

Finding “Best Fit” in a Retirement Plan Provider through the RFP Process

By Harry Koolen and Jim Reed

Introduction

Much has been written about what plan sponsors should include in a Request for Proposal (RFP) when they embark upon a search to hire or replace a retirement plan provider. But written proposals submitted in response to an RFP will never capture all of the essential elements that plan sponsors should assess in selecting a provider. It is therefore vital that plan sponsors recognize the potentially significant limitations of relying too heavily upon the RFP as a decision tool. No one in their right mind would buy a house on the internet; yet this is essentially what many plan sponsors are doing when they select a plan provider on the basis of data that has been dumped into a spreadsheet.

When plan sponsors begin an RFP process, it is commonly recommended that they utilize an RFP template and send out multiple RFP's to several potential providers. This traditional RFP approach is extremely common and remains a fact of life in the retirement plan business. However, there are far more efficient ways to find and select providers. To the extent an industry standard exists, the 'SPARK' (Society of Professional Administrators and Recordkeepers) RFP is the most commonly utilized template. The SPARK RFP is thorough but it is overly cumbersome. It focuses too heavily on the technical aspects, many of which are commoditized by noteworthy providers. It also neglects several critically important components of finding the right provider for your organization.

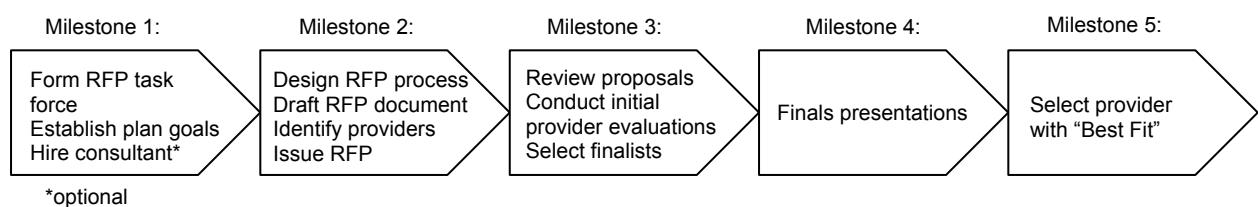
Rather than relying upon purely quantitative comparisons of data from competing proposals, plan sponsors should base their final decision on a more balanced set of factors that can help them achieve “best fit” with a prospective provider.

Our research and experience in the retirement business points to three areas of fit that are essential to successful sponsor-provider relationships, which we refer to as the “3 P’s of Fit”.

1. *Philosophy Fit* (which refers to the fit between the provider’s overall value proposition and the culture and values of the sponsor organization)
2. *Product Fit* (which refers to the fit between the provider’s solution and the specifications of the retirement plan)
3. *People Fit* (which refers to the personal fit between members of the provider’s team and the plan participants)

Using a framework developed through wide ranging research in the retirement plan market, this article equips plan sponsors with specific sets of guidelines for assessing prospective plan providers through a competitive RFP process. We show how the 3 P’s framework can be used to help plan sponsors become more sensitive to the subtle evolution in emphasis among the three dimensions of fit that should occur as they progress through each milestone stage of the RFP process [see Figure 1]. This more dynamic approach to provider selection will thus help plan sponsors make a smarter, more balanced fit assessment at the end of the process.

Figure 1. Milestone Stages in the RFP Process



We will use the term ‘provider’ to refer to a team of people who provide qualified retirement plan services to a sponsoring organization at the employer

and employee levels. While the market for qualified plans is remarkably diverse, so are the provider service models from which plan sponsors must choose.

In practice, a provider can be either separate or combined entities, and there are literally thousands of potential combinations. Some providers sell directly to the marketplace, while others work through a distribution network of advisors, banks, wire houses, TPA's, mutual fund companies, trust companies and others.

Setting the Framework: Understanding the 3 P's of Fit

RFPs tend to be very rational documents. This is not surprising, since it is much easier to lay out the technical specifications of a retirement plan in an RFP than it is to express the intangibles that often sway the final choice of a plan provider. However, the rational character of RFPs can create a paradox for plan sponsors: research consistently shows that the final selection of a plan provider is rarely based upon rational factors alone. Instead, plan sponsors usually weigh both rational and emotional factors in the selection process, with emotional factors often tipping the balance in the final decision. The 3 P's framework is designed to help plan sponsors more consciously strike an appropriate balance between rational and emotional decision factors, thus ensuring more broadly based "fit" in their final selection of a provider.

