# ACQUISITION OF INFORMATION TECHNOLOGY

## CONTENTS

<table>
<thead>
<tr>
<th>Paragraph</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
</tr>
<tr>
<td>Executive Summary ................................................................. 1-4</td>
</tr>
<tr>
<td>Key Definitions ........................................................................... 5</td>
</tr>
<tr>
<td>Why is the IT Acquisition Process Important? .......................... 6-11</td>
</tr>
<tr>
<td>What is the Acquisition Process? .............................................. 12-15</td>
</tr>
<tr>
<td>What are the Core Principles for the Acquisition of IT? .......... 16-24</td>
</tr>
<tr>
<td>What is the Best Approach for IT Acquisitions? ....................... 25-42</td>
</tr>
</tbody>
</table>
Preface

In today’s digital world, the management of information, information systems and the communication of information to interested parties is key to the success of every organization. This is because of:

- the increasing dependence on information and on the systems and communications that deliver the information;
- the scale and cost of current and future investments in information; and
- the potential of technology to dramatically change organizational and business practices, create new opportunities and reduce costs.

Many organizations recognize the potential benefits that technology can yield. But, with those potential benefits, come risks. To provide effective direction and adequate control, executive management of successful organizations must not only appreciate the possible benefits, but also properly manage the risks and constraints of information technology. In this guideline series, the International Federation of Accountants, through its Information Technology Committee, seeks to promote executive understanding of key issues affecting the management of information and communications. **This series of guidelines is written for management.**

This guideline is the third in the series and covers the process for the acquisition of information technology (IT). The guideline covers the core principles involved, as well as outlines an effective and efficient approach for the acquisition of IT. Executives in various capacities (for example, accountants, financial controllers, auditors or business managers) are frequently called upon to manage, participate in, assess or comment on IT acquisition processes. They can do this only if they have a sound knowledge of the principles and practices required to manage the acquisition of IT.

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EXECUTIVE SUMMARY

WHY?

1. The importance of IT related acquisitions is usually directly proportional to their cost, scale and complexity. In general, the larger and more complex the acquisition, the higher will be its impact on, and importance to, the business. In addition, the acquisition may be important to the business due to its interrelationships with other IT projects. Finally, a structured acquisition process, as is described in this guideline, provides a framework for ensuring that:
   - there are no major omissions from a business, technical or legal standpoint;
   - the costs and resources for the acquisition process are appropriate and are efficiently deployed;
   - the validity of the business case in support of the acquisition is reaffirmed prior to selecting a solution; and
   - there is progressive buy-in to the new system as a result of user group involvement throughout the acquisition process.

WHAT?

2. The objective of the IT acquisition process is to acquire the right solution, at the right price and at the right time. The nature of the acquisition process is influenced by the type of IT acquisition under consideration. Some acquisitions are in the nature of commodities and may be acquired through a fast-tracked process in accordance with an organization’s policies and practices. Other acquisitions may relate to complex and expensive solutions for major business areas and require extensive search and evaluation of alternatives. Most acquisitions fall between these two extremes. The rigor and formality of the acquisition process depend on the nature and cost of the acquisition, its importance to the business, the availability of alternative solutions and the judgment of executive management. Regardless of the nature of the acquisition, its size, cost and complexity, the following generic core principles apply:

   **CORE PRINCIPLES**

   - **ALIGNMENT** — The acquisition should be consistent with the business and IT plans.
   - **RELEVANT REQUIREMENTS** — The objectives, scope and requirements of the acquisition should be clearly defined and documented, including any integration issues that need to be addressed.
   - **OBSOLESCENCE** — The impact of new and emerging technologies on the acquisition must be considered.
   - **ACCOUNTABILITY** — Responsibilities and accountability for the acquisition must be explicit.
   - **OPTION ANALYSIS** — The available options must be identified and assessed.
   - **EVALUATION** — Selection criteria must be established and consistently applied across the alternatives available.
   - **NEGOTIATION** — Effective negotiation must be conducted before any decision is made.
   - **TRANSPARENCY** — Good governance dictates that the IT acquisition process be fair, open and consistent.

HOW?

