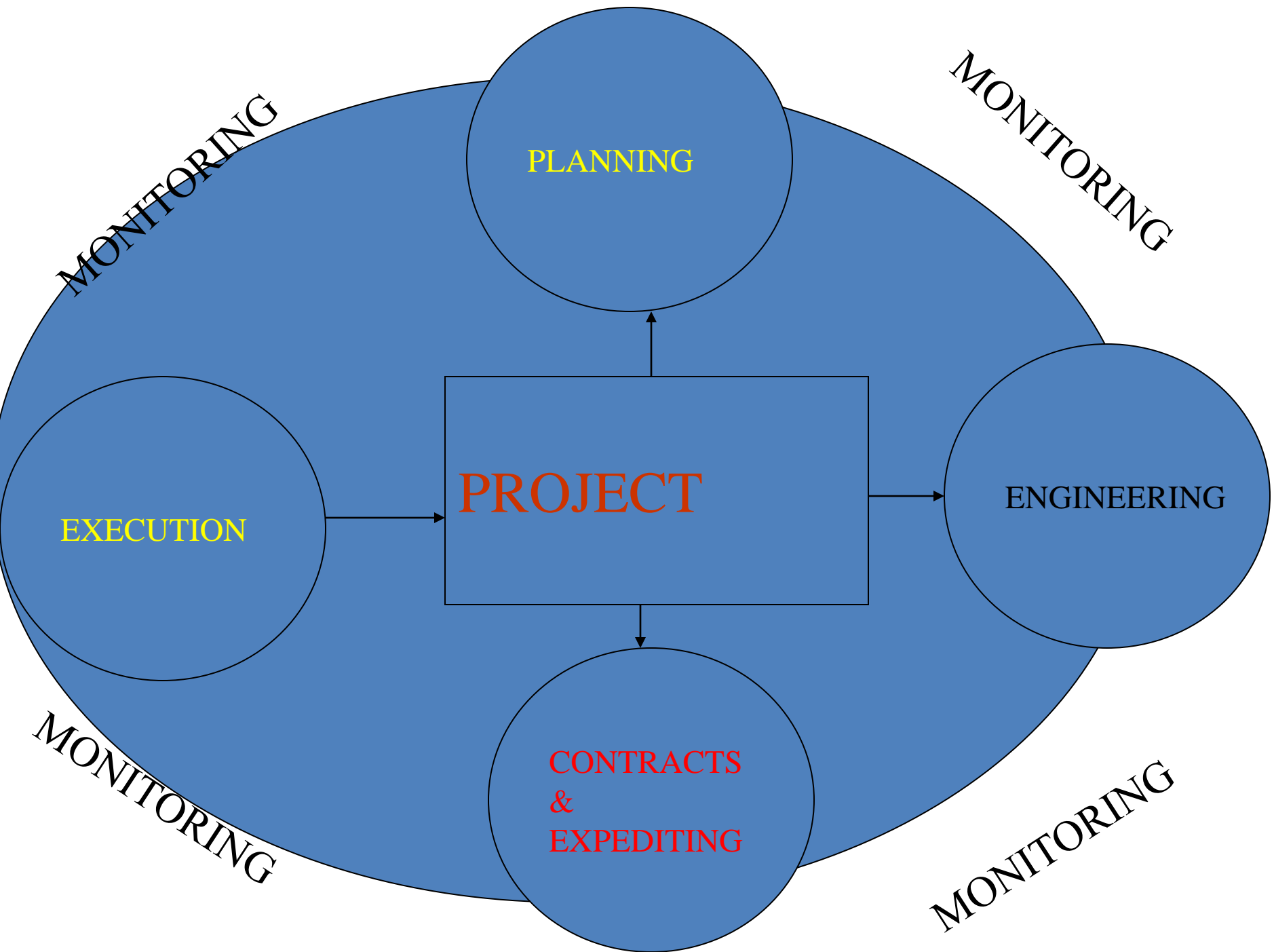


# Issues and Challenges in Project Contract Management

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- Issues with Project Contract
- Over view of Project Contract (Tendering)
- Reducing the Contract Lead time
- Project Cost Control
- Seven Sutra of Project Contract Execution
- Case Study 1 and 2
- Conclusion

- Dabhol (Enron)
- CWG
- AIRPORT METRO
- UMPP (MUNDRA)
- KURSIDAM
- HALDIA PORT
- Male air port



# Lead-time and Lead-time Analysis

## **LEAD TIME**

- Lead time mean time that lapses between raising of a PR by user deptts and receipt and acceptance of materials at project site
- **Elements of Lead Time**
  - Administrative lead- time for finalizing purchase order.
  - Suppliers lead time to make materials ready for dispatch.
  - Transit lead time i.e. the time taken for transportation of materials
  - Administrative lead-time of bulk breaking, inspection and completing receiving activities

# HOW TO REDUCE LEAD -TIME

Lead-time consists of

Admn Lead-Time Of finalizing Orders	Supplier Time for Arranging supplies	Transit time of delivery	Receiving & Inspection
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L1	L2	L3	L4	
Order Genesis	Order receipt & Manufacturing	Goods Supplied	Goods	Received

Total Lead-time = L1 + L2 + L3 + L4

## HOW TO REDUCE LEAD TIME

- L1 and L4 correspond to internal activities and are controllable.
- L2 and L3 are largely uncontrollable by buyer but can be reduced to some extent if systematic efforts are made in this direction by establishing
  - Right sources of supplies
  - Selecting proper mode of transportation
  - & - vigorous expediting

# Steps to reduce Lead time

## **Administrative LT of finalizing Purchase Orders(FK)**

- Ensure that PRs are complete in all respects so as to initiate immediate procurement action
- Rationalization of procurement procedures.
- Financial limits for OT (NIT) should be increased
- More and more items shall be standardized with standardization of sources of supply.
- Import substitution.