The first dimension of fit in the 3 P's framework is *Philosophy Fit*. This refers to the provider's overall value proposition, or its approach to positioning itself in the marketplace, and to the degree of compatibility between the cultures of the sponsoring and provider organizations. The realm of Philosophy Fit is usually the focus of attention by plan sponsors and their consultants during the early stages of the RFP process, when potential providers are screened to determine which ones will be invited to submit proposals. Some provider firms position themselves on the basis of service-oriented philosophies, stressing their commitment to high quality customer service (for example, through prompt follow-up to customer enquiries or by ensuring customers access senior executives). Other providers rely upon style-

based value propositions, seeking to differentiate themselves through program customization, performance and participation measurement tools, etc.

In today's highly competitive markets for retirement plans, it is becoming more and more difficult for plan providers to differentiate themselves on the basis of general capabilities or market position. This is in spite of providers' best efforts to develop what they believe are unique value propositions. While the perception of good Philosophy Fit can get a firm an audition through an RFP, savvy plan sponsors will look beyond the rhetoric of the sales pitch for evidence of how the provider's offering can meet all of their conditions of best fit. To demonstrate this breadth of fit, a successful provider will have to know a lot about its own capabilities, the offerings of its nearest competitors, and the goals and preferences of the prospective client.

The second dimension of fit in the 3 P's framework is *Product Fit*. On a general level, Product Fit refers to how well the potential provider's full range of product and service capabilities broadly aligns with the needs and goals of the sponsoring company. In terms of specific applications, Product Fit corresponds to how well each competing provider has adapted, or customized, its capabilities to address the specific goals and needs that the sponsors have articulated in the RFP. Customized deliverables typically include the providers' recordkeeping system, custodial services, investment line-up, web-based services, and third-party administration.

It is relatively easy for plan sponsors to compare Product Fit among competing providers. For this reason, and because potential providers also see the general realm of product capabilities as an area that enables them to differentiate themselves, it is normal for both sponsors and providers to focus heavily on Product Fit throughout the RFP process. As we point out below, while good Product Fit is essential to a successful retirement plan, it is a dimension of fit that should actually receive diminishing emphasis as the sponsors move deeper into the RFP process.

From a decision making perspective, the elements of Product Fit and Philosophy Fit represent the rational factors that can be addressed through an

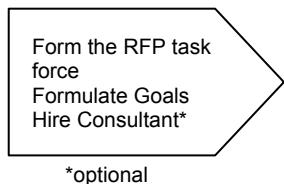
RFP process. But retirement plan mandates are rarely awarded purely on the basis of rational decision factors. Thus, while fit in the realms of Philosophy and Product remains a necessary condition for selection of a plan provider, they must be complemented by something less tangible, but no less important.

This takes plan sponsors into the realm of *Personal Fit*, which involves the emotional dimension of hiring a plan provider. This is the realm of fit that is extremely difficult to build into an RFP (just as it is very difficult for potential providers to reflect good personal fit in their value propositions and written proposals). Personal fit has to do with the ease of communication, the compatibility of thinking and problem solving styles, the perceptions of personal style compatibility and “bedside manner”, and the degree of empathy demonstrated by each potential provider.

It is only as the sponsors get to Milestone Three and beyond in the RFP process that they can begin to get a sense of the Personal Fit potential of each competing provider. Indeed, as the sponsors proceed deeper into the RFP process the importance of Personal Fit should increase, while the relative weights ascribed to Philosophy Fit and Product Fit should diminish [see Figure 2]. Thus, it is essential for the sponsors to design the RFP process so that the emotional elements of fit (which cannot be adequately captured by the rational aspects of the RFP itself) can be evaluated in other ways.

