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CUSTOMER DISCOVERY: Module 8, Episode 2

Managing & Scaling Up a Successful Pilot

TITLE:

Understanding the Procurement Process

DESCRIPTION:

Procurement isn't something to take lightly. This step can be the difference between a yes or no decision, even for an excited partner

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[LEARN@LIFT Episode Intro]

Welcome back everyone. We're going to dig into a topic you should pay more attention to than you'll likely be interested in. I'm talking about navigating the back office. To get to this point, you'll have already come a long way from building your prospect list, getting your foot in the door, facilitating countless meetings with different business units, and scoping out the activities for a pilot. After all of this, you might believe your job is done once you've gotten enough buy in to start putting together an agreement. Unfortunately, while getting to a commercial agreement is a big step, it'll be a while until you've got a fully completed and live partnership.

The reason for this is a tricky process that's foreign to how startups go about their own day-to-day work: the procurement process. The word "procurement" often brings a sense of dread to the most seasoned entrepreneurs. They know this step is more than perfunctory. It's critical for laying the groundwork — or should I say paperwork — for a solid partnership. Thre reason is that when you work with a big company, you have three buyers: Technical (they'll ask what your product does), Economic (they pay the bills) and Procurement (they'll say yes or no). And it's this last one that's easy to run into trouble with, but the good news is that it's not always bad, and there are practices you can follow to make this a frictionless process. So first, let's break down what procurement is and how it works.

Simply put, procurement is sourcing and purchasing goods or services from an external source. In large companies, the procurement group is responsible for putting purchase agreements in place and ensuring that vendors adhere to certain standards. They're often involved in the payment process too. On the surface, none of this sounds scary. After all, these are the people who are going to help you get paid for your work with your dream partner. But the problem is most large companies have a standardized procurement process, so they'll treat your three-person startup the same way they'd treat a larger company, like Google.

When you, a startup founder, decide to use a service or hire a new staff member, you look at the features, benefits, or a resume, consider the cost, and make your decision. It's as simple as that. Large companies, on the other hand, have a series of hoops you'll need to jump through, which adds in layers of protection for them. What are they protecting in this case? The main thing is their reputation. Think about it for a second. Imagine you're working with a corporate who stores sensitive customer data on your platform. But then, something terrible happens: you have a security breach and that customer data is lost, or worse, stolen. Whose brand and reputation takes the bigger hit in this scenario? Your small startup, or the large corporation? The answer is obviously the large company. They'll be raked over the coals by analysts, news anchors, and all over social media. The average person won't know or care that your startup was responsible for the breach. And of course, your startup still faces a major risk in this scenario, but the bigger impact in absolute terms lands on the corporate's side — not yours.

Now let's get into some of the steps in the process. Procurement typically begins when you and your counterpart agree on major contract points like pricing, deliverables, and project timeline. Your partner will then connect you with a procurement team member who's responsible for, quote, "getting you in the system." Every company has its own process, but here are the basics.

In some cases, your first step in procurement will be getting through a formal RFP. This can vary based on the size of your contract, and who your partner is. Some companies will have public bidding rules for contracts above a certain amount, which means that if your contract costs them more than a predetermined threshold, $100,000 for example, the corporate will publicly release a request for proposal — also known as an RFP — to see if any other vendors bid on it, what services they provide, and what their pricing is. This is typically seen when there's a government or government-funded entity, or with quasi-monopolistic companies like energy and utility companies. If this requirement exists, your counterpart will give you the heads up early on, and if your contract is near the threshold, say a $110,000 contract with a $100,000 RFP threshold, it can be worth reducing your contract to fall below the limit and avoid this step altogether.

Next comes the actual contract. Most companies use a standard set of terms and conditions that they've developed in-house. As part of these terms and conditions, or "T's & C's" for short, you'll find terms like payment terms, warranties, ownership rights, indemnification, intellectual property, termination, dispute resolution, insurance, severability, taxes, and other clauses. Every company treats these terms a little differently, too. For example, some companies may require that you carry certain levels of business insurance, especially if your project entails physical labor, like hardware installation. You should absolutely consult a legal professional for advice on the particulars, but while you'll want to ensure the terms of the contract are fair, the basic T's & C's is often an area where negotiating is futile. Again, please consult a professional here, but companies are generally not eager to create special terms and conditions for each partner they work with. This said, if some of the terms are a bespoke element of how you're structuring a commercial arrangement — ownership of intellectual property is a common example — then the contract should be customized to reflect what you and your counterpart agreed on.

Once you have an acceptable set of contract terms, both for you and the procurement team, the next step is to get your company added to the company's approved vendor system. Just like the contracting process, the process for becoming an approved vendor is different for everyone. At a minimum, you'll be asked to complete an IRS W-9. This form asks for your taxpayer information and depending on the type of business you have, there are different instructions for filling this out. The main purpose is just so that the corporate has your official business name and EIN on file.

The next step of the process is likely a vendor security audit. While this isn't required as part of every deal, if your startup is working with customer data, or is a type of software running in the corporate's networks, more often than not, you'll need to undergo an audit. As we discussed earlier, the purpose is to protect the corporate's own customers and reputation by looking for vulnerabilities that could lead to a breach, like insufficient protection of passwords, exposing personally identifiable data, billing information, or in certain cases, information like healthcare records. If your startup's product is data-heavy and involves sensitive information, it's worth getting ahead of this step by auditing yourself, or engaging an external firm or tool. One important thing to note is even if you're mostly using third party tools like Google Cloud or Amazon Web Services, you still may have vulnerabilities in your system. For more on the common mistakes made during the security audit step of the procurement process, check out the related article in the Resources section.

Some additional questions to ask yourself at this step to improve your odds of successfully navigating procurement are:

- Is my technical architecture secure?
- Who's responsible for cybersecurity in my company?
- Do we have a plan that outlines how we'll respond to threats or breaches?
- Do I have business insurance, and if so, does it cover the right risks?
- How do I handle customer data and privacy regulations like GDPR?

Having strong answers to these questions will help you get ahead of any issues that are bound to be revealed in procurement. This is part of becoming an "enterprise-ready" startup. While your counterpart might not explicitly ask you about GDPR compliance, it's certainly something procurement will be looking for. You can also get ahead by asking your corporate partner about the steps in the procurement process once things start progressing. Which, by the way, will help signal just how serious your counterpart actually is about working with you.

If they eagerly share information about their procurement process, they're likely serious. If they dodge the question, they might not be so sure about working with you.

Once you've completed these steps, you'll likely receive a purchase order, or a "PO" for short, which involves the procurement department issuing a document that reflects the terms and deliverables of your contract, and has been approved by the department you're working with. This document is key because it's your bridge to the accounting department. It's what allows you to submit an invoice for payment with your partner's Accounts Payable team. Most times, you won't be allowed to submit an invoice if it doesn't reference a PO that's already been created in the corporate's system — which will only delay an already long wait.

Last but not least, you should know there can be ways to avoid the procurement process. Every company will typically have some level of contracts where they won't require a buyer to make their partner go through the full process. For some companies, this can be quite high, up to $25,000 in some cases. While it's unlikely that your ultimate deal with a corporate is going to fall below this threshold, it's possible that your pilot project could and in these cases, it's best to do what you can to avoid procurement and move the process forward, even if you leave a few dollars on the table.

[Insert episode closing]