3. The approach to the acquisition process will vary with the nature of the acquisition.
• Where the acquisition is of low value, easy to define and supported by a range of supplier alternatives, a fast-track commodity procurement process can be used. For other low-value acquisitions, if there are difficulties in defining the acquisition or there is only a single supplier, a Request for Information may precede the commodity procurement process.

• Where the acquisition is of high value, but is easy to define and has a range of alternatives, the Request for Proposal-based acquisition process is recommended. Where such acquisitions are not easy to define or the available alternatives are not known, this may be preceded by a Request for Information.

4. The Request for Proposal-based approach has two phases. In the first phase, the acquisition process is initiated. Major steps include start-up and orientation, describing requirements, determining evaluation criteria, documenting the contractual conditions and issuing the Request for Proposal. In the second phase, the solution is selected. Major steps include accepting the proposals, establishing the short list, validating the responses, conducting negotiations and selecting the solution.

KEY DEFINITIONS

5. Acquisition — identification and selection of appropriate IT solutions, or components thereof, in a manner that effectively and efficiently meets business objectives.

Cost-of-Ownership — the full cost of ownership of the IT acquisition, consisting of all components of the acquisition, including the costs for initial purchase, facility establishment and maintenance, customization, training, conversion, implementation, professional services and maintenance.

Evaluation Criteria — the key factors used by, and to differentiate between, alternatives and that facilitate the selection of the most appropriate choice.

Information Technology — the technology infrastructure and applications, together with the data and information that may be recorded, stored, processed, shared, retrieved or transmitted by them.

Request for Information — a document soliciting preliminary solution details from suppliers, including business features supported; technical architecture and equipment requirements; typical performance; ease of customization, including fit for emerging or future needs; scalability to meet business growth; installed base; supplier background and experience.

Request for Proposal — a comprehensive invitation to suppliers for an IT acquisition, requesting proposals in a given format and by a given time that provide an efficient and effective solution for the business, technical and service level needs of the buyer.

WHY IS THE IT ACQUISITION PROCESS IMPORTANT?

6. The acquisition of IT is a key decision step in the life cycle of information systems. In many instances, the scale, cost and impact of an acquisition may have a strategic significance well beyond the acquisition itself. Also, any serious misjudgment in the acquisition decision will impair not only the success of the underlying IT project but, in addition, the potential business benefits that are anticipated.

7. Acquisitions vary in scale, ranging from complex and pervasive new solutions for a mission-critical business area to the relatively straightforward acquisition of minor IT components to support an existing IT solution. Clearly, the more complex and pervasive the solution, the greater its importance to the organization. Also, regardless of their size and complexity, IT acquisitions may be of significance due to either the potential interrelationships with major initiatives in the IT plan or the benefits associated with the acquisition.
8. Acquisitions frequently involve a significant capital investment for an organization. In addition to the investment, the opportunity cost of the capital employed and the time/resources expended in the acquisition process add to the importance of the acquisition.

9. Some acquisitions may be of critical importance in meeting business objectives. For example, the acquisition may be essential in supporting a new product or service, or it may be the enabler in meeting business productivity or service level goals.

10. The acquisition process provides a framework, including practices, procedures and monitoring mechanisms, that will ensure that there are no omissions in the process and that resources and costs associated with the acquisition are properly controlled. Also, the acquisition process is an opportunity to validate the underlying assumptions of the business case to support the project as envisaged in the planning process — costs, timeframe, constraints, risks and benefits.

11. Finally, the acquisition process may provide an opportunity to gain organization-wide consensus on the new IT project. This is possible due to the broad spectrum of management and users that are typically involved in an acquisition process. In this sense, early consensus will facilitate the ensuing implementation and change management process.

WHAT IS THE ACQUISITION PROCESS?

12. The acquisition process begins with the organization defining its requirements for a particular IT project. It then matches these requirements to the various solution alternatives available and concludes with the selection of the solution that is most appropriate to the business.

13. The objective of the acquisition process is to acquire the right solution, at the right price and at the right time. In this context, the “right solution” refers to the best available alternative in terms of the business needs, overall cost-of-ownership and other risks and constraints; the “right price” refers to the lowest cost-of-ownership of the preferred solution to the organization; and the “right time” recognizes the importance of timeliness of the acquisition decision.

