Effective Subcontractor Management

21 July 2011

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Agenda

❖ Housekeeping

❖ Intro to the C&P SIG

❖ The main event.
Housekeeping

- Fire procedures
- Toilets
- Focus: mobiles off etc.
One of the first SIGs

Flourished and then declined.

A conference some $3\frac{3}{4}$ years ago: members wanted the basics of contracts & procurement.

We run a combination of basic training events called “seminars” (always booked up well in advance) & more leading edge events.
Aim of the C&P SIG:

The **Contracts & Procurement Specific Interest Group**:

- Exists to promote and disseminate knowledge, understanding and best practice of contracts and procurement in a project environment.
- Aims is to become a lively and constructive debating forum which takes existing best practice and helps make it better.
- Wants to be disseminating this knowledge, understanding and better than best practice through a variety of accessible means.
- Has a long term aspiration to become recognised as an international forum at the leading edge of excellence in contracts & procurement for projects.
2011 Contracts & Procurement SIG Structure

**The Bulls Eye:** Committee members & those who want to initiate ‘projects’ & pro-actively contribute. Copied in on most emails wrt SIG initiatives. Bi-monthly web / tele-conference meetings.

**The Inner Circle:** Those who are willing to contribute when asked e.g. Talks, contributing & reviewing documents. Limited direct emails.

**The Middle Circle:** Those on the C&P web mailing list.

**The Outer Circle (>& beyond):** Receive Information via general APM publicity.
Future Events

- Basic Contract Law for Successful Projects – VWV – Newcastle – 14th September (day)
- What is NEC3? – Me – Newcastle – 14th September (evening)
- The Top Ten Mistakes in Contracts & Procurement … … and what to do about them – David Beare – Leeds 24th November.

We are also developing a Procurement Guide & discussing an event on Agile Procurement some time in late October.
Roke snapshot

› R&D centre of excellence
› Situated in Hampshire, UK
› Trusted List X site
› Turnover in excess of £50M
› Over 350 world class scientists & engineers
› Specialise in ‘First, Fast, Difficult’
› Delivers technological advantage to Government, Commercial & Siemens organisations

Some of the world class test facilities at Roke:

› CTIA Chamber
› High Voltage Chamber
› EMC Chamber
Mission Statement for today:

To enhance your skills and capabilities in the management of subcontractors during the delivery phase.

- Focus on pitfalls and gotchas
- Review actions that can help to address or avoid costly pitfalls
- Gather your inputs and create a Working Paper
- Provide some example management tools
1. Setting the scene:
   - Project Life Cycle
   - Key Issues
   - Subcontractor types – Management demand
   - Some common “Gotchas”
   - Typical Scenario

2. Break-out Scenarios – Covering some difficult points in the delivery Life Cycle

3. Break-out Reports
4. Primary findings/discussion
5. Summary and close
Effective Subcontractor Management

Project Life Cycle (APM)

- Concept
- Definition
- Implementation
- Handover & closeout
- Operations
- Termination

- Business Case
- Project Management Plan
- Integration

- Strategy
- Selection
- Contract Award
- Implementation
- Handover & Closeout

- Subcontractor

Diagram shows the project life cycle with stages such as Design, Build, Operations, and Termination, highlighting key phases like Business Case, Strategy, Subcontractor, and Integration.
• **One throat to choke:** No matter how many subcontractors are used the customer will consider you liable as prime (its your reputation)

• **Subcontractor failures:** Failure by a subcontractor may have onerous knock-on consequences on the overall project

• **Legal recourse:** Legal recourse is generally impractical as the costs and consequences are excessive

• **Timing is everything:** Contract Negotiation times are often unrealistic. Subcontractors must be engaged early and often

• **Negotiating strategy:** Agreements made at the core negotiation table need to be underpinned by the subcontractor(s)

• **Out-of-the-woodwork issues:** Unforeseen issues may stress the prime/subcontractor relationship and dealing with these matters requires calm and open-minded thinking

These issues emphasise why subcontractor management is so important and a key skill that is required on projects.
What is your typical type of subcontractor?

