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CEO Spotlight

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Proxy Bid: An effective tool to gauge outsourcing relationships

A proxy bid can be just as useful for the service providers by providing a measure to help them assess the competitiveness of their pricing proposal relative to current market conditions or to define the internal costs required to deliver the services.

Though the outsourcing model has been steadily moving up the maturity curve with the Client – Supplier dynamics continuously evolving, one of the big questions before the client is “How competitive or fair is my existing / new services contract”. Often the clients choose to renew contracts with their existing service provider without a formal RFP process. The common notion is that the RFP process is an expensive, disruptive process and a waste of time. This couldn’t be far from truth because most contracts are aimed at addressing a unique set of business factors where the absence of a benchmark makes it very difficult to arrive at an apple to apples comparison. The result – clients struggle to measure whether their chosen service provider is providing or will provide services to them at a fair price.

“Proxy Bid” is one of the concepts that can be effective in solving this dilemma. A proxy bid is a process to compare actual prices for set of services with the prevailing market prices for a comparable set of services. This new bid can be developed by a third party (*typically a Sourcing advisory firm like THOLONS*) with access to required pricing data for the in-scope services along with an in-depth understanding of the service provider's price drivers. The idea is to treat the third party as a new bidder, who in turn will provide a bid based on the data provided to other bidders and through market research on other comparable set of services.

The proxy bid can be particularly effective in providing a clearer path in situations where the financial terms of a contract, while not being ideal, do not warrant putting the contract out to open tender. This is especially true in a multi-sourcing scenario where the client needs to understand the financial implications of breaking a full-scope outsourcing contract into sub contracts consisting of various offshored or in-sourced scenarios.

One of the big advantages of the proxy bid approach is that it allows the client organization to safely cut corners from a formal review process while still providing an accurate assessment of financial soundness and comparative competitiveness of the existing or proposed outsourcing proposal. Thus, proxy bid helps the client in saving time and money and also in retaining the essence of a formal bidding process.

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We anticipate proxy bids to be applied as a cost & time effective alternative to benchmarking or any other clauses which mandates a rigorous analysis of price and performance. Since this is aimed at providing a fair price corresponding to a set of services, it represents a true ‘win-win’ for both the client and the service providers.

If you have any questions or comments about this article please contact at avi@tholons.com