

National Contract Management Association (NCMA) Seminar

Risk Management for Government Contractors

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Risk Management for Government Contractors



Key Topics of Discussion:

- Government Contracting Risk Management: Myths & Best Practices
- Opportunity & Risk Management (ORM) Process & Tools
- Contract Management Risk and Opportunity Assessment Tool (CMROAT)
- Q&A

What are the Top Three Risks for Government Buyers?



- The products or services will not be of satisfactory quality.
- The products or services will not be performed or delivered on time.
- The products or services will cost more than the original contractor estimate.

What are the Top Risk Factors for Government Contractors?



- Non-compliance with detailed *Federal Acquisition Regulation (FAR)* and government agency *FAR* supplements,
- Non-compliance with government Cost Accounting Standards (CAS),
- Unstable contract/program requirements,
- Political and media pressures,
- Unstable contract/program life-cycle funding,
- Accelerated or delayed delivery schedules,
- Variations in quantity, and
- Increased government oversight of contractors.

What is Risk Management?



Risk Management, the ability to efficiently and cost effectively mitigate potential problems, is fundamental to good business in both the public and private sectors.

What is Government Contracting Risk Management



10 Common Myths

Myth #1



Risk management is well defined, cost-effectively practiced, and successfully implemented by most government contractors.

Myth #1



Reality: Most government contractors do not have a comprehensive or life-cycle risk management methodology for their business. Risk management is often fragmented by functional areas.

Some organizations do take the time to conduct a risk identification and assessment as part of their bid/no-bid process. While other government contractors, who are in a zeal for a deal, bid nearly everything and then hope and pray they can deliver on their promises.

Risk management best practices are often not efficiently or cost-effectively flowed down from prime contractors to their respective subcontractors, often resulting in late deliveries, higher costs, reduced profits, and upset government customers.

Myth #2



The use of a firm-fixed-price (FFP) government contract places all risk on the contractors.

Myth #2



Reality: The government also shares in the risk associated with FFP pricing arrangements. The government has the risk that the selected contractor may not adequately perform the work thus requiring a remedy for the contractor's failure to deliver (i.e., withholding of payment, liquidated damages, termination for default, etc.)

The government also has the risk of unclear definition or specification of the requirements and deliverables. It is entirely possible for a contractor to perform the work as required and specified by the government, yet the government still does not get what it really needs or wants because of the government's inadequate statement of requirements.

In addition, FFP government contracts may contain certain government contractual obligations—government furnished property (GFP), government furnished equipment (GFE), and/or government furnished information (GFI)—in accordance with FAR Part 45.

Myth #3



The creation of a performance-based contract (PBC) will reduce risks and ensure the government obtains successful contract/project results.

Myth #3



Reality: Unfortunately, many government agencies do not properly create performance-based contracts, often resulting in higher risks and poor to mediocre performance results. For example, many government agencies suffer from the following challenges:

- Incomplete or inadequate performance work statements (PWSs) or statements of objectives (SOOs);
- Use of an overly detailed and highly prescriptive statement of work (SOW);
- Insufficient quality assurance surveillance plans;
- Poor selection of performance standards and metrics to drive contractors to high-performance results;
- Inappropriate contract incentive plans, or failure to properly administer and reward superior results or apply penalties for poor performance; or
- Inadequate post-award contract administration support due to shortage of resources, inadequate training, and poor quality control.

Myth #4



The use of government-furnished property (GFP) will always reduce the cost and risk of the contract/project.

Myth #4



Reality: Sometimes GFP does reduce the cost and risk of the contract or project, but many times it does not. In fact, some government contractors refer to GFP as “government-furnished problems” because the government property is frequently delivered late, damaged, or defective.

Plus, the government property requirements stated in FAR Part 45 can add additional costs for the marking/identification, tracking, maintenance, transportation, and documentation of the subject property.

Myth #5



All risk factors can be identified, quantified, and mitigated.

Myth #5



Reality: If a government agency or government contractor develops and practices risk management as an integrated aspect of all of their business activities, and uses knowledge management throughout the project life cycle, then most risk factors can be identified, quantified, and mitigated.

However, many organizations do not practice risk management as an integrated aspect of all of their business activities.

Plus, most organizations have not fully embraced the power of capturing, sharing, and reusing knowledge to enhance risk management.

Myth #6



The longer and more detailed the government's solicitation planning and source selection process, the more likely it will reduce risk and obtain high performance outcomes from the contractors.

Myth #6



Reality: It is not the quantity of people or total time spent; rather, it is the quality of the people and their respective knowledge, experience, dedication, and executive-level commitment that typically determines whether a government agency's acquisition planning yields high-performance outcomes from the selected contractors.

Myth #7



The more competitors in a federal procurement, the better the competition.

Myth #7



Reality: Again, the quantity of bidders does not necessarily directly relate to the quality of the competition. Sometimes, there may be only one or two high-quality providers of the needed products, services, or solutions. Thus, seeking three or more bids/proposals may actually result in higher acquisition costs due to a longer bid/proposal evaluation process and related source selection activities.

Myth #8



All government contractors are crooks.

Myth #8



Reality: Most government contractors are honest, reliable, and dedicated companies focused on supporting government agencies in achieving their respective mission requirements while meeting their stakeholders' objectives.

