CHAPTER 4
THE OUTSOURCING ALTERNATIVE

BY MAGIC NUMBERS AND PERSUASIVE SOUND.

William Congreve (1670 - 1729)

THE WALRUS AND THE CARPENTER
"IF SEVEN MAIDS WITH SEVEN MOPS
WERE WALKING CLOSE AT HAND:
SWEPT IT FOR HALF A YEAR,
THEY WEPT LIKE ANYTHING TO SEE
DO YOU SUPPOSE,\" THE WALRUS SAID,
SUCH QUANTITIES OF SAND:
\"THAT THEY COULD GET IT CLEAR?\"
"IF THIS WERE ONLY CLEARED AWAY,\"
"I DOUBT IT,\" SAID THE CARPENTER,
THEY SAID, \"IT WOULD BE GRAND!\"
AND SHED A BITTER TEAR.

Lewis Carroll (1832 - 1898)

As we've seen, reengineering consists of three basic scenarios used alone or in
combination: retaining the current system, improving the current system, and outsourcing. This
chapter discusses a logical and objective approach to outsourcing. Chapter 5 evaluates product
planning, pricing and profitability analysis. Chapters 6 - 9 review opportunities to improve your
current system.
Organizations do business with banks and vendors for a variety of reasons. Some of them are quite logical:

- Participation in credit line (for banks)
- Quality services
- Survivor in possible merger

Often, however, outsourcing has more to do with an unstated "special connection" between organizations and their banks or vendors, especially those in a long-time relationship:

- Senior management a shareholder and/or on the board of directors
- Logistical difficulties in changing bank or vendors
- "Been with this bank/vendor for 75 years"
- "Marketing demands local bank accounts for relationship reasons"

This relationship usually transcends objective analysis--it's often little more than a feeling or attitude. It might relate to the time years ago when the bank continued to support the business through a difficult period, or when a vendor worked all weekend to fix a systems problem or complete a filing for a stock underwriting. These special connections are difficult to refute, yet hard to quantify when bidding services out to the "best" provider.

Purchase of financial services (other than advisory or consulting services), however, is not unlike the purchase of any product in which features and pricing may vary significantly by vendor. Generally, organizations use a semi-formal approach when deciding to outsource: information is requested on specific products, either in person or by letter. This process has a
number of weaknesses:

# Banks or vendors in the existing relationship tend to receive preferential treatment; in many cases, vendors providing excellent products are not even invited to bid.

# The focus is on a few product features, or on price, at the exclusion of other attributes which may in fact be more important to the overall goals of the organization.

To counteract these weaknesses, two critical steps should be taken in any outsourcing decision: the RFI and the RFP.

**The RFI**

The RFI, or request-for-information, is a formal information gathering effort. It's preceded by a more informal process of gathering information from a wide array of sources, including:

**Publications:** directories, such as *Cashflow Magazine*'s "Directory of Treasury Services," *Pension and Investment*'s annual "Cash Management Supplement;" articles in financial journals, subscription or free distribution newsletters, etc.

**Referrals:** professional association contacts, accountants, attorneys, personal contacts.

**Sales calls:** banker/vendor calls, visits to exhibitor booths at conferences.

It's important that organizations maintain a continuous effort to explore the marketplace for new product ideas and capabilities. This ongoing, informal process will help develop a "file" of banks and vendors able to bid on specific services.
The RFI is the first step to be taken once a decision is made to solicit formal bids. This document, usually one to two pages in length, queries banks and vendors on experience, technological capabilities, creditworthiness, and interest in preparing a formal proposal. A typical RFI letter is provided in Table 4-1.

Table 4-1

RFI Letter

Dear NAME:

We are in the process of considering banks or non-bank vendors for DESCRIBE SERVICES. Our company is DESCRIBE COMPANY AND ITS BUSINESS. The purpose of this letter is to solicit a statement of interest in answering a request-for-proposal (RPF) to be issued on or about DATE. The SERVICE must be fully operational by FUTURE DATE.

The initial volume is approximately NUMBER items per month, with volume expected to grow to FUTURE NUMBER items within 2-3 years. We require that the bank/vendor provide the following operations: DESCRIBE

Please indicate your responses to the attached questionnaire and return the completed information by DATE to ADDRESS.

# Do you provide the specified service? If so, how long have you been in the business? What are the sites where the service is provided?

# How long will it take to begin service if you're the selected service provider?
# What data capture (or other) technologies do you use?

