

About This Issue

This January edition of our newsletter contains more strategic techniques to help our clients accomplish their procurement objectives in the New Year.

Strategic Procurement Solutions is a consulting firm dealing with Strategic Sourcing, Training, and Organizational issues related to procurement & supply-chain management. Robert Dunn & Mark Trowbridge are general partners in the firm, and lead teams of professionals in supporting our clients.

Visit our web site at www.strategicprocurementsolutions.com for more information or to contact us.



Planning Contract Expirations...

by Mark Trowbridge, C.P.M.

Was your Christmas holiday marred by key contracts or blanket purchase orders expiring or rolling-over on December 31st? Since my birthday is December 31st, it's become a sore point for me to see organizations with inordinately high volumes of contracts that become effective on January 1st and expire (or have an “evergreen” roll-over) the last day of the year.

These contract dates are preferred by many sales organizations due to concurrence with annual pricing strategies, as well as easy calculation of sales personnel commissions. Most leading procurement organizations, however, recognize several strategic pitfalls in allowing large numbers of agreements to expire at the end of the year...

First Pitfall – It's typically too late to competitively bid the requirement. Many senior salespeople for supplier organizations take holidays off. The right people often aren't in the office to respond to a comprehensive RFP or RFQ.

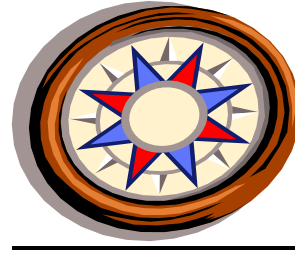
Second Pitfall – Client groups aren't available. Purchasing's internal clients are often unavailable during this time. Those people are key members of negotiating teams, provide technical advice, and are required to approve large procurement actions.

Third Pitfall – Legal Counsel isn't available. Neither your own attorneys nor those of the supplier may be fully available to support key negotiations.

Selling organizations are keenly aware of all these pitfalls, and will exploit them mercilessly. Many times, they will try to force advance signature of contract renewals to occur in the October to November timeframe so that they can "book" the transaction for their year-end commission calculations.

Here are some simple ways procurement can address year-end contract expirations more pro-actively...starting right now:

1. **Acquire a good contract tracking system.** We are consistently surprised at how few firms have good contract tracking systems populated with valid data. Purchasing can't be strategic until it knows the value of its contract inventory, the upcoming expiration dates, and a select group of key data elements regarding each contract. In our opinion, this type of system is one of the most-important tools a leading procurement organization must have to accomplish its strategic objectives (We have great information on this topic if you're interested).
2. **Negotiate multi-year contracts wherever practicable.** Simple math tells us that if you sign 100 one-year agreements in the Year 2000, you will have to negotiate 100 renewals or new contracts in the Year 2001...plus all your "new" work. If your average contract is two years in length, however, the renewals drop to 50 in the Year 2001, 33 1/3 if the length is three years... You can do the rest of the math... When initiating a contract, think strategically about the ideal term length.
3. **Don't allow contracts to expire/roll-over on December 31st.** Choose other dates. Plan your contract expirations. Look 3 to 5 months ahead, and see how many contracts expire each month. If you see a "spike" in expirations, pro-actively negotiate short-term extensions (1 to 3 months) at the current price levels. If you do that well-in advance, most suppliers are happy to cooperate, and you can "smooth" out your contract work-load.
4. **Selectively use "evergreen" clauses.** Evergreens can be dangerous if not managed pro-actively, but if reasonable protections are in place, evergreen roll-overs can save a lot of headaches. They can be especially useful in software & hardware maintenance arrangements (negotiate multi-year maintenance when the original agreement is signed...the supplier has more skin in the game), or in inflationary commodity categories.



360 Degree Reviews,
by Mark Trowbridge, C.P.M.

Many large firms seek to hire purchasing professionals who achieve their objectives by positively influencing relationships with superiors, peers, and employees. These professionals are encouraged to “melt” opposition rather than to “break it down”. This change in approach fits closely with the paradigm shift in the procurement function...i.e. from being a “control point” to becoming a “strategic support organization”.

To track and encourage the performance of such professionals, a current trend is to solicit “360 Degree” feedback. Key procurement employees in many firms are now evaluated, not just upon their direct manager’s input, but also based upon objective feedback provided by their key client department heads, peer managers/employees within the procurement chain, and their subordinates. In some Fortune 500 firms, senior executives performance evaluations depend upon “non-manager” input for as much as 65% of their annual evaluation score! 360 Degree reviews don’t always work in every situation though. The Wall Street Journal recently reported negative results from having too much of an employee’s performance dependent on the views of others outside their particular chain of command. The weighting has to be balanced carefully.

If you’re an employee whose manager doesn’t grasp what you do for their clients, try recommending the 360 Degree review process for use in your department. If you are truly supporting your clients and working well with your peers, this process can provide more objective balance for your reviews.

If you’re a manager, consider sending a questionnaire to, or calling, each of your employee’s key client departments before completing their year-end evaluation. This technique provides greater input into an employee’s annual performance evaluation. More importantly, next year that professional will be seeking to work more pro-actively with their clients, peers, and subordinates to positively influence their effectiveness. It’s a neat process to observe in action.

Developing Great Contracts...
by Robert Dunn, C.P.M.



Before beginning to develop a new contract, procurement professionals should ask themselves 4 questions:

1. What is the objective of this business relationship?
2. What is the understanding between the parties?
3. What are the responsibilities of each party?
4. What risk is each party willing to accept?

In addition to knowing the purpose of the contract, the following guidelines can greatly help to streamline the contract development process:

Step 1 – Don't Start From Scratch

Don't start with a blank piece of paper; use contracts previously developed for similar acquisitions, and make appropriate changes as necessary.

Step 2 – Build an Inventory of "Pro-Forma" or "Template" Agreements

Build a collection of contracts from which to use in developing new agreements. Many leading procurement organizations are building a group of core contracts that are customized to address 80% of their contracting actions. Key objectives in building Pro-Formas are (A) Have common general conditions between different contract types; (B) Use Industry-Acceptable formats so supplier's are willing to use the document; (C) Minimize "Legaleze" to make the agreement readable; and (D) Have "Mutual" protections for the buyer & seller so the agreement makes good business sense to both parties.

Step 3 – Create & Use Checklists

Even though you may be familiar with a particular type of procurement, you may not remember all the items or issues related to a contract. A checklist will help you in identifying key terms/clauses to put into your agreement.

Step 4 – Pay Close Attention to the Statement of Work

The Statement of Work is the heart of the contract. It describes the “business terms” about what the seller will provide to the buyer. Many disputes that arise between firms originate from the lack of clear definition and agreement between the parties.

Step 5 – Be Clear & Precise

In creating (or revising) a contract, try to use clear & effective contract language.

Step 6 – Use Quality Legal Resources

Contract language should be approved by trained legal counsel. Make sure key elements of your documents are reviewed by an attorney.

Editor’s Note: Strategic Procurement Solutions’ objective is to provide top quality supply-chain consulting & training services to clients in the private & public sector, and to enable those clients to exceed their internal users’ expectations regarding promptness, price, and quality. One means of doing this is through this periodic educational newsletter, which provides quarterly articles about “Best Practices” in procurement. Contact us through our web site at www.strategicprocurement.com for more information about our services, or if you do not wish to receive this newsletter in the future.