

Chapter 9

PURCHASING SERVICES

BA 477 Purchasing and Supply Management

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LEARNING OBJECTIVES

1. Learn how to select service contractors.
2. Learn how to price and contract for service contracts.
3. Understand various types of services.

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POSSIBLE SERVICE CONTRACTS

- Ad production
- Spot TV and radio time
- Financial auditors (both internal and external)
- General consultants
- Computer consultants and network management
- Temporary help
- Computer network management
- Design
- Technical consultants
- Telephone customer service
- Training consultants and courses
- Annual reports/investor relations
- Market research
- Logistics and inventory control

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THE STATEMENT OF WORK

- A specification for services

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FOUR FORMATS FOR STATEMENTS OF WORK

- Performance S.O.W., which details everything wanted by the buyer.
- Functional S.O.W., which defines what the buyer is “trying to do,”
- Design S.O.W., which is the most detailed type of statement of work
- Level-of-Effort S.O.W., which is a specialized version of the performance statement of work

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PLANNING THE STATEMENT OF WORK

1. Description of the work
2. Schedule
3. Specifications and requirements
4. Quality requirements
5. Performance measurements
6. Deliverables
7. Delivery and performance schedule
8. Service levels
9. Changes and modifications
10. Bonds

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PLANNING THE STATEMENT OF WORK

11. Charges and costs
12. Project management
13. Reporting requirements
14. Safety
15. Supplier responsibilities
16. Buyer responsibilities
17. Work approvals
18. Use of subcontractors
19. Authorized personnel
20. Exhibits, schedules, and attachments

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WRITING THE STATEMENT OF WORK

- A performance plan.
- Quality monitoring system.
- Personnel plan.
- Performance and payment bonds.
- Metrics.
- Progress reviews.

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TIPS ON WRITING AN EFFECTIVE S.O.W.

- Be clear
- Use active, not passive tenses.
- Be precise
- Spell out the buyer's obligations carefully.
- Limit abbreviations to those in common usage and spell them out in the first usage
- Include procedures.
- Do not over specify or overstate.

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TIPS ON WRITING AN EFFECTIVE S.O.W.

- Eliminate extraneous statements.
- Include all relevant reference documents.
- Don't mix general/background information, guidance and specific direction/requirements.
- Describe requirements in sufficient detail to assure clarity.

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TIPS ON WRITING AN EFFECTIVE S.O.W.

- Be aware that contingent actions may have an impact on price as well as schedule.
- Provide a ceiling on the extent of services, or work out a procedure that will ensure adequate control.
- Avoid incorporating extraneous material and requirements which may add unnecessary cost.

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TIPS ON WRITING AN EFFECTIVE S.O.W.

- Identify all constraints and limitations.
- Include standards that will make performance measurement possible and meaningful.
- Proofread for errors and omissions

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THE IDEAL SERVICES SUPPLIER

- The ideal services supplier listens to what users complain about most and then designs service products that supply the market's missing ingredients.
- Satisfaction is built into service products rather than added as an afterthought.

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PRICING SERVICE CONTRACTS

- Professional Services
- Technical Services
- Operating Services
- Third Party Contracts
- So, Your Services Contract is About to Expire

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PRICING SERVICE CONTRACTS

Pricing is constrained by three factors:

1. A continuing or cumulative supply is absent.
2. Interchangeable services generally are not available.
3. Supply of services can become easily restricted.

Conclusion: negotiation is usually best

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SOME PRICING ISSUES

- For smaller dollar amounts, a time and materials or labor-hour contract should be considered
- Fixed price contracts reward suppliers for their cost control
- Cost-type contracts should be considered when there is significant uncertainty

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CONTRACT ADMINISTRATION

- Sound S.O.W.
- Selection of the "right" source
- Fair and reasonable price
- Aggressive management of the contract

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SERVICES PURCHASES AND THE INTERNET

- The Internet allows purchasing firms to obtain increased competition and lower prices for some services.
- Electronic marketplaces can provide a directory of services suppliers and frequently can provide the role of matchmaker.
- Leading firms use the prospect of incorporating the Internet as a stimulus to optimize their services supply chains.

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CONSTRUCTION SERVICES

1. Conventional Method
2. Design and Build, Agreed Price Method
3. Design and Build, Cost-Reimbursable Method
4. Building Team
5. The Owner as a Contractor

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ALTERNATIVE METHODS OF PURCHASING CONSTRUCTION

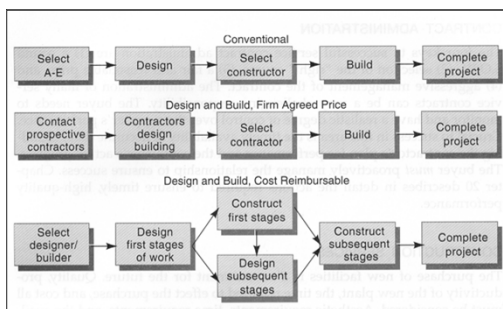
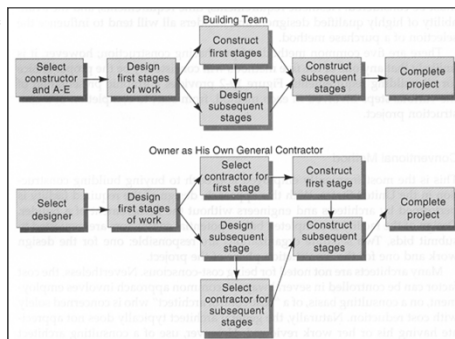


Figure 9-1, Upper Half

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ALTERNATIVE METHODS OF PURCHASING CONSTRUCTION

Figure 9-1
Lower Half



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TAKEAWAYS

1. The procurement of services is one of supply management's most interesting and challenging assignments
2. Supply Management frequently must assume a far more active role in all phases of a services procurement than when purchasing materials.

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