# What data transmission protocols do you support?

# What is the credit rating of your organization?

# Are you interested in bidding for this business? If so, who is the appropriate contact person?

Please contact me with any questions regarding this request-for-information. We must have your response by DATE.

(Close)

It's our experience that about one-quarter of the banks and vendors who are sent RFI's will decline to bid, usually because they don't offer the service or are unable meet minimum technical requirements. An organization should therefore send out ten to fifteen RFI's, and expect that the final list of candidate bidders will include eight to twelve names.

The RFP

The RFP, or request-for-proposal, is a formal document soliciting responses to specific questions about the vendor's product or service. The RFP begins with a description of your
organization, including its locations, number of transactions, banks and vendors currently used, and other pertinent data. It may then state the specific requirements of the RFP, including the timing of the selection process and of product implementation.

The following exhibits (Tables 4-2 to 4-6) illustrate the type of concerns which might be included in a lockbox RFP:

Table 4-2: Basic description of the bidder.
Table 4-3: General qualifications of the bidder, to determine basic competence and capabilities.
Table 4-4: Product data, to determine the mechanics of processing for the product or service.
Table 4-5: Buyer's processing requirements, the "musts" and "wants" of the buyer.
Table 4-6: Certification of service capability, usually presented as a multiple choice document for essential service elements. The bidder is required to affix his or her initials to blanks for the answers "yes", "no" or "partial". Any "partial" response should be explained. The certification is then signed by the authorized representative of the bank or vendor as a form of "contract," to hold bidders responsible for statements made in the proposal.
Table 4-7: Supplemental information, to clarify and explain statements in the proposal.
Table 4-8: Pricing analysis, including data from the bank or vendor on the following:

! Period of price guarantee
! Formula used to convert service charges to balance equivalents (for banks)
! Derivation of earnings credit rate (ECR) (for banks)
A pro forma pricing analysis based on all relevant charges to provide service.

A pro forma analysis describes each element of the service, the projected pricing per element (at assumed volumes in fees and balances), and the total monthly cost of the product. If the bidder is a bank, pricing will be provided in a monthly account analysis, as described in Chapter 3. The pro forma is important because, given the unbundled nature of current bank/vendor pricing, actual price is often a function of several variables and the final actual cost may be hidden in the complexity of the proposal language.

Table 4-2
Bidder Description

Briefly describe your organization, including lines of business, total assets, ratings, organizational structure, etc. Include your annual report. Describe your client team, including all individuals likely to be assigned should bid business be awarded.

Does your organization have a particular commitment to the widget industry? Provide a listing of current clients, including types of activities provided and length of relationship. If you are a bank, discuss your position on the allocation of credit to customers.

Table 4-3
General Qualifications of the Bidder
1. Monthly volume in total and for largest three customers

2. General workflow description

3. Equipment used in processing

4. Problem resolution procedures

5. Bank/vendor output records for receivables/payables accounting

6. Methods and timing of data transmission

7. Mechanisms for funds transfer

8. Timing of balance report on daily activity

Etc.

Table 4-4
Product Specific Issues

(assumes lockbox)

1. Flow of mail through bidder's postal facility

2. Zipcode arrangements (unique, zip + 4, other)

3. Schedule of daily and weekend post office collections

4. Delivery site and resulting delay of mail distribution on bidder's premises

5. Staffing and experience of lockbox operation

6. Maximum daily volumes which can be processed for same-day ledger credit

7. Timing/security of transmission of lockbox data, including remittance media

8. Error rate in lockbox processing

Etc.
Table 4-5

Buyer's Processing Requirements

(assumes lockbox)

1. Specific volume projections, now and in three years, at peak and average
2. Geographic distribution of customers
3. Processing exceptions as to payee, check date, non-matching dollar amounts, missing check signature, and foreign items
4. Handling of customer correspondence
5. Anticipated data capture requirements from scanline or from remittance documents
6. Procedures for charging for NSF items
7. Delivery procedures for remittance advices, deposit slips and other materials
8. Data transmission baud rates, timing and security

Etc.

Table 4-6

Certification of Service Capability

Please complete this Section, indicating to what extent the lockbox can meet each of the service requests. Explain all "Partial" answers.