Using the 3 P's Framework to Design and Manage the RFP Process

Milestone 1



*optional

Forming the RFP Task Force

Businesses that sponsor qualified plans often wrestle with the question of who should be involved with an RFP, and what their roles should be. Since most companies have standing Investment Committees (IC), the formation of an RFP

Task Force is a crucial first step in this process. Ideally, the Task Force should be more broadly-based than the IC and represent a cross-section of relevant functional areas in the organization, including human resources, finance / treasury, IT, and executive management. In addition, the Task Force should include between 3 and 6 employees (depending upon the size of the organization) who will represent plan participants.

Each constituency represented on the Task Force will typically have its own sets of interests [see, for example, Table 1].

Table 1. Examples of Task Force Constituency Interests

Task Force Members	Members' Roles	Members' Major Interests
CEO	Protect	Compliance & Service
CFO	Bottom Line	Value
HR Staff	Operational Efficiency	Staff Retention
Employee Representative(s)	Participant Satisfaction	Employee Best Interests
IT	Technical Due Diligence	Operational Compatibility & Efficiency

Selecting the Task Force carefully is important because the more broadly-based the membership is, the better the chances of ultimately choosing a plan provider that demonstrates the best fit across all plan functions and constituents.

Defining goals

One of the first tasks of the Task Force should be to define the goals of the retirement plan. This critical early stage in the RFP process also needs to be taken very seriously, since investing time in defining goals before the search for a provider begins can make the execution of the process a lot more efficient. Moreover, without a clearly articulated set of goals, the Task Force will have no basis for either screening potential providers to invite into the RFP competition or for selecting a winner at the end of the process.

As a starting point, the Task Force should, at the very least, set two related sets of goals: one for the organization (the employer) and the other for the plan participants (the employees) [see Table 2]. Initially, these goals should be spelled out in either absolute or relative terms. Ideally, plan sponsors can be measured and compared to similar organizations by industry, region or size. Periodically, the provider should illustrate how they have improved plan level results. There are numerous providers who have proven capabilities with regard to 'moving the needle' at the plan level. Many of these same providers also have a compelling case for the improvement and modification of employee attitudes and behaviors.

Table 2. Categorizing Goals for the Retirement Plan

Employer Success	Employee Success
Compliance (fiduciary and IRS)	High Participation Rates
Efficiency	High Deferral Percentages
Investment(s)	Age Appropriate Asset Allocations
Value and Performance	<i>Enough Money to Retire</i>

Drafting an Investment Policy Statement (IPS) ahead of time will also help the Task Force determine some of the goals with respect to both the plan and the RFP process. Concerning the RFP process, one of the important components of the IPS relates to asset classes. Sharing objectives regarding existing and/or desired asset classes with potential providers will enable them to put their best foot forward and take their best shot with funds from each of their universes. This is the only way to make a true apples-to-apples comparison between potential providers and to illustrate current versus proposed scenarios. The IPS should also be a focal point of lively conversation during the provider interviews and presentations.

It is important that each constituency on the Task Force define goals related to all three dimensions of fit, even though (as we will see) the RFP document can really only accommodate goals in the realms of Product Fit and, to a lesser extent,

Philosophy Fit. The more specific and comprehensive the Task Force can be in communicating their goals to both the consultant (in all three realms of fit) and the potential providers (in the realms of Product Fit and Philosophy Fit), the higher the quality of the proposals that will be received and the greater the likelihood of finding the provider with the best overall fit.

Hiring a consultant

If there is one business that is notorious for confusing people, it is the investment business. Part of an outside consultant's job is to help the sponsors make sense of it all. When an organization is evaluating whether to hire an outside consultant to walk them through the RFP process or to 'go-it-alone', we encourage them to ask themselves the following questions:

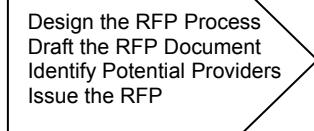
- 1) What questions and issues need to be addressed?
- 2) What information is relevant?
- 3) What and how to properly investigate alternatives? (Procedural Prudence)
- 4) How to evaluate the 'right' information? (Substantive Prudence)
- 5) How to determine the decision making criteria?