14. The nature of the acquisition process is influenced by the size and complexity of the acquisition. In some cases, the solution being acquired may have the nature of a commodity, for example, a generic personal computer-based product. In these instances, the whole process can be fast-tracked and some acquisition activities intentionally omitted. In other cases, the solution being acquired could relate to complex and innovative business solutions. In these instances, the acquisition process must provide for the identification and evaluation of competing solutions, and the process may be very time-consuming. Most acquisitions, however, lie somewhere in the middle of these two extreme situations, and the rigor and depth of the acquisition process may require judgment on the part of the executive.

15. Typically, an acquisition process will have the following elements:

- adherence to a structured approach, comprising all the key acquisition activities and deliverables, timelines and milestones, project organization and resources;
- enunciation of objectives, including a concise statement of the business expectations from the acquisition, detailed requirements, and specification of overall scope;
- defined evaluation and selection criteria, particularly measurement scale, relative weights of all criteria and the manner in which acquisition and project risks will be minimized;
- commitment and support of executive management through a senior level project sponsor and, if appropriate, the establishment of an acquisition steering committee;
- participation from IT, users, IT audit, consultants, legal and other interested parties, each with a defined set of responsibilities with respect to the acquisition; and
- compatibility with the organization’s acquisition policies and procedures, including any applicable regulatory guidelines.
WHAT ARE THE CORE PRINCIPLES FOR THE ACQUISITION OF IT?

16. IT acquisitions vary in complexity and scale. Despite this diversity, the following core principles are generic and apply to all acquisitions:

ALIGNMENT — The acquisition should be consistent with the business and IT plans.

17. Business plans drive IT strategic and tactical plans. Accordingly, the IT plans specify IT projects for implementation, in alignment with business objectives and priorities. IT acquisitions are normally related to one or more of the projects in the IT strategic and tactical plan and, as a corollary, must be aligned with business objectives and priorities. Issues to consider include:
   - Justifying acquisitions that are not recommended within the IT plans or are in variance with the plan. These inconsistencies may arise due to a number of factors, including new business strategies and priorities or new technologies that have evolved since the approval of the plan. Depending on the degree of variance, the IT plan may need to be modified to accommodate the proposed acquisition. (Any modification to the IT plan should consider the impact of the change on all other IT projects.)
   - Reassessing the justification for acquisitions that may be more expensive, time-consuming or complex than envisaged in the IT plans or that do not seem to meet business objectives and needs as desired.

RELEVANT REQUIREMENTS — The objectives, scope and requirements of the IT acquisition should be clearly defined and documented, including any integration issues that need to be addressed.

18. A Project Charter that supports the acquisition is established at the initiation of the IT project. This Charter is typically used to define the scope and requirements of the IT acquisition contemplated by the project. The Project Charter should specify, among other items, scope, objectives, requirements, timeframe, resources, anticipated funding, deliverables and projected benefits and risks. The level of detail of the requirements will, to some extent, depend on the nature and cost of the acquisition, as well as on the level of flexibility and innovation desired in the proposed solution. In any event, the level of detail must, at the very least, allow for effective evaluation of the responses. Issues to consider include:
   - ensuring that comprehensive requirements are available at the start of the IT acquisition process, and that they convey the current, evolving and future business and technical needs of the organization;
   - specifying a scope that is appropriate to the business circumstances and technical requirements of the organization, including emerging requirements, changes to business circumstances, scalability of the solution and the adherence to technology standards;
   - assessing the degree to which the IT acquisition addresses geographic and business unit coverage;
   - identifying the linkages with other business or functional strategies, for example, a business process reengineering program may require extensive dovetailing with human resource and workplace redesign strategies;
   - incorporating appropriate linkages to third parties (customers, suppliers, partners, etc.);
   - establishing the extent to which the proposed acquisition is interfaced to and/or compatible with the current system; and
   - segmenting the acquisition into smaller projects to ensure that the overall project is manageable and the risk of failure reduced.
OBSOLESCENCE — The impact of new and emerging technologies on the acquisition must be considered.

19. Most IT acquisitions will have a life span of a few years. It is necessary, therefore, to ensure that the solution being acquired is supportable on an efficient basis over the life span of the acquisition. Issues to consider include:

• balancing the risk of utilizing newer technologies and solutions against the selection of mature and proven technologies and solutions;
• evaluating the residual life span of solutions, given technology trends; and
• assessing the risk of selecting solutions that do not comply with de facto industry standards.