# Steps to reduce Lead time

- More and more items should be declared as stock item and brought under automatic replenishment system.
- Finalization of long-term rate/running contracts
- Finalization of terms and conditions with suppliers specially those from whom buying on PAC basis.



# Steps to reduce Lead time

- Updating list of approved vendors for various categories of items including evaluation of vendor's performances.
- Specifications, pre-qualifying requirement for the bidders and quality plan shall be clearly spelled out.
- Emphasizing adoption of E -Buying

# Steps to reduce Lead time

## **DELIVERY LEAD TIME OF VENDORS**

- Post order progressing and expediting with vendors.
- Prompt clarifications to vendor's queries.
- Prompt PDI, if required. (Pre-dispatch Inspection)
- Prompt approval of samples, if required
- Good buyer/ seller relation including prompt payment

# Steps to reduce Lead time

## **TRANSIT LEAD TIME OF TRANSPORTATION**

- Select most suitable mode of transportation.
- Efficient collection group with stores.
- Post dispatch monitoring – expediting deliveries of consignments unduly delayed – deputing chasers / tracers.
- Prompt retirement of documents if negotiated through bank.

# Steps to reduce Lead time

## **ADMINISTRATIVE LEAD TIME OF BULK BREAKING, INSPECTION AND RECEIVING ACTIVITIES**

- Prompt bulk breaking (opening of packages and checking of contents of incoming consignments)
- Prompt inspection of materials at stores by user or by independent inspection cell.

# Steps to reduce Lead time

- Making available inspection, testing and other requisite facilities to inspection people.
- Prompt handing over of materials to custody group.
- Vigorous follow up of settlement of discrepancies – replacement supplies / repair etc.

## OVERALL VIEW OF LEAD-TIME IN PRIVATE AND PUBLIC SECTOR

- Lead- Time in private sector is lesser than in public sector organizations.
- Reasons for longer led time in Public Sector
- Accountability on part of PSU operating within parameters of well formulated and laid down procedures including long period taken in adjudication/ Evaluation of offers.

## OVERALL VIEW OF LEAD-TIME IN PRIVATE AND PUBLIC SECTOR

- Tendency to share responsibilities – sometimes-unnecessary consultation, references and cross-references.
- OT (NIT) beyond a certain monetary limits, longer time for purchasing, at time unproven suppliers on lower quoted rates get order, delays in supply- sub-standard/ poor quality materials resulting in higher rejections
- Lack of good buyer / seller relations

# Over view of Project Contract (Tendering)

- Tendering mostly used by Govt. organizations to ensure
  - observance of principle of public accountability,
  - although it is sometime used by private organization also



# Buying at Right Price

## Price Information

- Price Catalogue
- Trade Journals
- Tendering

# Tendering- Broad Procedures

- ❑ Standard procedure provides a monetary limit above which tender must be invited
- ❑ Tender may take two forms, i.e. OT (NIT or Formal Tender) & LT (Selected/ Informal Tender)
- ❑ Since cost of OT and length of LT is high, suitable limits are fixed, above which NIT are resorted

# Tendering- Broad Procedures

- ❑ Full and identical specifications are issued to all prospective suppliers
- ❑ Prospective suppliers are required to submit their offer/tender in a sealed and identifiable envelope by a prescribed date and time

# Tendering- Broad Procedures

- ❑ On due date and time, tenders are opened by a committee normally comprising of officers from Accounts and Materials departments.
- ❑ Some organization allow suppliers representative witness opening of tender if they so wish

# Tendering- Broad Procedures

- ❑ Late tender are not usually considered and returned to suppliers unopened
- ❑ Tenders are listed, initialed and entered into tender opening register and
  - bid analysis sheet, showing details of price, price basis, taxes/ duties- extra or inclusive, transportation charges, delivery, payments & other relevant information for tender evaluation

# Tendering- Broad Procedures

- ❑ Comparison of prices is done on basis of landed prices &
  - quoted prices are suitably loaded for deviations to buyer standard terms & conditions so as to bring them at a common platform
- ❑ Tech. evaluation of offers is done by user deptts

# Tendering- Broad Procedures

- ❑ Orders are normally placed on lowest among the technically qualified bidder.
- ❑ Standard procedure normally delegate power to Purchase Manager or officer of purchase functions to place orders unto specified limits on lowest bidder

# Tendering- Broad Procedures

- ❑ Where acceptance of lowest technically qualified bidder is not recommended or value of purchase is more than specified limits,
  - approval of higher authority is obtained as per delegation.



# Tendering- Disadvantages

- ☐ Suppliers may quote too low prices to obtain business-problems of unsatisfactory quality, delayed supplies etc
- ☐ Cost of buying especially in case of OT is very high
- ☐ System is too slow for emergencies and even otherwise lead-time is long especially in case of OT

# Tendering- Disadvantages

- ❑ Tenders are normally accepted on lowest price, if everything otherwise equal
- long lasting relationship with suppliers are difficult,
- no credit for past performance

# Seven Sutra of Contact Execution

**S1 :Mobilization Advance:)** Don't give 10% mobilization advance, instead reduce to 5% (2.5% within 15 days of signing the agreement and 2.5% on production of utilization by the contractor).



## S2: Sleeping JV partner:



## **S3 :Ensure timely payment to sub-contractors:**



## **S4: Delegation of responsibility at site:**



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## **S5: Keep track of expensive investments from the contractor**



## **S6: Help the contractor plan because their planning capabilities are poor**





**S7: Finally, he said one execution starts, there is no way to get work done (if contractor falls behind)**



# Thank You