Subcontractor’s Validated Experience

- Star
- Question Mark
- Dog
- Cash Cow

Project percentage
* Complexity
Effective Subcontractor Management

Supplier Management Risks – Some Gotchas!

Things to watch out for:

- Single source dependency
  - *Always* have an alternative (selection process)
- Re-assignment of risk during the contract
  - Ground rules for meeting/communications control
- Acceptance ambiguity
  - State Acceptance criteria in SoW – allow for integration
- Diminishing Resource Priority
  - Obtain CVs of key personnel – specify approval of changes
- Excessive and unreasonable Change Requests
  - Specify a baseline setting milestone
  - Include formal CCR procedure in your SoW

**Schedule reviews of performance against risks regularly and at key milestones**
Workshop (part 1)

- On your own, briefly think about what, when you come away from this evening, answered question or “tips about how to ……” would make it really worthwhile having attended. Come up with one *

* This could be going down a level of detail wrt what John has said, a “how to” question / tip or something not mentioned at all.

- Have chat around the table around these.

- As a table, come up with your No.1 choice and write on the BIG Post-It.

- Have two in reserve and write each on a large’ish Post-It.

- Name your table and just record on bottom of each Post-It before bringing up.
Workshop bit (Part 2) - Process

- I arrange the BIG Post-Its in a logical order for John to answer. I arrange the large’ish ones around these so if easy to easy ‘cos related can be ticked of as well.
- I hand them to John in logical order one-by-one.
- John (mainly) or I attempt to at least answer all BIG Post-Its by end.
- After answering one, John & I check in that answered and we (i.e. including you) attempt to address if not.
- After end of evening, any slides, tools etc. that John demonstrates are distributed to participants.
Scenario Exercise

- Summary of analysis of the risks considered
- Documentation Tools - Overview
- Q & A
- Summary of follow-on actions
Thank You
for
your questions and inputs!
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Extended Slide Set

Not part of the presentation on 21-Jul-2011
but some used in the interactive sessions - may be useful for explanation

Contact John Lake (john.lake@roke.co.uk) with any questions
Effective Subcontractor Management

How do we manage subcontractors?

Prime

Controlling Documents
- Designated Subcontract Manager
- Communications Plan
- Issues/Crises Management
- Soft/Personal Skills

Subcontractor

There is still some confusion about what SRM is:

1. SRM is the process that defines how a company interacts with its suppliers.

2. SRM is the mirror image of “Customer Relationship Management” (CRM). Just as a company needs to develop relationships with its customers, it also needs to foster relationship with its suppliers.

3. The immediate objective of SRM is to streamline and make more effective the sourcing process between an enterprise and its suppliers (via technology).
What is Supplier Relationship Management (SRM)?

SRM should be a collaboration of several disciplines:

- Account Management
- Supply Chain Management (Procurement Specialists)
- Commercial Management
- Supplier Performance Management (programme Management, Project Management)

There is a danger that SRM may be something done outside of the day-job of Programme and Project Managers (where dedicated roles and responsibilities are not fully defined)
Effective Subcontractor Management

What is Supplier *Relationship* Management (SRM)?

Getting the *Relationship* right at the outset and understanding both sides of the equation is the most effective way of obtaining excellence in performance. This will involve several factors:

- Segmentation/categorisation: Commodity, Performance monitor only, Development potential, Strategic partnership
- Accountability: Executive involvement
- Process and Governance: Tailoring/developing internal processes
- Technology: Implementing tools
- Resourcing: Who manages?

