



ALASKAN PURCHASER



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November 2015

Are Your Contracts Gold Mines or Land Mines?

Kelly Scott Longgrear, C.P.M.

Avoid writing contracts that could underprotect your organization or overspend valuable dollars.

Contracts are a part of everyday life for companies large and small. Yet, so many contracts are poorly written and poorly administered, and supply management practitioners wind up with contracts that underprotect the organization and overspend precious funds.

Why is it so challenging for organizations to master the contracting process? Is it resource constraints, a lack of understanding about the potential value (and risk) that contracts represent, or is it that contracts are so commonplace that we somehow overlook or gloss over their significance? Whatever the reasons may be, a subpar contract is a huge missed opportunity. In today's competitive marketplace, it's a business imperative that companies optimize their contracting processes to gain a competitive advantage and improve their profitability, while reducing risk.

In my research over the years, statistics indicate that a typical company sends up to half or more of its revenue back out the door in the form of third-party expenditures for goods and services. That being the case, contracts that undermine an organization's supplier relationships can be the difference between ultimate success or failure for the company. We've all heard the horror stories — companies that have lost millions of dollars due to bad contractual outcomes.

Poorly written contracts have even driven some companies out of business. Ultimately, whether your contracts become "gold mines" or "land mines" is really up to you. The trick is to write good contracts that maximize the benefits to your organization, while avoiding the common pitfalls.

It's important to note that successful contractual outcomes are not any single step in the sourcing chain. Rather, there has to be a robust, end-to-end process in place. First you need to create a good sourcing event, write a strong contract and finally follow up on the contract implementation all the way through to completion. As your contracts are developed, executed and administered, applying certain fundamental principles will maximize the value of your contracts and help avoid a bad outcome.

Own Your Specifications. The specifications (or statement of work, depending on what you are purchasing) comprise the bulk of the contract, and yet this tends to be the least understood and most underdeveloped part of a contract. If you don't communicate to your potential suppliers exactly what you want, the chances are pretty good that you will not get it.

Ownership and development of specifications can significantly impact the outcome. Too often, third-party suppliers are allowed to develop the specifications for which they later submit a proposal.

(continued on page 2)

**THURSDAY NOVEMBER 12, 2015
NAPM-ALASKA PRO-D MEETING**

**THE TEN MUSTS FOR EVERY
PURCHASING CONTRACT**

MARK GRIECO, Esq., Attorney at Law

See Page 4 For More Information

TIME: 5:30 p.m. Networking / 6:00 p.m.

Cost \$28.00 *Includes Dinner

Visa and MasterCard Accepted

No-Shows Billed

**Location: Coast International Hotel
3450 Aviation Avenue. Anchorage Alaska**

RESERVATIONS REQUIRED

Contact- Pamela Iverson

email: napmprod@gmail.com

no later than 5 P.M. on Monday 11/9/2015

This is really a worst-case scenario and can limit effective competition, because the supplier will write the specifications in a way that best fits its capability and makes it impossible for other suppliers to be competitive or even bid on it. Allowing a supplier to write your specifications also presumes that the supplier clearly understands exactly what you want, and the supplier has the same goals regarding clarity of requirements and accountability for the outcome as the buying organization, which is very rarely true.

As an alternative solution, the buying organization can take the supplier specifications and rewrite them to meet its own requirements. This accomplishes two things: It forces the buying organization to become intimately familiar with the specifications, and it increases the chances that other suppliers will be able to submit a proposal.

If you are fortunate or wise enough to have your own people developing the specifications, then it's a matter of expertise. If you are lacking technical expertise, engage your procurement department to assist in writing the specifications. Experienced procurement professionals know what a good specification looks like because they've written (and lived with) both good and bad specifications, and they can tell the difference. Often, they are eager to assist in this part of the process because they understand its importance to the overall outcome.

The importance of this aspect of the contract really cannot be overstated; so many of the contractual outcomes are derived from the specifications, including but not limited to, cost, quality, supplier selection and administration/enforcement of the contract. The greatest legal terms and conditions in the world won't protect you from a poorly written specification.

Why Some Specifications Could Fail: One of the biggest contract challenges is overblown specifications. Nothing runs up the cost of a project like a Cadillac specification when a Chevrolet is really what's required. Additionally, the higher the bar is set on a specification, the less likely it is that the supplier will ever achieve it. I once worked in a manufacturing facility that had specified tolerances of 0.0002 inch on many of its machined parts that we had suppliers make for us. The problem was that our best inspection equipment had at least that much room for error in the measuring process, so we really couldn't say with any certainty if the supplier was meeting our requirements or not.

I suspect that something less than 0.0002 inch would have sufficed in many cases. Those specifications drove the costs up for us — not only the cost of making the parts, but also the cost of inspection and rejection, and there was significant impact to production because "conforming" parts weren't available.

The lesson: Make sure you don't allow the technical team to develop requirements in a vacuum. Ask if the specification truly represents the minimum needs of the company versus something that's considered a "nice to have." Don't allow your organization to overspecify.