ACCOUNTABILITY — Responsibilities and accountability for the acquisition must be explicit.

20. Many different groups within an organization are involved in the IT acquisition process including, but not limited to, users, IT, legal advisors, business management and IT auditors. Accordingly, it is important that each group understand its roles and responsibilities with respect to the IT acquisition process to avoid overlaps and gaps. Issues to consider include:

• establishing a steering committee to oversee the acquisition process and provide decision-making authority; ensuring that members of the committee have the ability, authority and commitment to discharge their responsibilities;
• formulating a project structure so that there is both clarity and consistency in the decision-making process with respect to the acquisition; and
• appointing an executive sponsor for the IT project when the project is of significance to the business.

OPTION ANALYSIS — All available options must be identified and assessed.

21. During the IT acquisition process, it is necessary to identify all appropriate alternatives. This is undertaken to ensure that all potential and feasible alternatives are considered as part of the selection process. Issues to consider include:

• soliciting information on the proposed acquisition, particularly for high-value strategic IT solutions, from as broad a range of suppliers as is appropriate in the circumstances;
• determining the relative merits of the “make or buy” options with respect to the proposed business solution under consideration. This involves constructing a comprehensive business case to clarify the choice between developing a customized solution, or acquiring and implementing a packaged product alternative, or some hybrid of the two options; and
• narrowing the range of alternatives through a business decision where meaningful comparison may not be possible. For example, one alternative may be to have a centralized solution and another a decentralized and distributed solution. Each offers business management an alternative approach, and an early business decision may facilitate the acquisition process by eliminating one range of alternatives.

EVALUATION — Evaluation criteria should be established and consistently applied across the alternatives available.

22. A crucial activity within any IT acquisition process is the need for measurable and comprehensive evaluation criteria. These criteria usually consist of functional characteristics or degree of fit; technical attributes, such as performance, scalability and reliability; cost-of-ownership; risks and
constraints associated with the solution; and credentials, customer base, willingness and experience of the solution provider. These criteria are agreed upon and formalized at an early stage in the acquisition process. Although the acquisition decision requires subjective judgment, the use of criteria provides an objective means to reach consensus. Selection criteria are employed to develop a short list through a culling process to identify a preferred alternative through comparative analysis. Issues to consider include:

- assessing and, to the extent possible, quantifying the trade-offs that are implicit in the selection decisions, for instance, balancing costs against quality, or reliability against performance;
- where the IT acquisition is akin to purchasing a commodity, adopting a rapid acquisition process with a simple evaluation of the large number of similar solutions available;
- identifying, through the use of relative weights for each criteria, the areas of emphasis and importance in the acquisition, for example, functional attributes (degree of fit) may be emphasized over technical characteristics and performance attributes in a particular situation;
- differentiating the requirements that are mandatory to the organization so that non-compliant alternatives can be quickly eliminated;
- establishing the realizable business benefits associated with each alternative as these benefits provide an objective business basis for differentiation of the alternatives; and
- maximizing the participation of all interest groups in the evaluation process so that different perspectives are considered and there is a broad level of buy-in for the selection decision.

**NEGOTIATION — Effective negotiation must be conducted before any decision is made.**

23. Typically, IT acquisitions are made through formal contracts. These contracts specify, among other items, the deliverables, scope and cost, timeframe, rights and obligations of each contracting party, warranties and termination procedures. Issues to consider include:

- reviewing contracts by legal counsel to ensure that the organization’s rights are protected and that the vendor’s commitment and responsibilities are clearly described;
- including the representations made by the vendors prior to entering into contract negotiations as an integral part of the contract, if possible. This should include any proposals, statements of technical and functional characteristics, performance warranties, etc.;
- ensuring that the contract identifies all costs associated with the acquisition and, if appropriate, implementation; and
- providing a mechanism for allocating responsibility for any unforeseen costs arising from incorrect estimates or costs due to a change in scope.

