Slide 1 – Evaluation criteria
Welcome to this module on evaluation criteria.

Slide 2 – The evaluation framework
When companies are presented with an array of sourcing options and different responses to proposals, they require a methodology to decide among them? How do you achieve consensus or buy-in? What are the relevant evaluation criteria? For example:
• Return on investment (ROI)
• Cost
• Control
• Risk
• Longevity

Once a preliminary cost benefit analysis has indicated a “go” decision, and as the sourcing options are being explored, the project team should begin establishing its evaluation criteria. These criteria can include elements that are specific to the project, as well as corporate elements that are applied across all projects.

In this module we will look at evaluation criteria from many perspectives, including a review of
• The Process for establishing an evaluation framework
• Criteria relevant to products vs. services vs. solutions evaluations
• Tangible, easily measurable criteria vs. intangible criteria
• Other evaluation techniques worthy of consideration

Slide 3 – Goals of the evaluation process
A robust evaluation process fulfils several critical needs. Firstly, it will help to define the range of options to be considered. But it will also
• Provide the basis for selecting among competing sourcing options
• Allow objective evaluation of unconventional options, and
• Provide the foundation for ongoing performance measurement.
• The process will even be a potential basis for terminating a relationship or evaluating changing vendors

Additional benefits of an effective evaluation process include
• Promoting buy-in to evaluation outcome
• Promoting alignment with company mission
• Minimizing risk, and
• Speeding the evaluation process

Slide 4 – Evaluation process
The first step is to develop an organizational evaluation model and process. This should ideally be at the enterprise level to assure consistency and buy-in to the evaluation outcome across all stakeholder groups. Such an organizational model must be supported, if not driven, by senior executives and should tie directly to enterprise or business unit strategy. This can be simplified if the organization has already established a broad strategic or performance measurement methodology, such as a balanced scorecard. Experience has also proven that for the model to be effective, the process must include broad stakeholder representation.
An enterprise model will work for strategic acquisitions, but will not have sufficient granularity for most evaluations. So the project team must develop a tailored set of criteria for each acquisition “project”. The enterprise model will serve as the framework for the project-specific evaluation model – defining the guiding elements that assure alignment with mission and strategy. At the project level, team leaders must facilitate discussion on specific criteria and scoring approach, again including all stakeholders in the discussion.
If there is no enterprise model to follow, then there us a risk that separate project-specific models will reflect differing organizational perspectives, and thus not harmonize in support of strategy.

Once the model is established, it’s appropriate to communicate criteria with candidates so that they can respond directly. Of course, it’s essential to support evaluation with due diligence.

The approach to scoring should be established at the same time the team is developing the evaluation criteria.

Slide 5 – Agreeing on criteria
Initially, agreeing on specific criteria is a challenge, especially when a project touches many groups or functions within a corporation. There are several approaches to move quickly to consensus. Companies that have built high-level, strategically aligned evaluation frameworks, find they are a safe, and sometimes mandatory starting point. Such a framework provides strong boundaries for the definition process, minimizing time-consuming debate.

Where there is no such framework, it’s important to be as inclusive as possible during the facilitated discussions. This is critical to driving buy-in. Once the broad list of criteria is defined, the team’s business analysts can work on categorizing the criteria, eliminating redundancies and establish the scoring rubric.

Ultimately, agreeing on criteria is simpler than agreeing on a vendor. Inevitably, detailed criteria choices will differ from business unit to business unit, function to function. It’s also important to have the ability to change criteria and adapt to a specific decision.

Slide 6 – Weighting evaluation criteria
Developing a broad range of criteria is essential for buy-in and unbiased scoring. In some cases, differing stakeholder groups will insist upon specific criteria or specific wording, resulting in two versions of the same criterion. Closely aligned or redundant criteria will bias importance of those criteria.

Weighting the individual criteria will

- Reduce bias caused by redundancy
- Elevate the influence of the most important criteria, and
- Enable buy-in to the model by allowing and compensating for individual preferences

Weighting the high-level categories of criteria will allow the project leader to emphasize the most critical elements. For example, corporate policy may be to assure that strategic priorities do not take a back seat to technology considerations. Weighting the high-level categories accordingly will provide appropriate factoring and ample evidence of strategic focus.

Slide 7 – Best alternative
Let’s look ahead to the possibility that there is no suitable solution. While this will become evident in the bid-phase, it’s important for the project team to anticipate this and develop a solution to the problem within the evaluation framework. The evaluation criteria will direct the range of alternatives.

If technology factors are the problem, then the team may want to expand range of possible solutions. If cost is the issue, then a renewed cost-benefit analysis and additional funding may be in order.