If the Task Force can answer these five questions with confidence they should be in a position to run the RFP process without the aid of an outside consultant (thereby saving, in some cases, tens of thousands of dollars). However, a qualified consultant can help the Task Force establish both the plan-related goals of the organization and the decision criteria for the RFP selection process. Without the guidance offered by a consultant, plan sponsors often struggle with selecting the right providers to invite into the RFP process and comparing proposals on an apples-to-apples basis. Not only is there potentially an overwhelming amount of information to evaluate, but today's retirement plan industry is filled with technical jargon that can leave many people bewildered. It is the job of the consultant to help the plan sponsors make sense of it all.

Today's investment industry is littered with 'processes' (investment, fiduciary, compliance, and conversion processes, to name just a few), many of which are

heavily marketed by plan providers as points of differentiation. An experienced consultant should be able to help plan sponsors sort through this potentially confusing maze of processes, so they can focus on two critically important aspects of “prudence”: Procedural Prudence (the process of conducting an investigation, evaluating the relevant data, and making decisions based on that data) and Substantive Prudence (the duty to evaluate the right information and make an educated decision). Both types of prudence derive from the “prudent man rule” in ERISA - the fundamental principle of using care, skill, and prudence when managing somebody else’s money.

Milestone 2



Defining the RFP process

While members of the Task Force are usually quite clear about what the milestones in the RFP should be, they often don’t fully understand what they should be doing to thoroughly evaluate “best fit” at each stage of the process. A paint-by-the-numbers approach on the part of the Task Force at Milestone One will almost inevitably lead to over-emphasizing Product Fit at subsequent stages of the process, and ultimately to the selection of a plan provider with suboptimal fit. Indeed, when it comes to some of the more nuanced Philosophy Fit and People Fit factors, Task Force members need to realize that, if you’re not looking for them, you won’t see them.

Therefore, recognizing these limitations in the RFP document, the search process should be designed to create experience-based events that will enable all members of the Task Force to evaluate People Fit and to distinguish between the rhetoric and reality of Philosophy Fit. With pre-established objectives that go beyond Product Fit, the Task Force will be in a better position to more accurately judge and document the extent of Philosophy Fit and, in particular, People Fit for each competing provider.

Drafting the RFP document

Goals and specifications related to both Product Fit and Philosophy Fit can, and should, be made explicit in the RFP. In addition, the Investment Policy should be shared with all potential providers through the vehicle of the RFP. At the same time, an effort should be made to keep the RFP to a manageable length. Given the importance of the retirement plan decision for both the Task Force and plan participants, it is essential for plan sponsors to recognize that the RFP represents only part of their decision process. As the Task Force sets about the job of drafting the RFP (or commissioning a consultant to draft it), they must also look past the document, and beyond even the proposals that will be submitted in response to it, to design the entire evaluation process so they will be in a position to thoroughly assess all the elements of fit.

Selecting Potential Providers

Finding a list of potential providers is not difficult. The real challenge is how to narrow the field and determine who may have the best chance of providing your organization with the right ‘fit’ *before* sending out the RFP’s. Key issues to consider in selecting firms to receive the RFP can be grouped into quantitative and qualitative factors [see Table 3].

Table 3: Factors to consider in selecting firms to receive the RFP

Quantitative Factors	Qualitative Factors
Capabilities	Referrals
Locations	Track Record
Financial Condition	Employee Satisfaction
Performance Record	Client Retention Rates

At this early stage of the process the emphasis will be on Product Fit and Philosophy Fit. Once again, it is the consultant who should be able to help the Task Force identify potential providers that best meet the objectives that have

been defined in these two realms of fit, thereby keeping the subsequent stages of the search manageable and efficient.

Issuing the RFP

An RFP provides the Task Force with a mechanism for making the time consuming process of selecting a plan provider more efficient by directing the focus of competing firms to pre-defined sets of goals and needs, and by enabling the evaluation of competing proposals across uniform areas of comparison. Allowing one or more of the potential providers to deviate significantly from the proposal format and content prescribed by the RFP would thus seem to undermine efficiency and render comparisons between proposals more difficult. So how much flexibility, if any, should the sponsors permit in the written proposals?

