



MANAGING PROCUREMENT AGREEMENTS

A case study for the PMP® Certification Course.



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Introduction

A remodeling construction company offers a variety of services, including basement build-out, kitchen remodeling, extended space, and structural repair. Delivering these services requires several internal departments, including a project management team, electricians, designers, structural engineers, and plumbing department, to work together. A few components of some services also require external partners to work with the organization.

The specificity of the contracts that customers sign before receiving a service depends on service deliverables and targets. The original scope of work often changes during the planning process and sometimes later, depending on the level of investigation and discussion held during the initial stages.

Challenges

Many customers of the construction company have grown dissatisfied with their overall service over the past year. The service provider believes it is doing a good job and cannot understand where the customers' concerns are coming from. Conversations between the customer service manager and the customers seem to indicate that customers' expectations are not fully taken into account during the discovery and planning process of their remodeling job. As a result, more time is spent on working through conflicts and reaching a decision satisfactory to the customer.

Customers also complain about the construction company's use of third parties; they report inconsistencies in turnaround time when dealing with a third party and confusion over who should be doing what. The third parties often ask the customer to complete tasks that the customer believes the construction company is responsible for.

Overall, all the issues stem from the fact that the construction company does not have a well-defined procurement statement of work, quality expectations/metrics, and a service-level agreement in place with its suppliers/third-party providers. Furthermore, the contracts that are in place

between the construction company and the third-party partners are not in alignment with customer expectations.

Solution

Best practices on procurement management stress the importance of collecting requirements and identifying scope to resolve these serious issues. Project Management provides an excellent framework for setting requirements, documenting, negotiating, and managing expectations via agreements between the construction company, third-party partners, and the customer.

First, the construction company must do what it can to ensure that customer requirements are fully captured. This is handled in the planning phase. The strength of the planning process can drive the success of the project delivery. Here are the key actions the construction company must take during their planning process.

Planning Actions to Take

- Refine requirements and convert them into a scope statement, requirements matrix, and a work breakdown structure
- Get stakeholder agreement, approval, and sign-off
- Develop baseline scope, cost, and schedule
- Select project team and determine their roles and responsibilities
- Determine the project's quality standards and quality testing plan
- Develop a process for risk management including risk identification, analysis, and response planning
- Determine what needs to be purchased, how procurement will be managed, and how contracts will be developed
- Determine how to execute and control the project
- Document the project management plan
- Handle updates coming out of change requests

An effective procurement statement of work and contract agreement will document the specific targets the service provider must meet to achieve customer satisfaction and satisfy the contract agreement. The targets need to be

specific, measurable, achievable, realistic, and time-bound. But most importantly, the targets must be aligned with the customer's desired business outcomes. As per these defined agreements, the construction company will be able to monitor and control the third party's ability to deliver according to the defined specifications. Inspecting and auditing are key to ensuring the work meets defined requirements, quality metrics, and ultimately the customer's requirements.

Here are the key tasks that should be executed to garner customer sign-off at the end of the project.

Actions taken

- Communicate progress
- Measure project performance against the baseline
- Determine variances and take appropriate action
- Recommend changes and corrective and preventive action
- Facilitate conflict resolution
- Identify root causes of problems
- Obtain formal acceptance for the deliverables
- Administer contracts with sellers
- Control changes Conduct status review meetings

Having an agreement in place with performance measures and defined metrics is an extremely effective way of ensuring that the third-party partner supports the overall scope of the project and customer satisfaction is ultimately achieved.

Rather than operating as an independent, unrelated third party, each supplier will see itself as an important piece of the puzzle of achieving customer satisfaction.

Approach

To implement the Project Management best practices around procurement agreements, the focus has to be on establishing accountability and attaining clarity of work and requirements between the construction company and its third-party partners in support of the customer.

The desired business outcomes must be supported in the contractual agreements, through a cycle of negotiation, agreement, documentation of

specific service-level targets, and an audit/inspection to ensure compliance. Once this is in place, all parties will be able to work together and provide the customer a more unified and peaceful experience.

Final Outcome

With customers removed from the decision-making and accountability process and the construction company and its third-party partners on the same page about what specific targets must be met, customers will be more satisfied with the overall remodeling experience. They feel that the quality of service has increased. They also receive more frequent communication and see that different teams within the construction company are working together much more effectively in support of their services.

When engaging with third-party suppliers, customers will have a more consistent experience. Rather than experiencing confusion and frustration when dealing with a supplier, customers will appreciate that each supplier is closely aligned with the construction company and is fully aware of what roles, responsibilities, and targets it must keep in mind when delivering service.

Overall, customers know exactly what they've agreed to when it comes to service-level targets and that their construction company is consistently working to meet those targets.

Critical Success Factors

To effectively implement Project Management procurement management, it is important for well-defined agreements to be in place with each customer, as well as third-party partners, to present a unified front. Each agreement must directly support the targets that are documented in the customer's master agreement, which ultimately define the scope of work for the job. The process must be defined and adhered to so that third-party partners work effectively with the construction company to maintain and achieve customer satisfaction.

Lessons Learned

Managing subcontractors is a critical success factor. Organizations must actively manage this relationship with performance metrics and coordination to ensure that the client is not impacted by the working relationships. These agreements are formed initially and monitored through contractually identified performance metrics, schedules, requirements, and deliverables.

Without a proper agreement in place, it is very common for a company to believe that it is delivering service effectively and yet have seriously dissatisfied customers. This stems from the likelihood that the company and its third-party partners are not aligned with the targets that are important to the customer. It is also common for internal teams to not work effectively together and for third parties to be unaware of what customer targets are important to the customer.