**TRANSPARENCY — Good governance dictates that the IT acquisition process be fair, open and consistent.**

24. Good governance requires that the acquisition decision be balanced against the needs of the organization, fair to the vendors who participated in the bidding process, and arrived at in a way that gives all participants an equal chance of selection. Issues to consider include:

- ensuring that the Request for Proposal and the Selection Criteria are not biased toward a particular solution provider, particularly where broadening the requirements will not prejudice the business objectives of the acquisition process;
- conducting briefings and disseminating all information equally to the solution providers;
- soliciting as many bids as is practical in the circumstances, particularly for high-value and complex IT acquisitions where public tender may be used;
• establishing the Selection Criteria well before the proposals are received and applying them consistently across the alternatives; and
• providing equal opportunity to all solution providers to resubmit proposals.

WHAT IS THE BEST APPROACH FOR IT ACQUISITIONS?

25. The approach used for IT acquisitions is directly related to the cost, complexity and availability of solutions that match the business needs. In general, the more costly and complex the acquisition, the more rigorous will be the need for a structured and disciplined acquisition process.

26. A number of acquisition scenarios are possible, some of which are described below:

• An acquisition is of low value, easy to define and supported by several supplier alternatives. In this situation, the acquisition approach is similar to buying a commodity and can be fast-tracked in accordance with the organization’s procurement guidelines.

• An acquisition is of low value, but is hard to define or has only one supplier. In this situation, a Request for Information may be made of the potential suppliers and, subsequently, the commodity procurement guidelines of the organization followed.

• An acquisition is of high value, but is nevertheless easy to define or is supported by a range of alternatives. In this situation, a structured acquisition approach, based on the Request for Proposal described below, is recommended.

• An acquisition is of high value, but is hard to define and scope, or the extent of available alternatives is not known. In this situation, it is advisable to first issue a Request for Information, followed by a Request for Proposal (as described below).

27. The balance of this section provides an approach for the acquisition of high-value items, where the scope and requirements can be defined and a number of alternative procurement sources exist. In essence, it can be referred to as a Request for Proposal-based approach and applies to most large information systems acquisitions.

28. For acquisitions that are like a commodity, such as the purchase of a few personal computers, it is best to adhere to the organization’s regular acquisition approach for commodities.

29. As noted above, in some situations, a Request for Information is a preferred prelude to the acquisition. This request is best described as a formal effort to seek ideas, perspectives, costs and information on the proposed acquisition from potential suppliers so that a formal project scope and requirements can then be developed. It differs from the Request for Proposal in the level of process formality and requirement details.

30. The remainder of this section describes a typical acquisition process for information technology involving high-value, complex acquisitions. Broadly, the process has two major phases: initiating the acquisition approach and selecting the solution.

PHASE 1: INITIATING THE ACQUISITION APPROACH

31. In the first phase, the focus is on establishing the acquisition process to be followed and documenting and issuing the requirements to the prospective suppliers, typically through a Request for Proposal document. Generally, the starting point would be the business case developed to support a specific project in the information technology plan.

32. Start-up and orientation: In this step, the acquisition project is initiated, the scope established and a project team formed. Key activities include:

• mobilizing the project team, including appointing any specialist advisers and consultants with the authority and responsibility to initiate and complete the acquisition process;

• establishing an executive oversight group to which the project team will report progress;
• confirming the scope, timing and budgetary parameters for the acquisition, and justifying the
departures, if any, from the information technology plans and the underlying business case;
• finalizing the acquisition approach, including the need for, and benefits of, using the Request for
Information and Request for Proposal documents; and
• obtaining the resources necessary to complete the acquisition.

At the end of this step, the organization will have put together a project team with the necessary
skills and experience in completing the acquisition process, finalized the acquisition approach and
scope and obtained all other necessary resources.

33. Describing Requirements: The aim of this step is to define what the business requires and what it
expects of the supplier in as much detail as is necessary to enable an effective evaluation of the
alternatives. Ideally, the requirements should encourage innovative and/or cost-efficient responses
and, thus, avoid being overly prescriptive. Also, to the extent required, a Request for Information
should be issued and the results used to finalize the requirements. The key activities include:
• documenting, in consultation with users and management, the functional needs, including any
future needs that may arise as a result of changes to business direction, market conditions or
regulatory requirements;
• defining the target technical environment, including the preferred network and systems operating
environment, without unduly limiting the alternatives;
• specifying the minimum performance or service level expectations, including any peak
requirements, transaction levels, throughput, etc;
• identifying, if appropriate, the human resources and skill levels that are available and any
shortfalls within the organization that need to be met by third parties;
• determining a broad timeframe for the selection and implementation of systems, including any
business or technical constraint;
• outlining the criteria that will be used in evaluation and selection; and
• segmenting the requirements (functional, technical and service level) in broad and appropriate
categories (for example, mandatory, required or desirable) to reflect the level of importance of
each to the organization. Where mandatory criteria are used, care must be taken that these do not
unduly limit the flexibility of proposals.