**What other factors are important in a supplier relationship?**

The desired outcome is a win-win relationship where all parties benefit.
SRM is not isolated to Supplier-Enterprise
The “standard” contract delivery process - C&P Procurement Guide:

1. Concept & Feasibility
2. Develop Project Procurement Strategy & Delivery Options
3. Develop Contract Procurement Strategy
4. Draft Contract & Detail Requirements
5. Select Contractor & Enter Contract
6. Delivery of Requirements & Manage Contract
7. Operate: Deliver Outcomes & Receive Benefits
8. Disposal or Upgrade

Boundaries?

The gateways or boundaries may be blurred in practice
Scenario 1: Clarifying the Relationship and the Solution

Short cuts at the bid stage can lead to incorrect assumptions
1. **Contact:** Escalate the issue and arrange assignment Project Managers/Commercial Team
2. **Awareness:** Review what has happened
3. **Understanding:** Define the System Specification for the Product
4. **Engagement:** Produce full **Statement of Work** and review
5. **Acceptance:** Reach agreement by iteration of the SoW
6. **Commitment:** Delivery teams engage to work closely to monitor the solution
7. **Internalisation:** Strong relationship developed with collaborative bids in progress
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Lesson Learned

- **Collaboration**: Involve suppliers in the bid process appropriately (key stakeholders)
- **Document** any high-level agreements
- **Prioritise** the level of engagement by **Risk Analysis**
- Get **buy-in** from the **appropriate** stakeholders
- **Agree** an appropriate **Statement of Work** – including critical parameters
- Put in place appropriate **Communications Channels** to review progress, risks and issues
Scenario 2: SRM involves the customer

Choice of supplier can be critical to customer satisfaction
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Supplier Management Risks – Some Gotchas!

Things to watch out for:

- AOC Slip
- Re-assignment of Risk
- Acceptance Ambiguity
- Dependency Linkage
- Review Cycles
- Requirements Creep
- Diminishing Resource Priority
- Single Source Dependency
- Levels of Authority
- Differences in Process, Terminology & Culture

Avoidance requires constant vigilence!
2. Subcontract Initiation

- Commercial Relationships (Partnerships!)
- Project Life Cycle – Impacts - Toolkit
- Procurement strategy
- Subcontractor selection
- Building a Subcontract
- Statement of Work (SoW)
Subcontract Initiation

Commercial Relationships
- Formal Partnerships

Revenue Input

Profit \( \times \% \) - Partner A
Risk \( \times \% \) - Partner A
Costs \( \times \% \) - Partner A

Partnership Agreement

Partner responsibilities need to be assigned.
Consultation: Involve Subcontractors in Risk Planning to identify risk dependencies

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Subcontract Initiation

Commercial Relationships

Prime - Subcontractor

Prime Contract

- Profit
- Risk
- Sub A Dependencies
- Sub B Dependencies

Costs

Subcontractor B

- Profit
- Risk
- Costs

Subcontractor A

- Profit
- Risk
- Costs
Subcontract Initiation

Effective Subcontractor Management

Commercial Relationships

Prime – Subcontract (Partnership)

Programme of Projects

<table>
<thead>
<tr>
<th>Project 1</th>
<th>Project 2</th>
<th>Opportunity A</th>
<th>Opportunity B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>Profit</td>
<td>Profit</td>
<td>Profit</td>
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<tr>
<td>Risk</td>
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<tr>
<td>Costs</td>
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</tbody>
</table>

Existing Business

New Business

Subcontractor Motivation
Success in the current project leads to:
- Profit in the short term
- Retention in the “Programme”
- Opportunities to bid for future work

Prime Motivation
Success in the current project leads to:
- Profit in the short term
- Known relationship
- Easier bidding in the future
Subcontract Initiation

Procurement Strategy

Impact

**INPUTS**
- FBC
- Refined SBC
- Project Brief
- Internal capacity
- External Potential

**OUTPUTS**
- Project Procurement Strategy Document, giving overall approach & summarising for each major package or category of packages:
  - Package Scope
  - Interactions & dependencies + proposed responses
  - The Nature of Relationship sought

**ACTIVITIES**
1. Develop inclusive Project Breakdown Structure (ProBS)
2. Understanding of Supply Possibilities for Project
3. Identify 'Make or Buy' Criteria.
4. Packaging to give Package Breakdown Structure (PaBS), (with interactions & dependencies stated).
5. Recommendations on the 'Nature of the Relationship' for each Package/Contract.