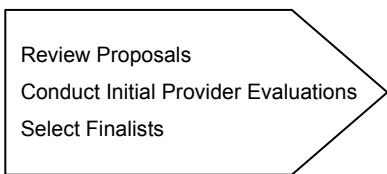
If they are not careful, both the sponsors and potential plan providers can become prisoners of an RFP. As a result, we believe that there are some subtle but important potential benefits to be gained in allowing prospective providers a degree of flexibility in how they respond to an RFP. As thorough as they have been in the preparation of the RFP (even drawing upon the expertise of an outside consultant), the Task Force may not have thought of everything. Moreover, some of the specifications in the RFP may be based upon flawed, but unchallenged, assumptions. In either case, the sponsors should give potential plan providers the scope to challenge assumptions and to offer alternative perspectives on how the needs and goals of the proposed plan are framed up in the RFP.

One strategy is to issue the RFP without making reference to flexibility of responses. Then wait and see if any of the competitors ask permission to deviate from RFP specifications in their proposals and, if so, in what areas. While this can be a delicate balance for a provider to manage, it can also be quite revealing to the sponsors. After all, one of the roles of a good advisor is to let the client know when he or she thinks the client is asking the wrong questions to begin with. While sponsors are sometimes justified in being cautious in the face of such requests (suspecting that the requested exceptions would be in areas entirely self-serving to the provider), it may warrant a closer look. Is one of

the providers seeking flexibility so they can ask questions that you haven't asked yourselves? Are they offering new perspectives on some of the key issues in the RFP? Have they identified important linkages between the plan and other aspects of enterprise performance that had not occurred to you? These are potentially valuable insights that might otherwise be lost if rigid adherence to the RFP is insisted upon.

Another strategy is to include a section in the RFP that enables responding firms to add comments and recommendations that go beyond the pre-defined plan specifications. It can be quite revealing to see what use the competitors make of this opportunity (this is not unlike putting an extra credit question on an exam). This enables you to make side-by-side comparisons in the core areas of technical specifications in the RFP, while inviting additional ideas and creativity in the proposals.

Milestone 3:



Reviewing Proposals

In an effort to impress readers with the breadth of their capabilities and experience, many providers will use the RFP as an opportunity to overwhelm the sponsors with information, much of which bears little or no relevance to the plan specifications contained in the RFP. Most of these statements in the proposal end up being so general that they could fit almost any situation. Ironically, potential providers who fill their proposals with these types of general statements miss an important point – presumably they would not have been selected for the RFP list in the first place if the sponsors had doubts about their general capabilities. Therefore, in reviewing proposals for Product Fit, the Task Force should shift its focus from the level of general capabilities (which was more appropriate at Milestone Two) to the level of specific applications of those capabilities within the context of the plan goals stated in the original RFP. After

all, it takes a careful reading of the RFP, balanced with thoughtful questions during the proposal development process (and a fair amount of courage), for a provider to submit a well-tailored proposal whose quality is not measured by the pound or kilo.

While many insights into a provider's Product Fit can be drawn out through the written responses to the RFP, others must be discovered through questioning during interviews and site visits, and at the finals presentation. For example, sponsors should ask themselves if the proposals reflect thorough homework on the part of the competing providers. Wherever possible, deliverables, automatic program features, and services should be compared on a like-basis. Program "bells and whistles" should be evaluated on the basis of relevance and value added to plan objectives. Sponsors should also consider the costs and implications of "a la carte" versus premium services.

Some aspects of each provider's Philosophy Fit and approach to success can also be evaluated through a review and comparison of the written proposals. For example, how do they track relevant plan data? How do they measure plan success, quantitatively and qualitatively? It is important for the Task Force to remember here, as well as during the interviews and finals presentations, that they are looking for a provider whose philosophy is a good fit in terms of both employer success and employee success.

This is an aspect of the RFP process that should not be taken lightly. Look for and compare philosophies that relate to service commitments, customer service practices, teamwork, commitments with regard to improving plan results. What is their philosophy with regard to helping all plan participants, not just the wealthy ones? What is their philosophy with regard to guiding, educating, and advising investment committees on the necessary practices?