Vendor compatibility issues may indicate a need for a short-term commitment, with viable options for transition to another vendor at a later date.

Lack of strength is strategic areas may lead to settling or abandoning the project altogether. This sort of “exit” strategy is a critical component of a credible evaluation framework.

Slide 8 (and slide 9) – Tailor criteria to acquisition
There is a broad set of standardized criteria to assure strategic alignment and speed the process – generally the enterprise level evaluation model. However, there are several
criteria categories that are unique to the type of acquisition, whether they are Products, Services, Outsourcing or even corporate Acquisitions.

Slide 9 (10) – Products
Products can be considered to be any standard or customized “item”, of any value, any size, virtual or physical. These include software solutions, office equipment, inventory, sub-assemblies – really anything that can be “delivered”. Product-related issues include functional alignment with the requirements, compatibility with other products, and ongoing vendor support for product. Criteria typically include such categories as functional capability, Total Cost of Ownership (TCO), vendor longevity, risk, time and cost to implement and product reliability.

Slide 10 (11) – Services
Services criteria categories can include service level agreement, ability to accept and meet milestones, liability, terms and conditions, and negotiation approach. Services are often bundled with products – so in many situations, product and service criteria will apply.

Slide 11 (12) – Outsourcing
Outsourcing criteria add dimensions of corporate compatibility, full service vs. selective or partial fulfilment, loss of control of the outsourced service, security, and ownership of resources, processes, data or other intellectual property.

Slide 12 (13) – Acquisitions
Other “acquisitions” require specialized evaluation criteria. These acquisitions may include strategic partnerships, tactical partnerships, and corporate acquisitions. The criteria can include such hard-to-measure dimensions as the value of brand, organization and process, as well as the customer base.

Slide 13 (14) – Product evaluation criteria
As we look at product acquisitions, we see many dimensions beyond what it will do and what it will cost. Features are unique to each acquisition. The functional evaluation criteria should be driven entirely by the requirements. The functional criteria will encompass technical, cultural and business elements, and are evaluated in terms of the degree to which the product addresses each element. In evaluating the products, it’s unlikely that there will be a perfect match. The degree of customization will affect other factors such as cost and risk.

Slide 14 (15) – Time and cost
On those products that require substantial planning and implementation effort, Time and Cost to implement is a primary consideration. The initial purchase cost can be quickly eclipsed by consulting fees, construction costs, implementation support, taxes – or tax credits – productivity loss during implementation, and the costs of decommissioning or disposal of the old solution. There are typically hidden or unexpected costs, including service disruption, costs associated with change control, relationship management and communications with stakeholders. Performing an effective financial evaluation is possible only after anticipating and calculating all the implementation costs. A product that carries a low purchase price may in fact be more expensive than other alternatives.

Slide 15 (16) – Total cost of ownership
Another financial metric used extensively with information technology purchases is Total Cost of Ownership, or TOC, over the life of the asset. For evaluation, these are broken down into short-term, medium-term and, depending upon the product’s service life, long-term costs. The short-term costs can include license costs, hardware costs, consulting, training, internal resources and expenditures required for tangential property, plan and equipment
such as controlled environments for hardware, special tools, or additional spare parts inventory. In the short-term, opportunity costs associated with the inability to pursue other options should be considered. Mid-term costs include ongoing administration, the potential impact on other licenses and agreements, and the effect on human resource staffing. Long-term costs include costs associated with upgrades, the cost of migration and retirement of the asset.

**Slide 16 (17) – Vendor longevity**

One of the great fears is whether the vendor will be in business long enough to support the product through its useful life. Technology companies appear to be the most volatile. Criteria include the company's share price performance, such as the 3-year market capitalization trend, analyst consensus on the company's outlook, profitability and growth. Vendor longevity does not necessarily predict product longevity. Vendors often have clear product strategies, and it's important to be aware of these. They may plan to upgrade within a few months of your purchase, drop support for a version, or even retire a product altogether in favor of more successful product lines. Criteria that can guide your evaluation include the product's market share, share trend, and availability of consulting support. Independent Solution Vendor (ISV) support refers to the number of 3rd-party products that support or can be added on. Typically, products with longer life expectations will reflect more interfacing 3rd party products.