**RISKS**
- Technical Risks specific to the work being undertaken by the subcontractor
- Technical risks owned by the Prime associated with the dependencies on the success of the subcontractor in containing its risks.
- Risks associated with the subcontracting itself.
Effective Subcontractor Management

Subcontract Initiation
Subcontractor Selection
Process

- Formal Selection Process
- Selection Governance
Subcontract Initiation

Subcontractor Selection

Risks

- **First time use of a subcontractor** – Performance may be unsatisfactory (cost, time, quality).

- **Subcontractor may leave the consortium** - Bankruptcy, change of management, loss of personnel resources.

- **Incompatible working practices** – Methods, standards and cultural differences may differ from expectations and cause friction in communications or make it difficult to gauge progress.

- **Poor progress/financial reporting** – The subcontractor may not give sufficient information to allow progress between milestones to be gauged or cost-to-complete to be gauged in T&M contracts.

- **Poor Change Control** – The subcontractor may initiate uncontrolled changes (e.g. add/remove functionality through ad-hoc communications).
Subcontract Initiation

Subcontractor Selection

Risks

- **Poaching of work or personnel** – Subcontractors may campaign to work directly with your customer or recruit your key personnel.

- **Export control issues** – Where export licences are required work/communications may be delayed until all licences are granted.

- **IPR issues** – There may be misunderstanding of the ownership of Intellectual Property Rights between customer, prime and subcontractor.

- **Conflicts in division of work** – Subcontractors may duplicate work being done by the prime or others.

- **Poor support provision** – Subcontractors may not provide the appropriate level of support for related tasks in the project or for post-delivery support.
Effective Subcontractor Management

Subcontract Initiation

Subcontractor Selection

Formal Selection Process

- Overall Advantages:
  - Emphasises competitive status (to vendors)
  - Explores/identifies shortcomings early
  - Can be used to demonstrate best practice (governance)
Effective Subcontractor Management

- Subcontract Initiation
- Subcontractor Selection
- Governance

PSB
Product Selection Board

SMEs
Subject Matter experts

PST
Product Selection Team

Suppliers 1 to 12
Effective Subcontractor Management

Subcontract Initiation

Building a Subcontract

Selection Process

ITT
- Project Context
- Draft SOW
- Draft Schedule
- Draft T’s & C’s (Flow-Down)

Tender Response
- Capabilities
- Projects History
- Technical Response
- ROM Price

Selection
- Compliance Matrix
- Scoring
- Credit Check
- QA Audit
- Framework Agreement

Commercial Subcontract (T’s & C’s) – Negotiated Terms

Annexes:
- DEFCONs (MOD)
- Dependencies (CFx)

Payment Milestones
Detailed Statement of Work
Subcontractor Costed Proposal
Purchase Order
PO Acknowledgement

Changes/Amendments
### Building a Subcontract

#### Essential Documents - Ownership

<table>
<thead>
<tr>
<th>Document</th>
<th>Ownership/Authorship</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDA</td>
<td>Commercial Manager (CM)</td>
</tr>
<tr>
<td>Statement of Work</td>
<td>Project/Procurement Manager (PM)</td>
</tr>
<tr>
<td>Costed Proposal</td>
<td>Subcontractor</td>
</tr>
<tr>
<td>Commercial Subcontract (T’s&amp; C’s)</td>
<td>CM</td>
</tr>
<tr>
<td>Instruction to Proceed (ITP)</td>
<td>CM</td>
</tr>
<tr>
<td>Purchase Order</td>
<td>PM (with Finance Approval)</td>
</tr>
<tr>
<td>Export Documents</td>
<td>CM</td>
</tr>
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</table>

The form of these documents is tailored to the project requirements (contract size, risk category, geography, classification)
**Selection of Subcontractor(s) and Entry of Contract**

- **Statement of Work (SOW)**

  - Your SOW supplies the **framework** against which the Subcontractor can bid effectively and understand the controlling documents.