In another common situation, contracts are written to a "directed source." This is the specification that only allows a single bidder to provide a proposal. After 30 years in purchasing within various organizations, I have probably heard the terms "single source" and "sole source" hundreds of times, and yet I can count on one hand the number of times I bought into that logic. Almost always, there is a second or third source in the marketplace — one just has to undertake the due diligence to find and qualify them. The potential benefits far outweigh the effort. A single source is almost always a very expensive source, primarily because a single source supplier can establish whatever price they want — it has no fear of losing the business to a competitor.

Often, the supplier will plant the single-source concept in the ear of the engineer (and even volunteer to provide the specification for him or her). While this may be expeditious, it is generally not beneficial to the project cost, and can even hurt the final outcome.

Finally, there is the "impossible dream" specification. This is the specification with high expectations that nobody can meet due to the current state of technology. Specifications that cannot be effectively met by your supplier will delay your project, run your costs through the roof and ultimately create a significant dispute.

Well-written, concise specifications are the keystone for any good contractual outcome. Good specifications maximize your organization's chance to obtain competitive bids and provide reasonable and measurable performance standards to hold your suppliers to. Without them, your chances of success are greatly diminished.

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VACANT

PRESIDENT

MARLYS HAGEN, C.P.M., CPPB, CPPO

First of all, I want to give my sincere thanks to a couple of individuals. First, Annie Messer, Vice President, for filling in for me while my husband and I were on a road trip through parts of Alaska, British Columbia and Alberta, Canada. Annie presided over three meetings and wrote the President's Message for the October newsletter. Again, thank you Annie!

I also want to thank Mike Lankford, former Communications Chair, for doing the October and November newsletters while our Communications Chair position has been vacant. Thank you so much, Mike! We greatly appreciate your willingness to help.

This month I wanted to give you a brief update on where we are at with some of the initiatives we are undertaking.

1. Incorporating additional features into the newsletter – as planned, so far the changes have been small items such as trivia, exam questions, etc. Look for more new features between now and next May. Since the Communications Chair position is vacant, we are looking for the right person to help us make these updates to the newsletter, and looking for fresh, creative idea. If you are that person, please contact one of our board members.
2. Regarding meeting venues, this plan has changed slightly due to some space availability issues, but we will be at the Coast through January, tentatively we are having a joint meeting with the Project Management Institute (PMI) in February. If that doesn't come together we will be at the UAA Commons in February and March, then at the BP Energy Center in April and May.
3. Website and Social Media – there hasn't been much activity in this area yet, but look for additional information throughout this affiliate year.

As always, if you have any comments or suggestions, please contact myself or one of the other board members. Our contact information is always in the newsletter. I hope to see everyone at the November Pro-D meeting. Note the date change.

Respectfully,
Marlys Hagen, C.P.M., CPPB, CPPO

DIRECTOR OF EDUCATION JARED RENNIE

I want to extend my appreciation to the University of Alaska Anchorage and our special guest host Chris McConnell for providing our Affiliate a fascinating evening touring and discussing the Alaska Airlines Center. It was amazing to see the finished product and understand the unique project management and supply chain challenges that were overcome to deliver such a massive project on schedule and within budget. Personally, I think the key takeaway was the importance of project preparation in conjunction with stakeholder involvement to ensure the plan could be executed as efficiently as possible. It was also interesting to note that certain aspects of the plan were not so overly prescriptive that it stifled supplier creativity and allowed them to overcome engineering challenges while saving time and money. Again, a special thanks to our host, Chris McConnell who shared his experiences with consultant teams, contract management, change management, document control, site inspections, testing coordination and observation, and stakeholder management. If you have an idea for a future site-visit, please feel free to drop me an email or chat with me at our Monthly Pro-D meetings.

For our November Professional Development meeting I am excited to welcome back to Alaska, Mr. Mark Grieco. Please look for the specifics in this newsletter to ensure you don't miss out on what promises to be an engaging evening of networking and education with fellow supply chain professionals. Please note we will be holding the meeting during the second Thursday of November (11/12/15) in conjunction with the Fall Educational Seminar that Mr. Grieco will be conducting. However, for our dinner meeting the discussion will focus on "The Ten Musts for Every Purchasing Contract." I hope that I will see you there and thank you again for your involvement in our Affiliate.

Fall Educational Seminar Sold Out!
Contracting for Services with popular guest instructor, Mark Grieco, Esq., Attorney at Law will be held November 12 & 13 from 8:00AM - 4:30PM. At the time of this printing only one seat remained for this engaging and universally important supply chain topic.



Fall Educational Seminar Sold Out!

To ensure as many people can participate as possible we are taking wait-listed reservations on a first come – first paid basis and will try to accommodate if there are any cancellations. Thank you for your continued interest in our educational seminars, and as always, we welcome your input and requests for future trainings.