Conducting the Initial Provider Evaluations

Thus far the emphasis in the RFP process has been primarily on determining Product Fit and, to a somewhat lesser extent, verifying the Task Force's initial perceptions of Philosophy Fit. Once the written proposals have

been reviewed, the balance of the sponsor's attention on the 3 P's should shift to putting greater weight on assessing People Fit. This is because the process is now entering the critically important *experience* phase. Through interviews and site visits (and ultimately during the finals presentations in Milestone Four) the Task Force puts itself in a position to evaluate direct experiences with selected providers, and experiences are the only true means of determining where the best People Fit exists.

The people and their philosophies are what bring a plan to life. No RFP competition should ever be decided on the basis of rational factors alone. The personalities and individual styles of the provider's team members (and, where relevant, their service partners) are crucial aspects of "emotional fit" that also have to be assessed during the RFP process.

Getting a read on the elements of People Fit is easiest to accomplish through face-to-face interviews and site visits with potential providers. Will the provider be able to relate to your people? How talented is the provider at customizing programs for participants at various levels of knowledge and experience? And, how will your employees relate to their style, delivery, materials, etc.? Remember, most plan participants are not looking for stock-market updates or current trends. Rather, most participants simply want to understand basic concepts like how to manage retirement money by level of risk and how to allocate funds across different asset classes.

Personal fit between sponsor and provider really comes down to the sponsor reflecting back on their experiences with each competing provider during the RFP process and asking, "Who do we really think we can work with?" This is a highly emotional question and one that is often a "tie breaker" in situations where the competing proposals are essentially equivalent when compared using purely rational (Product Fit) decision criteria. The Task Force's experiences with potential providers during the RFP process are usually previews of what it would be like to work with them. An attentive provider will recognize this and consciously design experiences for the Task Force that are

relationship previews, thus positioning themselves to win the tie breaker on the basis of the “work with” factor.

A Boston-based investment industry veteran with thirty years experience who has served as an investment committee member and trustee for private schools, churches, and a hospital recently described the importance of finding the right People Fit in his own words: “Due to the high level of involvement at various stages, personal chemistry between a service provider and client is critically important to the process. The selected individual (or team) must have the innate ability to tailor an approach based on specific preferences. Personal fit is vital because clients expect to be coached and educated while being advised.”

The Task Force should schedule face-to-face interviews with the providers who have demonstrated the best Product Fit and Philosophy Fit up to this point in the process. Site visits with the two or three firms that are leading the competition at this stage are also advantageous. Not only do site visits enable the Task Force to “kick the tires” on Product Fit through system demonstrations, but perhaps more importantly, they provide opportunities for members of the Task Force to meet and interact with their counterparts on the provider’s team. Whether through interviews or site visits, the sponsors should make certain that each selected provider is putting its entire team on display, not just the sales people and executives. Finally, the Task Force should not forget to document its impressions along all three dimensions of fit throughout Milestone Three of the process.

Selecting the Finalists

Following the proposal reviews, face-to-face interviews, and site visits, the Task Force should have a well-balanced impression of each competitor across all three dimensions of fit. This puts them in a position to narrow the field of competitors down to the firms that have demonstrated the best overall fit up to this point. These firms should then be scheduled for the final “bake-off” in the process – the finals presentations.

There is no formula for determining how many potential providers to invite through to the finals presentations. As with the earlier stages in the process, fit and manageability should be the determining criteria. At this prelude to Milestone Four, a form of second RFP should be issued to the finalists. This time, however, the RFP is in the form of a “Request for *Presentation*”. This document should lay out the terms and protocols of the upcoming finals presentations for the remaining providers, especially scheduling, presentation time limits, participants from both sides, and general presentation structure.

Milestone 4:

The final presentations are an opportunity for the Task Force to ask questions to each provider that have arisen from the interviews, site visits, and a further review of the written proposals. While these lines of questioning can cover all three dimensions of fit, the emphasis should continue to be on exploring People Fit.

People Fit addresses many of the emotional intangibles that a sponsor looks for in a plan provider. The finals presentations are an opportunity to make judgments on such questions as which firm seems to best understand the goals of the plan. Who seem to be the best listeners? Who have asked the most insightful questions and demonstrated the most flexible thinking? Who seems to have the best “bedside manner” and a communication style that best suits our culture?

