canada. You've spent three months working with stakeholders to develop an RFP. It was issued and five proposals were received. You've read each of them. They are all compliant; they provide you with the required information in the required form. However, none of them is excellent. After reading each several times, you conclude that whichever proposal is chosen, it will likely fail big-time. For one proposal, the technical solution is weak. For another, their track record is only adequate. And it's a similar story for the other proposals.

Simply stated, each company's proposal is mediocre, receiving a score of between 50 and 70 percent. Your conclusion, as procurement manager, is that each proposal is simply too risky. You are not convinced and you are certainly not going to bet your career on a mediocre proposal for a project that you think will most likely fail!

An excellent proposal deals with four critical issues. It reduces the risk of failure by (i) demonstrating a clear understanding of the problem; (ii) proposing a credible solution, (iii) developing a practical project plan; and (iv) doing the work for a reasonable cost, not usually the lowest cost.

What could you have done to avoid this problem and attract excellent proposals? The solution is simple. Make a risk analysis part of the requirements.

Risk management is a standard business practice. Risk analysis is the process of assessing, managing and communicating risks. It is a profession with established associations and books and journals written about the subject. Software has been designed to help organizations model projects and calculate the related risks. Because of the ubiquitous nature of risk, risk analysis is inherently an interdisciplinary subject with many content-specific applications in engineering, finance, health, transportation and so forth. The Project Management Institute ([www.pmi.org](http://www.pmi.org)), a pre-eminent international accreditation body, includes risk analysis in its courses and has a special interest group that deals only with risk analysis.

In recent years, risk analysis has emerged from the back room of insurance companies, and disaster planners. David Nicoll, writing in the *Globe & Mail* (March 28, 2003) about risks and threats said, "... roll up your sleeves and set up processes and incentives to identify, track, and respond to threats. All this depends on transparency: sharing vital information up and down the ladder, across silos, and to external partners."

Many government entities such as municipalities have risk managers who concern themselves with activities such as subdivision development, provision of sewer services, and traffic management. But few deal with RFPs! Or projects!

Clearly, RFPs could benefit from a dose of risk management, for they are the greatest risk for procurement people. Let me suggest that your next difficult RFP will attract better proposals if it deals with risk. Don't ask vendors to describe "their understanding of the project." Rather, ask them to provide a risk analysis that identifies each risk, its source, and the steps that can be taken by each stakeholder to eliminate or reduce the risk. Then, instruct them to include these tasks in their project plan (and cost). And finally, award some points for your evaluation of the probability of success with this proposal. Make risk one of the evaluation factors.

*In my opinion*, the procurement function, in general, and RFPs specifically, would benefit by adopting a risk manager's perspective. It's not a new discipline, but one that has been rarely applied to the procurement function and one that holds great potential for promoting success. ♫

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