November Professional Development Meeting – Ten Musts for Every Purchasing Contract Mark Grieco

Please join us on Thursday, November 12th at the Coast International Hotel for our monthly Pro-D Meeting. The evening will kick-off at 5:30 PM for networking and commence at 6:00 PM. We will be joined by our Fall Seminar instructor, Mark Grieco, Esq., Attorney at Law. Those that have not yet had the pleasure of attending one of his past seminars should not miss out on this opportunity to expand your knowledge while learning from Mr. Grieco's insightful stories during his many years practicing contract law. Those that have had the pleasure will not want to miss out on his new presentation- **Ten Musts for Every Purchasing Contract.**

Mark Grieco is an attorney, a member of the Florida Bar, and senior partner at Grieco & Scalera, PA, a firm specializing in contract law, corporate law, real estate, trusts and estates, family law, technology, intellectual property and insurance litigation. In addition to his law practice Mr. Grieco is a world-wide lecturer in the field of contract law and purchasing. He teaches courses in contracts, business practices, negotiations, e-commerce and ethics. He has taught business professionals for such diverse companies as Disney, FP&L, Holcim, Sony, Kodak, Oracle, Coca Cola, and GE. Mr. Grieco has an undergraduate degree in business, an MBA and a Juris Doctor degree. He has published two books. One on divorce called *Divorce: a four letter word* and another book on contracts called *Purchasing, Contract Law, UCC & Patents*. He is working on his third book.

Jared

**PAST PRESIDENT
BEN R. MILAM, CPPM, C.P.M.**

By the time you read this the 72nd Annual Pacific Northwest Purchasing Conference in Portland October 26-28 will be well underway. There will be several folks from Alaska there to attend the Conference and the Affiliate Leadership Workshop on Monday morning for Affiliate leaders.

I volunteered to take the lead for our first seminar of the year to assist Jared (see attached flyer) and as I write this there are only 1 slot available. It looks to be another sold out event. This is not just a seminar for purchasing professionals, but also an ideal seminar for our internal clients who are charged with the development of the SOW; guaranteed to make our job easier if they attend. As you read the flyer you may recognize the instructor. Mark Grieco has presented seminars for NAPM-Alaska before. He is one of the few attorneys who specialize in Contract Law, plus he is also an eloquent and entertaining speaker. Hope to see you there. Send your application now if you want to be on the stand-by list for possible cancellations.

As I mentioned last month we have 2 vacant positions on our Board of Directors. This is a great opportunity to get involved with YOUR affiliate. This is a new year for the board. We have already added some new members on our board, but we are making changes. It would probably be easy to recruit some who have previously served, but we are hoping to add some new folks with a fresh new perspective. We have a lot of serious business to conduct, but all have vowed to make this an organization where members can have fun and enjoy going to meetings. Your Board just voted to pursue a way to add a student member to the Board. We will be discussing that subject with other affiliates at the Leadership Conference in Portland in hopes that others have found a way to make this work. We need your help to fill a Director at Large position and a Director of Communications position. Please contact me if you are interested. Cell 907-748-5042; whiskers@mtaonline.net

Ben

**DIRECTOR OF MEMBERSHIP
WARD W. WELLS, CPPB, C.P.M. (lifetime)**

Greetings from Membership. If you are in the supply chain or procurement work force and desire to expand your career opportunities, consider joining NAPM- Alaska. Our goal is to educate, develop, and advance the purchasing and supply management profession in the last frontier. We provide high quality educational programs and networking opportunities as key ingredients to success. Contact Ward Wells at flatheadward@yahoo.com or any board member listed on page three of this newsletter.

Ward

Save The Date - Fall Educational Seminar!

Our fall educational seminar “Contracting for Services” will be held November 12 & 13 from 8:00AM - 4:30PM. Seats are quickly filling up for this popular topic and are available on first come – first paid basis. If you are planning on attending please send in your registration ASAP. Details were provided in last month’s newsletter, and on the flyer in this month’s newsletter. Our guest Instructor, Mark Grieco, is one you don’t want to miss!



MARK GRIECO, Esq., Attorney at Law

November 2015



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WHAT'S HAPPENING!

**THURSDAY,
November 12, 2015**

THE TEN MUSTS FOR EVERY PURCHASING CONTRACT

**MARK GRIECO, Esq.,
Attorney at Law**

WHAT'S INSIDE

PAGE 1/2	<i>ARE YOUR CONTRACTS GOLD MINES OR LAND MINES?</i>
PAGE 3	<i>PRESIDENT'S MESSAGE</i>
PAGE 4	<i>EDUCATION NEWS</i>
PAGE 5	<i>PAST PRESIDENT / MEMBERSHIP</i>

The Alaskan Purchaser is published monthly (September to May) by NAPM-Alaska, Inc., an educational organization committed to providing purchasing and supply management practitioners the opportunity to enhance their professional skills and knowledge. If you have an item you would like to contribute to the newsletter, please contact:

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