



Session Code: FI
Contracting for Services:
Review of the Contracting Process

Jim Haining, C.P.M., A.P.P.
President, JDH Management

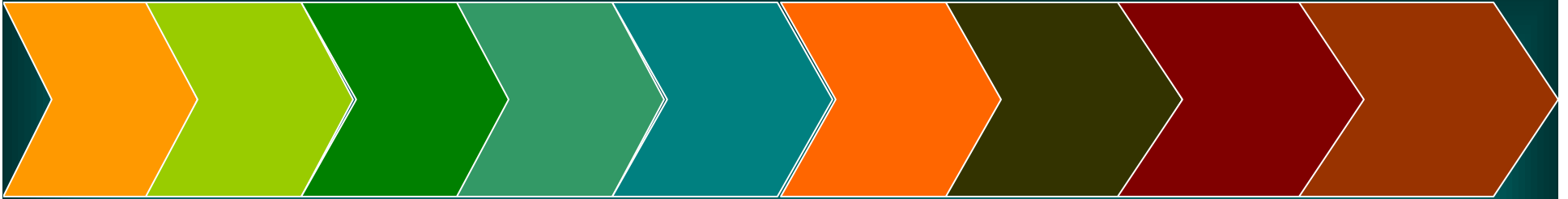
Jim Kiser, C.P.M.
VP of Operations, ADR North America

Tuesday, May 8
10:20 – 11:20 a.m.



Service Sector is Growing

- Manufacturing sector shrinking
 - Services sector is approx 71% of Gross National Product (GNP)
 - ISM released Non-Manufacturing Report On Business® – June 1998
- Companies focusing on services spend
- 30 percent of spend is services
 - (2003 CAPS Research Benchmarking Report)
 - Some companies are 40% plus



Why the Focus on Services?

- Need to reduce expenses
- Staffing decreases
 - Increased outsourcing of non-core services to suppliers
- Introduction of e-procurement systems and other sourcing tools



Examples of Services

- Administrative services (Mail, Utilities)
- Building maintenance services (Janitorial)
- Consulting services
- Construction services
- Equipment maintenance services (HVAC)
- Freight
- Professional services (Legal, Marketing)
- Software development/IT services
- Temporary labor services
- Travel services
- Services are unique from one another



Services vs. Materials

- Services are not like materials/goods
- Differences include
 - Quality evaluation
 - More subjective than with materials
 - Complexity of procurement/contracting activity
 - Contract administration is necessary
 - Usually performed by end user
 - Description of service (Scope of Work)
 - Material specifications are often much clearer than Scope of Service/Work



Services vs. Materials

- Differences (cont'd)
 - Spend data difficult to capture
 - Most services included a material component
 - Management and end users believe they are experts in buying services
 - Cost analysis and negotiation are more difficult
 - Few total cost of ownership models exist
 - No formal training exists for service cost analysis
 - Less emphasis on costs and prices of services
 - Terms and conditions
 - UCC does NOT cover services



Other Uniqueness

- Degree of interaction and customization
 - i.e. architect vs. truck driver
- Degree of labor intensity



Sourcing Process

- Structured process
 - Equates to credibility
- Complete 9 step process



Form
Team

Form a Cross-Functional Team

- Provides knowledge and expertise
- Adds depth to development of SOW
- Represents end user group
 - Brings user's perspective



Determine Spend

- Use a spend diagnostic tool
- Determine users of that service
- Segmenting the spend
 - Strategic vs. non-strategic
 - “Mission critical”
 - By price