A. Lockbox Volumes

Yes ____ No ____ Partial ____

B. Yes ____ No ____ Partial ____
C. Lockbox Processing Procedures

1. Processing of Checks
   Yes ____ No ____ Partial ____

2. Data Capture from Remittances
   Yes ____ No ____ Partial ____

D. Return Items
   Yes ____ No ____ Partial ____

E. Data Transmission for Cash Application
   Yes ____ No ____ Partial ____

Etc.
Table 4-7

Supplemental Information

1. Product brochures
2. Sample contract or agreement of service
3. Phoenix-Hecht Postal Survey data on mail and availability times (*assumes lockbox*)
4. Sample output from bank or vendor processing
5. Customer references
6. Complete product pricing schedule
7. Chart of service area organization
8. Implementation checklist

Table 4-8

Pricing Analysis

Table not available

**Evaluation of the RFPs**

A comprehensive RFP can be as long as twenty pages. Although this much material can be daunting, the real intention is to develop a level of comfort with the service provider. Can they indeed provide the service? Do they have a long-term commitment to the business? And finally,
can the **musts** be met?

**Musts** will vary by organization, and may include specific technological capabilities, years of experience, standards of customer service, or acceptable pricing. For example, in the light of the World Trade Center bombing and other incidents of international terrorism, some buyers may insist on specific disaster recovery plans such as off-site back-up procedures. Other buyers may demand dedicated service personnel and/or specific measures of bank or vendor performance. While some buyers continue to focus on price, it's clearly becoming only one of several critical concerns in the buying decision.

A first step in evaluating RFPs is to arrange a tabular listing by topic and response (see Table 4-9 for selected responses to a lockbox RFP). To evaluate these data, develop rankings of importance for each question (see Table 4-10 for a hypothetical set of point values for selected responses). Apply the resulting values against weightings to develop a score for each bidder (Table 4-11). You can then adjust weights and point assignments once these preliminary scores have been calculated. These point assignments and weights are, of course, entirely arbitrary and presented merely as an illustration. A full RFP may have 30 to 50 questions for each product bid, depending on the requirements of the various organizational functions (finance, systems, payables, etc).

<table>
<thead>
<tr>
<th>Description</th>
<th>Bidder A</th>
<th>Bidder B</th>
<th>Bidder C</th>
<th>Bidder D</th>
</tr>
</thead>
<tbody>
<tr>
<td>SERVICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPABILITY:</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>---------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Lockbox implementation time</td>
<td>12 wks.</td>
<td>12 wks.</td>
<td>8-12 wks.</td>
<td>8 wks.</td>
</tr>
<tr>
<td>Disaster recovery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission security</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QUALITY:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average tenure of processors</td>
<td>2 yrs.</td>
<td>3 yrs.</td>
<td>3.5 yrs.</td>
<td>2 yrs.</td>
</tr>
<tr>
<td>Dedicated service representatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Error rate per 10,000 items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRICING:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume for price discount</td>
<td>At 50,000/month</td>
<td>None</td>
<td>At 50,000/month</td>
<td>At 25,000/month</td>
</tr>
<tr>
<td>% ECR (bank)</td>
<td>3.0%</td>
<td>2.3%</td>
<td>3.1%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Availability assignment</td>
<td>By item</td>
<td>Bank factor</td>
<td>Customer bank factor</td>
<td>By item</td>
</tr>
</tbody>
</table>
Table 4-10: Lockbox Selection Criteria/Measures of Performance

<table>
<thead>
<tr>
<th>Description</th>
<th>2 Points</th>
<th>1 Point</th>
<th>0 Point</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SERVICE CAPABILITY:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Lockbox implementation time</td>
<td>&lt;6 wks</td>
<td>6-12 wks</td>
<td>&gt;12 wks</td>
</tr>
<tr>
<td>2 Disaster recovery</td>
<td>&quot;Premium&quot; svc contract</td>
<td>Svc contr/ own onsite</td>
<td>Own onsite or N/A</td>
</tr>
<tr>
<td>3 Transmission security</td>
<td>Callback/ encryption</td>
<td>Sign-on security</td>
<td>Passive/ none</td>
</tr>
<tr>
<td><strong>QUALITY:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Average tenure of processors</td>
<td>&gt;10 yrs.</td>
<td>5-10 yrs.</td>
<td>&lt;5 yrs.</td>
</tr>
<tr>
<td>5 Dedicated service representatives</td>
<td>Individual assigned</td>
<td>Retail service pool</td>
<td>Retail/whlsl pool</td>
</tr>
<tr>
<td>6 Error rate per 10,000 items</td>
<td>&lt;1</td>
<td>1-2</td>
<td>&gt;2</td>
</tr>
<tr>
<td><strong>PRICING:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Volume for price discount</td>
<td>&lt;25K</td>
<td>25-50K</td>
<td>&gt;50K</td>
</tr>
<tr>
<td>8 % ECR (bank)</td>
<td>&gt;3%</td>
<td>2-3%</td>
<td>&lt;2%</td>
</tr>
<tr>
<td>9 Availability assignment</td>
<td>By item</td>
<td>Float factor by customer</td>
<td>Aggregated float factor</td>
</tr>
</tbody>
</table>
Table 4-11: Lockbox Scoring Matrix