**Slide 17 (18) – Risk**

Risk can include many categories, including technical, strategic and financial risk. Technical risk can reflect scalability, security, the ability to integrate the product with your processes, and the availability of internal or external resources to implement and support the product. Strategic risk reflects dimensions of suitability, alignment with strategy, global compatibility and opportunity risk. An example of a poor strategic fit would be a global company’s purchase of software that would not support multiple languages, or selecting to establish a relationship with a vendor that had no plans to build production capacity in locations that are targeted for growth. Financial risk includes inevitable unexpected or hidden costs that surface after the decision. Another risk is poor adoption rates or long learning curves that impair productivity and may severely affect return on investment.

**Slide 18 (19) – Reliability**

Reliability can have a profound impact on Return on Investment. The costs associated with unreliable products include more than the cost of repairs and maintenance, and the simple cost of lost productivity. In complex assembly environments, process start-up can include lengthy set-up procedures and environmental preparation. In these circumstances, small equipment reliability issues can cut production in half, killing profitability. Software failures can alienate users and have long-term productivity impacts. Work-arounds while systems are down create time-consuming work back-logs and introduce increased possibility for error. Reliability evaluation criteria can include availability of solutions to address reliability, as well as the reliability performance of the product itself. Some solutions criteria include availability of system redundancy, back-up capability and basic system architecture. Popular performance criteria include Mean Time Between Failure (MTBF), uptime measured as a percentage of total operating time, cost performance and user satisfaction.

**Slide 19 (20) – Terms and conditions**

Evaluation criteria should include contract term and condition items such as

- Clarity and scope of services and deliverables
- Change control procedures and responsibilities
- Delivery, inspection, acceptance and rejection processes
- Quality and approach to project management
- Contract administration provisions
• Payment milestones and terms
• And provisions for termination of the agreement and its implications

Slide 20 (21) – Intangible criteria
The evaluation should also include intangible criteria, most of which are hard to measure and verify, and have more to do with relationship that the contract specifics. These include:
• Trust which includes reliability and honesty which is often built over time
• Resources such as the skills available, manufacturing capacity, turnover of staff
• Connections and networks, including the ability for sustainable relationships and ethical standards followed
• Flexibility, the willingness to adapt or affect mid-course corrections in a project
• Understanding of your business and the ability to apply outside insights
• Suitability with regards to cultural compatibility, business process and governance
• Reference quality and that they can be validated

Because there are neither standards nor metrics for these criteria, performance against them is relative. The answers may become apparent early in discussions. It is of course appropriate to ask suppliers directly about these issues or to undertake market research or references.

Apply quantitative scoring to qualitative criteria by defining scales, such as “1” equates with no understanding of our industry or company, a 5 might indicate experience with the industry, but not our company or business unit, and “10” would indicate substantial experience or even an existing, effective relationship.

Slide 21 (22) – Applying evaluation criteria
The evaluation criteria that were developed prior to drafting the RFP are now used as a framework for evaluating the responses to the RFP.

As with developing the criteria, applying evaluation criteria should involve representatives from all stakeholder groups to minimize the chance for any challenge to the integrity of the evaluation process and its outcome. It may not be practical to bring all stakeholders into one face to face scoring session

Slide 22 (23) – Implementing the evaluation framework
Vendor selection assumes that the evaluation team will be using the evaluation framework that was established prior to drafting the RFP. In some cases, the responses to the RFP may uncover issues that were not adequately addressed in the original framework, and the team will need to decide what changes or additions need to be made. However, if the business need and requirements were on-target, change to the evaluation framework should not be necessary. If changes are required, all stakeholders should be made aware of the change as early as possible, and all those who worked directly on the original framework should have a hand in the modification. Failure to thoroughly communicate any changes prior to scoring will compromise the integrity and buy-in to the outcome.

The process for applying the evaluation criteria starts with assembling the evaluation team to score the responses to the RFP, and continues through publishing the outcome to stakeholders as appropriate. Once the winner, or group of finalists has been selected, the process moves on to drafting agreements.

Slide 23 (24) – Who should participate
The evaluation process can be highly biased, and even the perception of bias can undermine efforts to achieve a broadly accepted solution. Just as with drafting of the business case, definition of requirements and development of the evaluation framework, scoring the responses needs to be an inclusive activity. Be sure to include all key stakeholders’ representatives. Bringing the scoring team together in a face to face session is ideal, however, some proxy scoring may be necessary.
The challenge is that scoring requires consistency in understanding and evaluating the criteria, and is a time consuming process. Coordinating the evaluations is challenging, so it’s important to balance broad representation with practical size. One approach to managing the process is to use Webcasts and Web-based polling technology to aggregate scores from multiple stakeholders. This allows interactive communication with the group, and automatic aggregation of the scores.