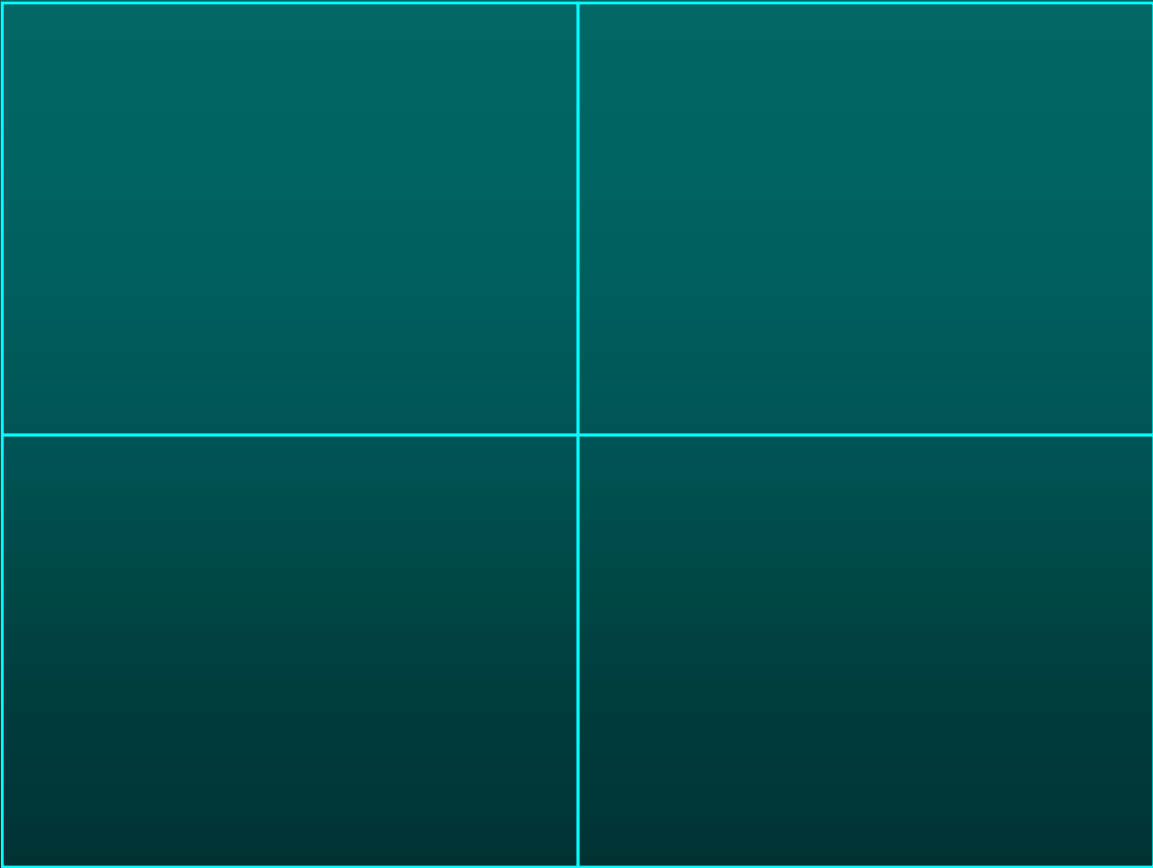


Portfolio Analysis

M
A
R
K
E
T
D
I
F
F
I
C
U
L
T
Y

High

Low



Low

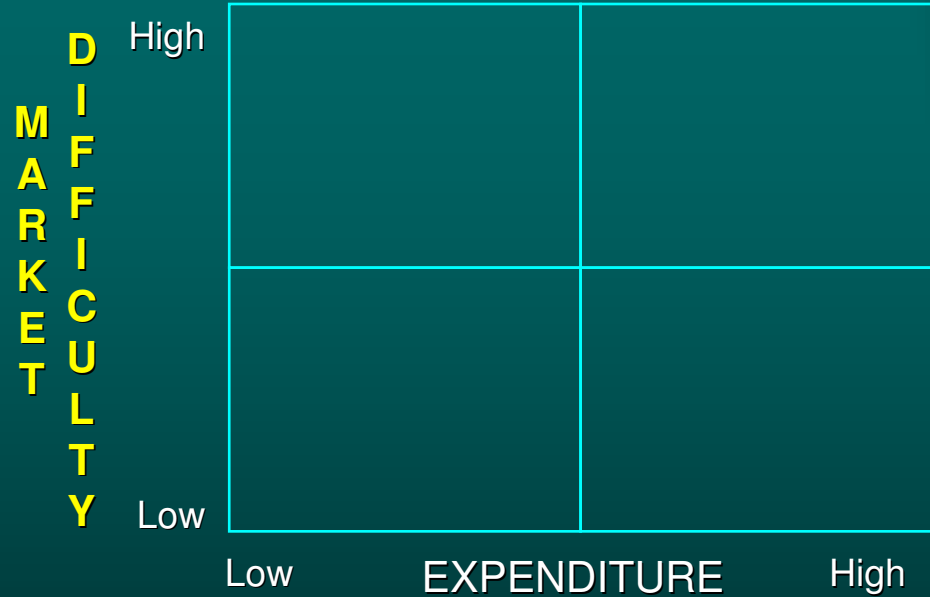
EXPENDITURE

High



Portfolio Analysis: Market Difficulty

- External factors
 - Number of suppliers available
 - Commodity availability
- Internal factors
 - Difficult specifications
 - Internal constraints





Mapping Expenditure & Market Difficulty

MARKET DIFFICULTY	High	<p>CRITICAL</p> <p>Low Spend</p> <p>High Market Difficulty</p>	<p>STRATEGIC</p> <p>High Spend</p> <p>High Market Difficulty</p>
	Low	<p>ACQUISITION</p> <p>Low Spend</p> <p>Low Market Difficulty</p>	<p>LEVERAGE</p> <p>High Spend</p> <p>Low Market Difficulty</p>
		Low	High
		EXPENDITURE	



Develop Strategy

- Low dollar spend
 - Consider self-service tool
- High spend and few suppliers
 - Negotiate
- “To Source or Not to Source”
 - Add value through putting contract in place that protects your company
 - i.e., Consulting services



Develop Scope of Work

- Must be detailed and clear
 - Must not allow leeway for supplier's interpretation
- Requires end user involvement
 - End users often do not know how to write the SOW
 - Supply management needs to provide samples and templates
 - May require supplier input / review
- Most important element of your contract!



Scope of Work

- Includes:
 - Description of services to be performed
 - Deliverables
 - Description of output and how it will be measured
 - Schedule
 - Tasks, frequency of service
 - Start date / Completion date
 - Delivery and performance schedule
 - Description of cost or pricing model to be used



Scope of Work

- Includes:
 - Quality requirements / evaluation
 - Specifications and requirements
 - i.e. Requirements / skills of technicians, providers
 - Service levels
 - Bond requirements
 - Project management
 - Reporting requirements



Scope of Work

- Includes:
 - Safety requirements