<table>
<thead>
<tr>
<th>Description</th>
<th>Weight</th>
<th>Bank A</th>
<th>Bank B</th>
<th>Bank C</th>
<th>Bank D</th>
</tr>
</thead>
<tbody>
<tr>
<td>SERVICE CAPABILITY:</td>
<td>30.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Lockbox implementation time</td>
<td>150.0%</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2 Disaster recovery</td>
<td>150.0%</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>3 Transmission security</td>
<td>100.0%</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>QUALITY:</td>
<td>40.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Average tenure of processors</td>
<td>100.0%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5 Dedicated service representatives</td>
<td>150.0%</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>6 Error rate per 10,000 items</td>
<td>200.0%</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>PRICING:</td>
<td>40.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Volume for price discount</td>
<td>90.0%</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>8 % ECR (bank)</td>
<td>20.0%</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>9 Availability assignment</td>
<td>50.0%</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL WEIGHT ADJUSTED POINTS</td>
<td>100.0%</td>
<td>34.9</td>
<td>13.5</td>
<td>43.4</td>
<td>46.2</td>
</tr>
</tbody>
</table>

The RFI/RFP process has been utilized by many organizations as an objective approach to the complex analysis of outsourcing alternatives. In addition to the obvious advantage of explicitly rating relevant variables, buyers can demonstrate the objectivity of their approach to
their own management and to unsuccessful bidders. And developing selection criteria assures that important decision factors won't be overlooked in the evaluation process.

CHAPTER 4: APPENDIX

Request for Proposal

The following is suggested introductory material for a request-for-proposal to be issued to banks and other vendors of cashflow services, such as lockboxing, controlled disbursement services and money transfer. The various standard services are discussed in Chapters 4-8. A complete set of standard RFP questions for seven cash management products was published in May 1996, including wholesale lockbox, depository services, controlled disbursement, wire transfer services, ACH services, EDI services, and information reporting services.¹

Sample RFP

The ABC Company (ABC) is seeking proposals for various financial services. Services discussed in this Request for Proposal (RFP) may be bid in whole or in part by responding banks and vendors. ABC is interested in developing long-term relationships with a limited number of banks and/or vendors, and in utilizing those institutions for credit as well as non-credit requirements.

¹Standardized RFP's, published by the Treasury Management Association (TMA) and the Bank Administration Institute (BAI). Orders can be sent to the TMA at 7315 Wisconsin Ave., Suite 1250 West, Bethesda MD 20814: $75 for TMA members and $100 for non-members.
Since bidders will be evaluated on the basis of their responses to this RFP, it is imperative that: (1) responses be complete and that nothing be omitted; (2) processing capabilities be accurately explained, and (3) pricing include all charges relevant to the processing requirements presented in each section.

Bidders should submit three (3) copies of their proposal by mail or courier (no faxes), along with product brochures and other relevant material, by the normal close of business on [DATE] to:

[NAME AND ADDRESS]

Section 1: General Instructions and Conditions

1. PROCUREMENT POLICY

Procurement for ABC shall be handled in a manner providing equal opportunity to all businesses, including woman-owned and minority-owned businesses. This shall be accomplished without abrogation or sacrifice of quality and as determined to be in the best interest of ABC. ABC shall have sole discretion to make the final decision on the award of a contract.

2. UNIT PRICES

Unit prices should be stated in terms of the units specified. The Bidder may quote on all or a portion of a quantity as specified.

3. BEST AND FINAL

All bids will be considered to be the best and final offer by the Bidder; updated or revised
bids will not be considered.

