

# Lesson: Project Contractors & Consultants



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## Article & Companion Video

Read about the best practice techniques for contracting and then watch the video on what to say when dealing with greedy contractors or consultants face-to-face.

## Contractor Nightmares

- A PM, thinking she was taking the easy route, signed a time and materials contract with a consultant and now spends hours every other Friday arguing with the consultant about the necessity of all the hours the consultant is charging. The PM is afraid to push too hard because if the consultant walks out the project will be weeks late.
- Another PM worked with the company legal counsel who wanted to control costs with an iron fist and crafted fixed cost contracts with all the vendors. Now the PM spends two hours each day processing change requests from the vendors for vital work that is outside the scope of the contract.
- A third PM vowed to avoid contractor problems and crafted a series of incentives and disincentives that would motivate the contractor to finish early and cut costs at every opportunity. Unfortunately, none of the contractors in the area submitted a bid for the work.

The key to avoiding these problems is to understand the options that are available for engaging contractors. Even if you have an organizational purchasing department and in-house lawyers, you still need to understand the options so you can advise those other professionals on what you believe is the best way to handle contractors on your particular project. You also need to adopt a strategy for dealing with contractors. Let's talk about the alternative approaches first.

## Strategy for Dealing with Contractors

Only in very rare circumstances does how hard you squeeze the contractors determine whether the project succeeds or fails. Most of the time a project manager wants the contractors to do a good quality job on time, not cause any problems with the customer or client, and charge a reasonable amount for the work they do and the materials they use. Most contractors and consultants are interested in making a reasonable profit from your project and developing a relationship where you will hire them in the future.

There are, however, consultants and vendors who will steal you blind if you don't watch them very closely. The best technique is to use another vendor or consultant on the next project. However, you need to be able to deal with a sleaze ball contractor and the key

is to negotiate contract terms that allow you to terminate the contractor's services and bring in someone else at the first sign of trouble.

Too many project managers are hesitant to act when they see a problem with a contractor. To avoid them you try to get contract terms that allow you to pay a contractor for their work and get rid of them at the first sign of a problem. You do not need to give a contractor the warnings and notice an employee gets.

You don't want to wait so long to act that you leave yourself and the project vulnerable to one vendor or contractor. As an example, when your vendor or consultant is off serving other clients instead of working on your project and the schedule starts to slip, you want to act early. The same thing goes for invoices that appear to be padded in terms of the hours of work or the materials used. This is not the time for warnings. You want to get rid of the vendor early and replace them with somebody else. A project manager who has a reputation for not tolerating contractor misbehavior will have few problems with them.

You make that process much easier if you have specified the performance criteria "triangle" for each contractor with scope, time and budget quantified. What you're looking to create is a clear accountability for contractors where there is no ambiguity about the performance you expect and where the contractor has some "skin" in the game.

Also, by being able to quickly cut loose a contractor you avoid falling victim to unethical contractors who maneuver the PM into a position where they have no choice but to agree to outrageous change orders and fees.

In sum, a sound strategy with contractors is to not squeeze them so hard on terms and fees that they can't make money on your job. On the other hand you also want to have the contractual ability to get rid of a bad contractor quickly and early.

## Types of Contracts

### Fixed Price

On most projects and in most contracting situations a fixed price contract should be your first choice. This is where you agree to pay the contractor \$20,000 for:

- Writing a GUI that allows your payroll clerks to enter 55 paychecks an hour or
- Installing Ethernet cables that give 567 workstations in the new laboratory building an Internet connection with the wiring passing city building inspection or
- Mailing 55,000 marketing brochures to residences in the metropolitan area with less than 2% returned as undeliverable .

In each of the examples above you had a hard-edged and measurable scope definition for the contractor's assignment.

If you can't define the scope of the work with this type of precision then the fixed price contract is not going to work. If the scope is vague and you use a fixed price contracts, either the vendors will not submit proposals or those that do will see it as a gold mine for change orders.

In some situations, the quantities of materials or hours may be impossible to predict. There are many circumstances where you're asking professionals to do a creative or design job where you can't specify the end result. You may even be asking them to define the end result as part of the engagement. In these circumstances a fixed price contract may be more trouble than it's worth.

## Cost Reimbursement

When you can't define the scope of work precisely or need flexibility in changing the vendors' assignment, you move on to a somewhat less desirable contractual arrangement where you agree to reimburse the vendor for their actual costs of materials, travel, sub-contractors etc. In addition, you pay a fixed fee that represents their profits on the engagement. Unlike fixed price contracts you have no ceiling on the amount the vendor will charge. The administrative burden increases as you spend time reviewing the hours and costs incurred. You will often add incentives clauses to these contracts, paying the vendor more for finishing by a certain date or keeping the total cost under a certain dollar amount. In these contracts, you do have some certainty about the agreed upon rates for labor and perhaps unit prices on materials.

## Time and Materials

In this form of contract you reimburse the professional or contractor for their hours and material cost. This is wide open and can be a license to run the fees up. Many organizations require a cap on the total fees paid for contracts of this type. In some professions and in certain markets you may have no choice but to use this form. You will also need to spend time reviewing the details of the work performed to make sure the scope is not expanding. Time and materials is always our last choice.

## Which Form to Use

The contract form you use with sellers is influenced by a host of internal and external considerations. When the contractor provides rare or "in high demand" skills or services, you may have to accept whatever terms they offer. Or, some corporate genius may have negotiated a long-term time and materials contract with a vendor used on most projects and saved 5% on hourly rates. While the genius is proud of the savings, every project manager is coping with double-digit overruns on their project because the contractor is making up for the discount with overruns and scope creep.

Regardless of the form, you need to construct a performance "triangle" with three unambiguous corners. As with all our project assignments, you want to build an

achievement-driven “triangle” to control contractor performance with three corners, each of which is unambiguously measurable:

- Budget
- Duration
- Business value or achievement.

When each corner is quantified in the contract, it become like a tube of tooth paste. As an example, when you use a fixed price contract, you’re squeezing on the budget corner of the relationship. And that’s okay if you’ve also set hard-edged criteria for the other corners. But if you haven’t, you may have trouble. Down the road, if the contractor finds that the fixed price is not enough, you may suffer duration overruns or get an end result that is less than you want. So, you need to quantify each of these corners, not just the one about which you are most concerned.

## Contractor “Political” Connections

It’s not unusual for consultants, vendors and other contractors to expend considerable time and effort courting higher-level executives, seeking to sell their services at that level. Certain contractors may have this kind of “inside track” and use it to avoid a competitive bidding process.

Here’s what happens. Out of the blue you’re called to a VP’s office to meet Bob, a smiling partner or account executive from a contractor or supplier. As you talk to them, it becomes clear that the VP wants Bob to work on your project and on a time and materials basis. Bob adds that this simple arrangement will allow his staff to “pitch in” wherever or whenever they’re needed. This “suggestion” from the VP won’t protect you from overruns as the consultant gorges himself on your project budget.

Your only defense is to preempt these political connections with clear project charter language. Before all the politicking starts, you secure the authority to solicit, select and negotiate contractor relationships. You also lay out in the charter the general forms and terms you want for the contractor relationships. Then when you are called to the VPs office, you can then throw up your hands in frustration and say you’d love to have Bob on the team but the project charter just won’t allow you to make a deal without a competitively bid, performance incentive contract.

## Video of Meeting with a Greedy Contractor

Now [click](#) to watch a video where a contractor tries to pull some of the classic tricks on a project manager. Learn what to say and how to handle 5 challenging situations with contractors and consultants.

## Summary

Visit our website for more information on our [individual training where you work over the web with a personal instructor](#).