<table>
<thead>
<tr>
<th>Description and Scope of Work</th>
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<tbody>
<tr>
<td>Requirements and Use Cases</td>
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<tr>
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<td>Provisions for Change Control Management</td>
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**Project Controlling Documents**

- Sub-project Plan
- Quality Plan
- Acceptance Plan
- Risk Management Plan
- ....etc.......
Selection of Subcontractor(s) and Entry of Contract

- Statement of Work (SOW)

• Your SOW is the seed document supplying the subcontract “DNA”.

It should supply a description of:

• The job to be done,
• How you are going to manage and control the subcontractor,
• Your expectations of performance and
• Your Acceptance Criteria.

• This underlines the disciplined approach expected from the subcontractor.

• If you produce a poor SOW (incomplete, vague, poorly drafted) then it may cause:
  • A bad initial impression
  • Many questions (wasted time)
  • Incomplete response
  • Ambiguity.
Effective Subcontractor Management

Subcontract Initiation

Statement of Work (SoW)

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2. Subcontract Delivery

- Billing Basis Options
  - Cost Control
  - Change Control
  - Planning
- Stakeholder Management
- Communications
- Reporting
Subcontract Delivery

Billing Basis Options

Fixed Price

- Define Payment Milestones according to work budgeted (agree with commercial).
- Link Payment Milestones to Prime Plan and PFS cycle (for cash flow & accurate EVA).
- Ensure subcontractor’s risk is clearly defined (SOW and Contractor’s Proposal Document).
- Regular updates of the subcontract schedule.
- Corrective action plans for schedule slippage.
- Implement strict Change Control.
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### Subcontract Delivery

#### Billing Basis Options

**Time and Materials**

- Prime price based on NTE Estimate.
- Project Cost model based on Deterministic Estimate.
- Any "Delta" cost is released via Change Request only.
- Ensure subcontractor’s CTC is declared each reporting period.
- Obtain Change Requests even for “zero cost” changes”.
- Prime’s duty is to minimise cost to the customer – Contract Price reduced when successful.
Effective Subcontractor Management

Stakeholder Management

- Stakeholder Management Plan:
  - Key Project Roles
  - Define Levels of Influence
  - Identify Management Requirements
Stakeholder Management Analysis

- **Identify**
  - Name each stakeholder and determine what their interest is in the project and what information they will require

- **Assess**
  - It is important to understand the current level of commitment of the stakeholder in order that they can be managed accordingly

- **Plan**
  - Determine how each stakeholder will be managed, who by, and the frequency and format of contact

- **Action**
  - Ensure that engagement with stakeholders is maintained as planned and the Stakeholder Management Plan is regularly reviewed and update
Subcontract Delivery

Communications Planning

When Subcontracting communications frequencies, standards and methods are important things to define:

- Communications Plan
  - Roles & Responsibilities (Stakeholder Analysis)
  - Organisation Chart
  - Communications Channels and Media
  - Reporting and Escalation
  - Meetings
  - Review and Approval
  - Document Formats
  - Configuration Management

Important to cover communications expectations in the SoW (Resource time, locations, channels, travel – cost impact)
Effective Subcontractor Management

Subcontract Delivery

Communications Reporting

- Budget status
- Schedule status
- Earned Value/Cost-to-Complete Estimate
- Key Performance Parameter status
- Priorities and Key Objectives
- Risk Status
- Issues status
- Change Request/Approved Change status
- Status against plan/Key Milestones status
- Exceptions and reason for incomplete/corrective action
- Next period plan

Important to cover reporting expectations in the SoW.