**Slide 24 (25) – Team scoring**

To assure broadest acceptance of the evaluation outcome, all team members must score each of the procurement options. However, it’s not practical to have each member score all categories of criteria. Instead, have team members focus on their area of knowledge or expertise. Business representatives should score criteria such as Urgency and Alignment with Mission. IT scores Technology Readiness, and HR would likely score Cultural Readiness unless stakeholders are customers, in which case the sales group might better understand cultural issues.

The model should allow recording of each team member’s score to allow review and discussion, and to support audit of questionable results. When it is not possible to bring people face-to-face, or to employ web technology to run scoring sessions, the evaluation team leader must make provisions for asynchronous scoring. This can be done by sending the scoring model to remote members of the scoring team with detailed instructions, and asking the members to score according to the scoring guide for each factor. When team members cannot participate in a session, they should be asked to provide notes explaining each score in case there are discrepancies in scoring that need to be reconciled.

**Slide 25 (26) – Common definitions**

To be effective, there needs to be a common understanding of the evaluation process and the evaluation criteria, down to the level of each factor and the meaning of each score in the scoring scale. These definitions must be established at the time the evaluation framework is created, and communicated to the team members at the time of scoring. One approach is to have the facilitators review terms, issues and scoring rubric for each factor and validate that there is common understanding before scoring.

For example, in evaluating knowledge management solution offerings’ capability with respect to imaging, the facilitator would read the requirement from the requirement definition document: It might read as follows: “ABC company has 350,000 standard report forms that need to be referenced as part of the audit process. Since the quantitative information is already in the database, the proposed knowledge management system need only reference the paper documents, allowing access to an electronic view when desired. The system will need to allow for image capture (scanning) and retrieval, both from the electronic record and from an advanced search capability that allows a minimum of three category selections (case number, date and name).” After confirming understanding of the requirement, the facilitator should review the scoring rubric:

1 = Has no provision for imaging
2 = Is able to link to external imaging systems
3 = Has integrated basic imaging capability
4 = Has full linkages to sophisticated external imaging capability
5 = Has own, fully integrated imaging capability with ability to integrate enterprise taxonomy

At this point, the team is prepared to score the solutions after each’s capability is reviewed. It may be necessary for the facilitator to review the responses to the RFP with the team as part of the scoring process.

**Slide 26 (27) – Reconciling differences**
Even after careful review of each of the criteria and factors, there will be variations in the scores. The model should average the scores for each factor to minimize the effect of variation, excluding a value when a team member abstains from scoring rather than assigning an arbitrary value. Generally, variations are insignificant. When there are wide variations, it’s important to review the scores for the factor with the team members. Widely varying scores can be due to misunderstanding of terms, criteria or scoring convention, or bias caused by differing views or philosophy towards the investment. In those cases where scoring is done asynchronously by proxy, scoring notes should provide insight into cause. While some teams discard high and low scores to resolve discrepancies, it’s a good idea to discuss extreme variations. Differing scores may indicate hidden issues that need to be addressed. Such discussions can lead to improving the proposed solution or resolve cultural or business process differences.

**Slide 27 (28) – Reconciling differences**
Type in the reasons for differing scores and why the differing scores need to be addressed. Click submit to continue.

**Slide 28 (29) – Reconciling differences**
Let’s look at some of the reasons.

**Slide 29 (30) – Exploring alternative views**
Occasionally there will be a clear winner from the evaluation framework that scores highly with respect to each of the evaluation criteria. More frequently, options will have varying strengths. While the weighting of the primary criteria should point to a winner, it’s important to review the winners by each category. Sorting the results by a specific factor may present results that differ from overall score, prompting discussion among the scoring team, and if necessary, the business sponsors.

**Slide 30 (31) – Reporting outcomes**
It’s important to remember that the evaluation framework is a tool to support decision-making, and its output is not a binding decision. Once a consensus has been reached by the scoring team, the recommendation should be communicated in confidence to stakeholders for comment prior to drafting the agreement and entering into negotiations. The evaluation outcome will have varying impact on different stakeholders, so be sure that they are aware of business issue, the evaluation process, and have a chance to comment. Remember that the evaluation outcome may not reflect the final decision which is dependent upon the ability to achieve a negotiated agreement.

**Slide 31 (32) – Alternative approaches**
Up to this point, we have described a robust evaluation process. It may be that some evaluations require less process integrity. For example, decisions among “Apples to Apples” alternatives may eliminate cultural and other variables. However, decisions are rarely as simple as they seem. Some of the cautions include the notion that cost is not a predictor of value. Seemingly low cost options may actually cost far more after wrestling with issues of quality, functionality or user bias against the low cost solution. Also, pursuing “low hanging fruit” may provide quick “wins”, but distract from critical, more strategic opportunities and solutions. Concerns over cost of evaluation should not compromise integrity of evaluation process.