At the end of this step, the organization will have documented detailed descriptions and the relative
importance of each business, technical, organizational and service level requirement. It will also
have established a preferred timeframe and the major criteria to be used for the evaluation.

34. Determining Evaluation Criteria: A key step in the selection process is to evaluate the extent to
which potential solutions meet the business requirements and the degree to which each solution is as
described in the proposal from the supplier. As this can be a time-consuming activity, a minimum
bar can be established so that proposals that are below the bar can be culled at an early stage. Key
activities include:
• documenting the minimum business requirements (or other mandatory criteria) that each supplier
must meet before a detailed evaluation of the proposal is undertaken;
• developing procedures for measuring the degree of fit to the functional, technical and
performance objectives of the business and the associated cost-of-ownership of the proposed
solution;
• describing the manner in which supplier representations will be validated, for example, through
walkthroughs and demonstrations, benchmarks, site visits of existing reference customers of the
supplier etc;
• outlining the supplier experience level that is required, including the availability of appropriately
skilled resources to meet the business objectives, and provision of allied services such as change
management, conversion of systems and training of user personnel;
• developing a weighting system that will facilitate the assessment of the relative strengths and weaknesses of each proposal; and
• specifying the required financial and technical strength of the supplier.

At the end of this step, the organization will have established the minimum benchmark of requirements for the acquisition and the manner for measuring the relative fit of each solution to its overall requirements. It will also have developed a process for assessing the quality of the supplier and the proposed solution, the procedures to be used to validate supplier products and representations and, finally, a system for evaluating the strengths and weakness of each offering.

35. **Documenting the Contractual Conditions**: It is good practice to specify the contractual terms and conditions that the supplier is willing to accept, always allowing for negotiation with the preferred supplier, if necessary. The aim of the activities in this step is to develop a contractual framework within which the acquisition will be made. This step will typically require extensive input from legal counsel. Such terms and conditions include:

• defining the financial terms, including identifying full cost-of-ownership over a defined period, expense reimbursement procedures, all direct and indirect taxes, cost escalation procedures for delays or changes and payment terms;
• specifying all performance conditions, including acceptance of systems, delivery scope and timeframe, conversion and training, warranty period and terms, ongoing maintenance and support period and terms, enhancement and replacement terms, change management procedures and service levels;
• identifying liability related to the acquisition, including performance warranties, penalty clauses for delays or service failure, damages for non-delivery and consequential loss; and
• describing all other commercial terms and conditions, including indemnity for copyright infringement, mutual confidentiality clauses for information and software, intellectual capital ownership and protection, dispute resolution procedures and arbitration, termination for cause and without cause, etc.

At the end of this step, the organization will have a preliminary framework for the contractual terms and conditions. These will be used as a starting discussion draft with the supplier.

36. **Issuing the Request for Proposal**: This step is the concluding activity of the initiation phase. The aim of the activities in this step is to invite all potential suppliers to respond with a proposal that will address the organization’s needs with respect to its specifications. Key activities include:

• compiling the Request for Proposal, which will consist of all the requirements, contractual conditions, overview of the evaluation process and selection criteria, general procurement policies (if any), and a broad background of the buyer’s business and details of the information technology environment;
• specifying the format of the proposal to facilitate comparative evaluation of the proposals, including clear identification of the supporting information that is required;
• identifying the timing of the submission, including any bonds that may be required, and the place and manner of submission;
• disseminating the Request for Proposal as broadly as possible, including print media advertisements for costly and complex acquisitions; and
• arranging for the questions and concerns of all potential suppliers to be responded to on a timely basis and in a manner that allows for parity of information across suppliers.