 - Supplier responsibilities
 - Buyer responsibilities
 - Work approvals / acceptance criteria
 - Use of subcontractors
 - Exhibits, schedules, attachments



Find / Pre-qualify Suppliers

- Use Request for Information (RFI)
- Other sources



Select Sourcing Tool

- Request for Quotation (RFQ)
- Request for Proposal (RFP), eRFP
- Auction



Auctioning Services

- Can be effective for Services
 - Results = 14% average savings
 - High 67%, Low of 4%
- Reduces time for the “price” portion of the contract negotiation.
- Not different than a traditional price negotiation, just a different medium.
- Requires supplier training sessions PRIOR to auction



Evaluate Responses

- Attempt to determine Total Cost
- **Total Cost** = Pricing + Quality + Other Factors



Negotiate Contract

- Commonly negotiated Items
 - Price
 - Terms and conditions
 - Most commonly negotiated T & C's
 - Indemnification
 - Limitation of liability
 - Other variables



Contract Negotiation

- Determine “correct” pricing methodology
 - Lump sum
 - Time and material
 - Unit price
 - Cost plus fee
- How do you know you have the right price?
 - Hard to conduct cost analysis for services
 - Benchmarking



Contract Negotiation

Terms & Conditions

- Terms and conditions for services need to be customized for “that” service
- Items to consider
 - Insurance
 - Indemnification – Liability Limits
 - Termination
 - Payment Terms, Invoicing
 - Warranty
 - Security
 - Service Level Agreements (performance scoring)
 - Length of Term



Contract Implementation

- Contract implementation
- Contract administration
 - Performance monitoring
 - Supplier reviews
 - Invoice approval



Examples of Potential Payback

- Better quality performance
- Tremendous savings
- Consolidation of suppliers
- Longer term contracts (3+ years)
- Expand your SOW and receive cost reductions
- Development of long term strategy



Thank You