Once again, many of these questions come down to a single, emotionally-based issue for the plan sponsors: Who can we *work with*? Simply put, our research demonstrates quite clearly that the provider who demonstrates competitive levels of Philosophy Fit and Product Fit, while at the same time most effectively addressing the sponsors’ “work with” concerns, stands the best chance of being awarded the plan mandate.

We continue to hear from plan sponsors that the most persuasive presentations they have experienced are *conversational* (after all, relationships are built on conversations). A potential provider who spends the bulk of the time in the presentation turning the pages in a proposal is not client focused. This is what sponsors mean when they complain about becoming “prisoners of the book” or being victimized by “the ceremony of the book.” How does a provider make a presentation meeting conversational? In the first instance, they generate conversation by focusing the meeting agenda on *you* - the company and the plan participants - and not on themselves and their credentials (good “Us-Them”

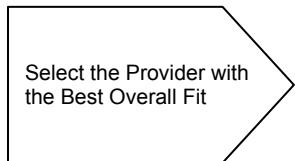
balance, once again). Presentation meetings are more conversational when the provider asks questions along the way, and then listens carefully.

Further insights into Philosophy Fit and People Fit can also be gained during the final presentations through the following lines of questioning:

- How do you make investing easy for our people to understand?
- How do you target and/or market within retirement plans?
- How would you adjust your material within employee pools?
- How do you ensure relevant and understandable material?

Providers must be able to demonstrate investment due diligence procedures to help the plan sponsor perform the critical tasks related to their fiduciary responsibilities. In addition, a potential provider must have the software, materials, and other items that help the investment committee do its job, and also ensure the needs of the plan participants are met.

Milestone 5:



If the Task Force has documented its impressions across all three dimensions of fit throughout the RFP process, it should be in a position to make a balanced judgment of “best fit” following the final presentations. While the 3 P’s framework is no guarantee that there will be consensus on the final choice of a plan provider among all members of the Task Force, it provides the group with a shared template and common language for considering the relative strengths and weaknesses of each finalist.

Breaking the frame in selecting providers

Our experience has shown that some organizations have actively pursued the opportunity for substitutions or the potential interchangeability of team parts, while evaluating the 3 P’s of Fit. One potential scenario may look like this: One

team (consisting of three different companies: an independent investment advisor, a record-keeper/investment services provider, and a Third-Party Administrator) has submitted an RFP response to a plan sponsor. At the conclusion of the RFP process, the plan sponsor has determined that the investment advisor has brought superior People Fit, but inferior Product Fit. How do you weigh those and is there opportunity for flexibility in who, ultimately, is brought together to be awarded the mandate? Further, are there requirements for the teams who put their best foot forward in the RFP to stay intact? The fact is that there are plan sponsors who, unwittingly, have become prisoners of their own assumptions. Clearly there are industry-conforming ways of orchestrating decisions and ethics issues to be considered. But, if a plan sponsor is searching for the absolute best 'fit', can the frame be broken under certain circumstances?

In a recent case, the CFO of a mid-size manufacturing firm in New England shared this with us: "After years of frustration and improperly running our retirement plan search, our company's main focus was to assemble exactly the right team of providers. Our intentions were to choose who we felt were the best-of-the-best across the board. We may have broken a traditional method in breaking-up teams, but we pounded our fist on the table because it enabled our company to proceed with confidence and know we had found precisely the right fit."

Conclusion

The 3 P's framework is based upon the premise that finding the "best fit" in a retirement plan provider cannot be achieved through a narrowly construed RFP process. The traditional consultant-assisted, product-focused approach to the RFP process may seem both thorough and efficient from the perspective of time-constrained plan sponsors. However, this traditional approach has significant limitations that members of the RFP Task Force, in their fiduciary responsibility, must recognize. Because the selection of a plan provider involves a mix of both rational and emotional decision factors, the RFP process must be designed and managed in a manner that enables members of the Task Force to assess fit in

the realms of Philosophy and People, the two dimensions of fit that go beyond the Product focus of a traditional RFP [see Table 1, Step-by-Step Guidelines for Using the 3 P's Framework to Achieve "Best Fit"].