4. CANCELLATION OF CONTRACT

A proposal must be signed by an authorized officer and/or employee of the Bidder appearing on the response. The signature represents a binding commitment of the Bidder to provide such goods and/or services offered to ABC, should it be selected as the most qualified Bidder.

The contract will be of indefinite duration subject to ABC's right of cancellation upon notice as provided herein. Cancellation of contract by ABC may be for (a) default of the Bidder, or (b) lack of further need for the service or commodity. Default is defined as the failure of the Bidder to fulfill the obligations of the proposal or contract. In case of default by the Bidder, ABC may immediately cancel the contract and procure the articles or services from other sources, and hold the Bidder responsible for any excess costs occasioned thereby. In the event ABC no longer needs the service or commodity specified in the contract due to program changes, changes in laws, rules or regulations, relocation of offices or lack of funding, ABC may cancel the contract, without further liability to ABC, by giving the Bidder written notice of such cancellation no less than ninety-days (90) prior to the date of cancellation.

5. ALTERNATE BIDS

Bidders may offer alternate bids which are at variance from the express specifications of the proposal, and ABC reserves the right in its sole discretion to consider and accept such bids. An alternate bid must clearly describe all variances from the express specifications
and must be submitted along with the primary bid in order to be considered.

6. AWARD

ABC expects to award this business within forty-five (45) days after the deadline for receipt of proposals. However, ABC reserves the right to reject any or all bids if it is determined by ABC that its interests will be best served by so doing.

7. ACCEPTANCE OF PROPOSAL CONTENT

The contents of this RFP, the proposal and such other provisions or terms and conditions as the parties may mutually agree will become contractual obligations, if a contract ensues. Failure of the successful Bidder to accept these obligations may result in cancellation of the award.

8. RECEIPT OF RESPONSES AND BIDS

It is the Bidder's responsibility to ensure that bids are received prior to the date and time specified. This responsibility rests entirely with the Bidder, notwithstanding delays resulting from postal handling or for any other reasons. Late bids will not be accepted or considered except under the following circumstances: (a) bids received on time do not meet specifications, or (b) no other bids are received.

9. NON-DISCRIMINATION CLAUSE

In the performance of any contract or purchase order resulting from this RFP, the Bidder agrees not to discriminate against any employee or applicant for employment, with respect to his or her hire, tenure, terms, conditions or privileges of employment, or any matter directly or indirectly related to employment, because of his or her race, color, religion,
national origin, ancestry, age, sex, height, weight, marital status or handicap. The Bidder further agrees that every subcontract entered into for the performance of any contract or purchase order resulting from this RFP will contain a provision requiring non-discrimination in employment, as herein specified, binding upon each subcontractor. Any breach of this covenant may be regarded as a material breach of the contract or purchase order.

10. INCURRING COSTS

ABC is not liable for any costs incurred by the Bidder prior to the signing of a definitive contract.

11. CONFIDENTIALITY AGREEMENT

Bidder agrees to hold in strict confidence the information, materials and data that are disclosed by ABC in this RFP or related to this RFP and that are not made publicly available by ABC or any subsidiary or affiliate of ABC or an authorized third party. The Bidder will not use any such confidential information for any purpose, nor disclose it to anyone other than its personnel assigned to respond to this RFP, without prior written approval from ABC.

ABC agrees to hold in strict confidence any information, materials and data that are noted in writing as "confidential" and disclosed by the Bidder in the response to this RFP. ABC will not disclose such Bidder confidential information to any other bidder to the RFP without the prior written approval of the Bidder.

The Bidder acknowledges and agrees that any information, materials and data disclosed
in the Bidder's response to the ABC RFP may be used by ABC for any purpose whatsoever with the exception of a disclosure to another bidder as noted above.

12. CONTRACT

The successful Bidder will have no right to assign or subcontract its rights and obligations under the contract without ABC's prior written consent, which may, in the sole discretion of the Company, be withheld. A specimen copy of ABC's standard purchase order is included in this RFP. The terms contained in this purchase order, or similar terms changed as needed to accommodate requirements of the RFP, will be part of any contract resulting from this RFP.

13. FINANCIAL STATEMENTS

ABC will not offer, nor make available, any financial statements for ABC, its subsidiary and/or affiliated companies, that are not publicly available.

14. BIDDER QUESTIONS ABOUT RFP

Questions concerning the specifications contained herein should be submitted, in writing, to the individual specified in the introduction to this RFP. Other ABC employees will not respond to telephone inquiries or visitations regarding this solicitation by Bidders or their representatives.

