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Successfully Managing Contracts

Whether you're finding a new company to service the copy machine in the office or finding a contractor to finish your basement at home, there are times when we all have to deal with procuring someone to do something for us that we can't or don't have time to do. There are many names for a contract (agreement, understanding, purchase order), but they all have the same function, a mutually binding agreement that obligates the seller to provide something of value and obligates the buyer to provide monetary or other valuable compensation. Of all the documents that we deal with in a given project, contracts are usually more thoroughly reviewed because of their legal nature. That is why it is so important to understand how to carefully select and manage a contract.

When contemplating whether or not to hire someone to do a job, first you must determine if you can do it yourself, also known as the Make-or-Buy Analysis. Some projects can have everything done in-house, however, there will be times when you can't do a task with your given resources. Once you've concluded that you need to hire someone, the procurement process begins.

There are five steps to follow for selecting, awarding, and managing a contract. Let's look at each in more detail.

1. Define the goods and services to be procured

You've already completed the Make-or-Buy analysis, so now you need to decide what to acquire, how to acquire it, how much is needed, and when to acquire it. Talking with experts, doing research, and having team meetings can aid you in answering each of those questions. You can then develop a procurement statement of work (SOW). This SOW describes the procurement item in sufficient detail to allow prospective sellers to determine if they are capable of providing the products, services, or results required.

2. Determine how to solicit vendors

The next step to take is to determine how you will choose a vendor. Procurement documents are used to solicit proposals from prospective sellers. You should develop the selection criteria you will use to rate the received proposals. There are several ways to get the word out that you are looking for a vendor. Bidder conferences and advertising are examples of this.

***So what do we do? Anything. Something.
So long as we just don't sit there. If we screw
up, start over. Try something else.
If we wait until we've satisfied all the
uncertainties, it may be too late.***

***Lee Iacocca
Auto executive***

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3. Evaluate bids and award contract

Once you've received proposals from vendors, you can put your selection criteria into effect to make your choice. The bids you receive should include all the necessary terms and conditions for the contract, such as payment terms, place of delivery, warranties, etc. It is important to clarify the structure, requirements, and other terms of the purchases so that mutual agreement can be reached prior to signing the contract.

4. Contract control

This step ensures that both the seller's and buyer's performance meets the procurement requirements according to the terms of the contract. You may wish to do a procurement performance review, which is a structured review of the seller's progress to deliver project scope and quality, within cost and on schedule, as compared to the contract.

5. Close out contract

The final step is to close out the contract. This step documents agreements and related documentation for future reference. This process requires more than just saying that the vendor has completed the contract objectives. It involves

administrative activities such as finalizing open claims, updating records to reflect final results, and archiving such information. The original contract terms and conditions may prescribe specific procedures for closure.

Knowing the steps to successfully select and manage a contract will help keep your project within cost, scope and time constraints.

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