At the end of this step, the organization will have issued a Request for Proposal to prospective suppliers.
PHASE 2: SELECTING THE SOLUTION

37. In this concluding part, the solution is selected and acquired. The main focus of this part is the comparative evaluation of the alternative proposals, validating the supplier representations in the proposal and conducting the negotiations leading to a binding acquisition contract. In most cases, the selection of the best solution will necessitate trade-offs between quality and price, speed of implementation against fit to need, experience of the supplier against degree of innovation, maturity against the preference for newer solutions. Accordingly, the aim of this phase must be to draw out the relative merits and risks of each solution and balance them against the cost-of-ownership so that the best possible acquisition decision is made.

38. **Accepting the proposals:** The aim of this step is to ensure that the proposals are received and recorded in a manner that is transparent to all suppliers. Key activities include:

   • ensuring that all suppliers have equal and adequate time to submit a proposal and that any requests for extensions are seriously considered;
   
   • advising all suppliers of the format and deadline for submissions and the place where the submissions should be lodged; and
   
   • ensuring that all bids are opened at the same time and that the suppliers are advised of the bids that have been received and, if appropriate, the bid price.

   At the end of this step, the potential suppliers will have received all proposals at the same time and in a manner that preserves the confidentiality of the proposals.

39. **Establishing the short list:** The aim of this step is to narrow down the list of suppliers who appear to best respond to the Request for Proposal. This is designed to limit the detailed evaluation process to the suppliers who are most likely to be selected — at least two, but usually no more than four. Key activities include:

   • eliminating proposals from suppliers that do not meet the minimum requirements specified in the Request for Proposal. The reason for this should be documented and, preferably, communicated to the supplier;

   • evaluating the remaining proposals against the predetermined evaluation criteria so that the relative merits and weaknesses of each solution are documented and compared to the others; and

   • eliminating all but a few proposals from further consideration, documenting the reasons for rejection and advising all suppliers on the short list.

   At the end of this step, the organization will have selected the few proposals that appear to best meet the user’s needs for detailed evaluation.

40. **Validating the responses:** The aim of this step is to gain a thorough understanding of the short-listed solutions and validate the representations made in the suppliers’ proposals. Key activities include:

   • arranging for walkthroughs, demonstrations and benchmarks of the solution to match its functionality against requirements and validate the supplier’s representations in the proposal;

   • checking the supplier’s references through field visits, if practical, to assess the quality and suitability of the solution, ease of implementation, and the support provided by the supplier; and

   • establishing the likely and comparable cost-of-ownership of all short-listed solutions.

   At the end of this step, the organization will have validated the solutions and credentials of the short-listed suppliers and updated the evaluation criteria from the previous activity.

41. **Conducting negotiations:** The aim of this step is to negotiate the agreement with the short list of suppliers so that all aspects of the relationship (responsibilities and obligations, costs and payment terms, risks, license arrangements, constraints, liability, etc.) are understood. It is essential that these negotiations are done with the assistance of legal counsel with knowledge of, and experience in, the nature of technology-related contracts. Key activities include:
• ensuring that all supplier representations and commitments are, as far as possible, contractually binding;
• describing the role and obligations of all parties to the agreement, including the extent to which the supplier is responsible for implementation and other risks, and the penalties for non-performance;
• identifying all items relating to cost-of-ownership, delivery milestones, acceptance and change management procedures associated with the acquisition;
• clarifying issues related to scope, intellectual property, confidentiality, warranties, maintenance, license terms, source code and escrow, training and support, liability, damages and continuity of supply; and
• specifying provisions for arbitration, problem resolution, litigation and termination.

At the end of this step, the buyer and the short-listed suppliers will have agreed on a contract for the acquisition. If necessary, the evaluation will be updated to reflect the results of the negotiations.

42. **Selecting the solution:** This aim of this last, but critical, step is to select a solution. In making this decision, all the assessment work completed earlier is synthesized so that the project team can formulate consensus-based conclusions. Key activities include:

- finalizing the assessments against the evaluation criteria for each short-listed supplier;
- comparing the relative assessments to reach an overall conclusion that represents the best solution based on the proposals received and evaluated, balancing cost-of-ownership, degree of fit, technical and performance attributes, overall quality and risks;
- developing a justification for the selection decision that also highlights why the preferred solution offers the best value for money; and
- obtaining approval for the decision from the oversight committee, advising all short-listed suppliers and signing the acquisition contract.

This step marks the conclusion of the acquisition process and the beginning of the implementation phase. Implementation is covered in the fourth publication in this series.