By adopting the 3 P's framework at the outset of the RFP process, and thereby making decision criteria explicit across all three realms of fit, sponsors can more effectively align the goals and interests of different constituencies on the Task Force. This, in turn, will contribute to the Task Force's efforts to reach an efficient, broad-based consensus on best fit at the final milestone stage of the RFP process.

Harry Koolen

Managing Partner at PfP Consulting.

hkoolen@attglobal.net

Phone: 802-879-4068

Jim Reed CRPS®, AIF®

Fleischer Jacobs Group, Asset Management Division

An independent investment advisory firm

620 Hinesburg Road

South Burlington, VT 05403

jreed@fjgfinancial.com

Phone: 802-865-5000

Table 4. Step-by-Step Guidelines for Using the 3 P's Framework to Achieve “Best Fit”

Milestones in the RFP Process	Imperatives for the Plan Sponsors	Relative Focus on the 3 P's of Fit
<p>Milestone 1:</p> <ul style="list-style-type: none"> ▫ Form the RFP Task Force ▫ Formulate goals: for employer, employees ▫ Formulate Investment Policy ▫ Retain a consultant [optional] 	<ul style="list-style-type: none"> ▫ Allow sufficient time for the preliminary stages of the process ▫ Make certain the Task Force reflects all plan constituencies; define roles clearly ▫ Get input from all Task Force members on plan goals ▫ Brief consultant thoroughly on each area of desired fit 	<ul style="list-style-type: none"> ▫ Consider “Best Fit” from the perspective of all 3 P's when formulating plan goals
<p>Milestone 2:</p> <ul style="list-style-type: none"> ▫ Define the full RFP search process ▫ Draft the RFP document ▫ Identify potential providers to invite ▫ Issue the RFP 	<ul style="list-style-type: none"> ▫ Keep the RFP to a manageable length ▫ Make goals explicit in the RFP ▫ Document the full RFP process ▫ Establish 3 P's evaluation criteria ▫ Keep the number of invitees manageable ▫ Share the investment policy with invitees 	<ul style="list-style-type: none"> ▫ Recognize the natural bias toward over-weighting Product Fit when drafting the RFP ▫ Place sufficient weight on Philosophy Fit and People Fit when defining the search process and short-listing potential providers
<p>Milestone 3:</p> <ul style="list-style-type: none"> ▫ Receive and review proposals ▫ Conduct initial provider evaluations ▫ Select finalists 	<ul style="list-style-type: none"> ▫ Meet provider representatives beyond sales people ▫ Interview several potential providers; conduct several site visits; ask for demos ▫ Make apples-to-apples comparisons ▫ Use all 3 P's to cull to finalists 	<ul style="list-style-type: none"> ▫ Interviews and site visits provide opportunities to begin assessing Philosophy Fit and People Fit ▫ Be alert to which providers design site visits as complete “experiences”, not just displays of technical virtuosity
<p>Milestone 4:</p> <ul style="list-style-type: none"> ▫ Finals presentations 	<ul style="list-style-type: none"> ▫ Keep the number of finalists manageable ▫ Make certain the Task Force is well prepared for each presentation ▫ Ask them lots of questions ▫ Look for “Us-Them” balance in presentations 	<ul style="list-style-type: none"> ▫ At this stage Product Fit should be clear ▫ Use the presentations to confirm initial impressions of Philosophy Fit and People Fit ▫ Look for clues into People Fit by what types of questions the competing providers ask the Task Force during the presentations
<p>Milestone 5:</p> <ul style="list-style-type: none"> ▫ Select plan provider based upon best overall fit 	<ul style="list-style-type: none"> ▫ Check references of finalists ▫ Weigh your total experience throughout the entire process with each finalist, not just the written proposals and presentations 	<ul style="list-style-type: none"> ▫ Balance Product Fit and “work with” factors (People and Philosophy Fit) carefully to make final decision

Figure 2. Evolving Emphasis on the Realms of Fit during the RFP Process