Section 2: Bidder Information

Bidder's Authorized Representatives

Please complete this form and include it, or a reasonable facsimile, with your proposal.

Name of Bidder: ________________________________________________
Address of Bidder:
______________________________________________________________________________

Respondent Name:
______________________________________________________________________________

Respondent Title/Position: _________________________________________________________

Respondent Phone Number: ________________________________________________________

Respondent Fax Number: _________________________________________________________

Alternate Contact: ________________________________________________________________

Alternate's Title/Position: __________________________________________________________

Alternate's Phone Number: _________________________________________________________

Alternate's Fax Number: _________________________________________________________

General Information About the Bidder

1. OVERVIEW
   Briefly describe your organization, including lines of business, total assets, credit ratings, organizational structure, etc. Enclose your most recent annual report. Describe your corporate relationship management team, including all individuals likely to be assigned to ABC should this business be awarded to you.

2. EXPERIENCE
   Does your organization have any particular experience with, or commitment to our industry? Please provide a listing of current clients in our industry, including types of services and activities
provided and length of relationship.

3. REFERENCES

Provide a minimum of three (3) references of current customers, including names, addresses and telephone numbers. ABC reserves the right to solicit all references for comments about the specific service and for general impressions of your organization.

Section 3: Description of Current Systems

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>Description of the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUSINESS LINES</td>
<td></td>
</tr>
<tr>
<td>AFFECTED</td>
<td>Description of business lines affected by proposed service change</td>
</tr>
<tr>
<td>VOLUMES</td>
<td>Volumes of checks or receipts, number of bank accounts, dollars, etc.</td>
</tr>
<tr>
<td>CRITICAL ISSUES</td>
<td>Issues which must be addressed by the vendor, and which are deemed critical to the company seeking bids for service</td>
</tr>
</tbody>
</table>

Section 4: Questionnaire for Bidders

1. DISASTER RECOVERY. Describe the "disaster recovery" facilities and procedures you have in place. What type of standby/back-up facility do you have? If your disaster recovery facilities are maintained by a third party service provider, indicate your guaranteed level of
service. How long would it take you to recreate a day's activity? Describe any disaster experience in the past 3 years, including the resolution of the problem(s).

2. QUALITY ASSURANCE. Describe your quality assurance program. Do you maintain quality standards for specific processing/bank services, including minimal acceptable and target performance goals? What specific quality measures do you monitor for disbursement services and what are the target performance levels for each? Do you periodically publish a quality chartbook or other reference, and/or do customers have access to quality review meetings? Provide analyses of trends in quality performance over the past 3 years, if available.

3. CUSTOMER SERVICE. Describe the organization and mission of your customer service area, including depth and staffing. How is staff turnover managed to assure continuity of service? During what hours is customer support available? Who will be ABC's main contact for problem resolution?

4. SECURITY. Describe the security features and options which are available for use with your systems. Describe any hardware and software requirements for each feature and option. Have you experienced any significant fraud with regard to checks, ACH or EDI?

5. IMPLEMENTATION ASSISTANCE. If your bank is selected by ABC for this business, describe the implementation cycle that you envision in order to accomplish the necessary conversions. What assistance will you provide to ABC to expedite the implementation? What is the likely timeframe to complete the implementation?

6. PRICING. ABC intends to compensate its banks with fees or a combination of fees and
balances for services, and its vendors by fees. A *pro forma* account analysis or invoice must be provided for each and every service included in your bid, showing the pricing of requested services including individual (unbundled) pricing as it would appear on the monthly analysis or invoice. An account analysis/invoice must be provided to ABC monthly.

a. For what length of time do your guarantee prices? What are your requirements for volume discounts?

b. What is the standard contract period? Do you offer 1, 2 and/or 3 year contracts? How are prices handled in contracts longer than 1 year?

c. Provide the formula you use to convert service charges to balance requirements for compensation? What is your earnings credit rate (ECR) for the current and two previous months? How is the rate derived?

d. Are service charges the same for fee and balance compensation? If not, explain.

e. Since our pricing analysis will be based on your *pro forma* account analysis, it is important that you: include all relevant charges (e.g., account maintenance, ACH transfers, wires, return items, balance reporting, data transmission, etc.); indicate any one-time set-up fees, attach a separate itemized list; and suggest alternative services which will meet processing requirements at a lower charge.