**Slide 32 (33) – Two cycle evaluation**
On the other hand, some very complex projects may require a more segmented approach to evaluation. Detailed requirements gathering can be costly and time-consuming, so some organizations perform business justification and high-level decision-making early on in the selection process. This model provides for an initial round of evaluation to weed out competing approaches to the project. Once a top two or three options are selected, the
company can invest in detailed requirements based upon the viable candidates. This affords greater confidence in the solution since the second evaluation reflects a greater degree of analysis and cost identification.

**Slide 33 (34) – Financial review**
What happens if responses to RFP are at variance from the original specifications or cost estimates? Perhaps the originally envisioned solution is not technically feasible. Perhaps the solution is far more complex and costly. If no proposals are acceptable, or if worthwhile alternatives are proposed, the business case needs to be reexamined.

**Slide 34 (35) – Parallel negotiations**
If there are more than one potential alternatives, you may decide to not make a selection and negotiate with multiple vendors. Many companies have a policy of routinely conducting negotiations with the top two solutions providers. This reduces the risk of delay if negotiations stall or fall through with a single provider, and provides a viable alternative to either solution, increasing negotiations power. You can reserve the right to make selection from best-negotiated outcome, after terms for the agreements are defined. It may be necessary to re-apply the evaluation model if acceptable terms are achieved with more than one vendor.

**Slide 35 (36) – Political environment**
In some circumstances additional ‘political’ or ‘soft’ factors might come into play and affect a structured, analytical evaluation. This may be unavoidable in some circumstances but the contracts professional needs to ensure that their process and contributions to the process are rigorous and fair to ensure that any subsequent accusations of favoritism have no foundation. In highly political environments, consideration should be given to solutions like anonymized data to minimize the possibility of interference.

**Slide 36 (37) – Critical success factors**
Using a clearly defined evaluation process eliminates much of the bias and contention around the selection of a vendor. However, to be successful, it's essential that there be agreement on the model, as well as a common understanding of requirements, process, terms and scoring. Thorough research into the sourcing options is important to support accurate scoring.

**Slide 37 (38) – Performance measurement**
Adoption of performance measurement programs has been growing, especially since enhancement of audit requirements and introduction of legislation such as Sarbanes Oxley. There should be a strong correlation among the business case, project requirements, the evaluation criteria and the ongoing performance measurement system. If the evaluation model has been complete and effective, it should become the foundation for ongoing performance measurement for the investment. Is it achieving its financial and functional objectives? Have the specific evaluation factors been realized, or have specific functions or overall capability fallen short of claims? The evaluation framework is also a starting point for due diligence to validate information in the vendors’ proposals. Use the primary criteria and specific factors to develop reference check questionnaire. The answers will inform issues in negotiation, provide a sound basis for risk analysis and management, and guide post-award contract management.

**Slide 38 (39) – Exercise**
Take a moment to complete the task on screen.

**Slide 39 (40) – Exercise**
Take a moment to complete the task on screen.
Slide 40(41) – Exercise
Take a moment to complete the task on screen.

Slide 41 (42) – Exercise
Take a moment to complete the task on screen.

Slide 42 (43) – Exercise
Let’s look at the answer.

Slide 43 (44) – Exercise
Take a moment to complete the task on screen.

Slide 44 (45) – Exercise
Let’s look at the answer.

Slide 45 (46) – Summary
In summary, buy-in to the process is essential, from developing the evaluation model, to scoring the options. This can be achieved by leveraging communications channels to assure common understanding and acceptance of evaluation model. Be sure there is broad stakeholder representation throughout evaluation process.
As discussed, you may want to keep your options open up to achievement of a negotiated agreement. Finally, use the evaluation criteria as the basis for ongoing performance measurement to assure fulfilment of the original business case.
This concludes our module on evaluation criteria. We invite your feedback, and hope that you have found the information helpful. Please review the attached material for further exploration of analysis techniques.

Slide 47 – Next Steps
This concludes our Module. Please take the time to complete the Module Feedback. Once you have completed the Module Feedback, we recommend that you go to the Attachments to review the additional information.

A Module Test is available for you to take in order to check your understanding of the material or practice for the Certification Exam. The required pass rate for all Module Tests is 80%. You may take this test as many times as you wish: please allow 24 hours between each attempt.

Once you have passed all the Module Tests with at least 80% you will be invited to take the Certification Exam.