Unfortunately, there is a relatively small percentage of government contractors who do act illegally and their bad actions are frequently publicized by the press and Congress, creating a very negative perception of the industry.

Myth #9



Project management and contract administration are less important to risk management than acquisition strategic planning and source selection.

Myth #9



Reality: Project management and contract administration are in fact just as important, if not more so, to risk management than the acquisition strategic planning and source selection.

Said simply, it is good to have an effective plan and a qualified contractor, but it is better to ensure project execution of the plan and contractor delivery of the promised results.

Too often, both government agencies and government contractors are in such a zeal for the deal, they focus nearly all of their resources on the pre-award and post-award phases of the acquisition and too little resources on the critical post-award project management and contract administration activities.

Myth #10



Past Experience = Successful Performance.

Myth #10



Reality: Solely because a person or organization has experience in providing a product, service, or solution in the past does not necessarily mean that the individual or entity will be successful in delivering a similar product, service, or solution in the future.

In fact, if the individual, organization, or company has a track record of poor performance in their past experience, then it is quite likely they will have challenges in achieving successful performance outcomes in the future.

Clearly, the lowest risk scenario is to find a contractor with extensive experience, expertise, and demonstrated high-performance results on delivery of similar products, services, and solutions.

Risk Management Best Practices



- In order to reduce business risks and optimize performance results in the federal marketplace, both government agencies and government contractors should develop a comprehensive or holistic approach to risk management.
- A comprehensive approach to risk management should appropriately address the “Four Ps” to success: people, processes, performance, and price.

Life-Cycle Risk Management



4 Ps	Proven Best Practices
<i>People</i>	<ul style="list-style-type: none">• Select highly qualified, competent, and certified business professionals.• Provide appropriate individual, team, and organizational performance standards, metrics, and incentives.• Provide timely professional continuing education, cross-functional education and experience, and on-the-job training in risk management.• Provide timely and appropriate performance feedback.• Develop realistic requirements and delivery schedules.• Develop and implement an effective mentor/coaching program.• Ensure effective training in risk management processes and tools are provided.• Create and consistently practice a “tone at the top” message of the need and value of life-cycle risk management.• Use expert consultants as needed—seek advice.

Life-Cycle Risk Management



4 Ps	Proven Best Practices
<i>Processes</i>	<ul style="list-style-type: none">• Develop an integrated life-cycle risk management process that appropriately addresses all functional areas of the organization of each contract from beginning to end.• Incorporate knowledge management tools to ensure knowledge is captured, shared, and reused before, during, and after work is performed throughout the contract/project life cycle.• Practice disciplined systems engineering and program management.• Implement an effective earned value management system (EVMS).• Use multi-year procurement (MYP) and multi-year funding (MYF) to ensure stable funding.• Develop and use an effective cost estimating and accounting system.• Ensure risk identification tools and techniques are developed and appropriately implemented.• Provide effective processes and tools to assess the probability and financial impacts of potential risks (technical, schedule, and contract).• Allocate funds for appropriate risk mitigation planning and actions.

Life-Cycle Risk Management



4 Ps	Proven Best Practices
<i>Performance</i>	<ul style="list-style-type: none">• Terminate all or part of poor performance programs as soon as possible.• Remove poor individual performers if they are not adding value to the team and project.• Remedy or terminate poorly performing subcontractors.• Manage contract changes.• Create a performance-based culture within your team and organization.• Communicate your organization's and team's vision, mission, and performance goals.• Develop performance-based contracts with your clients and suppliers.• Create an effective ethics and compliance internal control system.• Practice risk management using a life-cycle risk management process.• Ensure regulatory and contract compliance.

Life-Cycle Risk Management



4 Ps	Proven Best Practices
<i>Price</i>	<ul style="list-style-type: none">• Select appropriate pricing arrangements given the risk vs. reward opportunity.• Ensure life-cycle costs are properly included in the budget and contract funding.• Create a management reserve in the project budget.• Avoid buy-in situations.• Price and negotiate contract changes appropriately.• Select and tailor contract terms and conditions to properly address items not priced into the contract.• Use appropriate cost estimating methods and techniques.• Conduct price analysis and/or cost analysis.• Obtain independent cost estimates.

Questions to Consider



1. How well does your organization address the holistic nature of risk management?
2. How cost-effectively and efficiently does your organization mitigate contract and project risk factors?
3. How successful is your organization in achieving high-performance business results on a consistent basis?



The Opportunity and Risk Management Process

What is Opportunity?



Opportunity is the measure of the probability of an opportunity event (a positive desired change) occurring and the desired impact of that event.

What is Risk?



Risk is the measure of the probability of a risk event (an unwanted change) occurring and the associated effect of that event. In other words, risk consists of three components:

- A risk event (an unwanted change),
- The probability of occurrence (uncertainty), and
- The significance of the impact (the amount at stake).

How Would You Define Risk in the World of Federal Acquisition Management?



Risk is defined by the Department of Defense (DOD) as a measure of future uncertainties in achieving program performance goals and objectives within defined cost, schedule, and performance constraints. Specified areas of potential risk are provided in the chart below.

DOD Risk Areas, Definitions, and Examples

Risk Area	Definition	Significant Risks
<i>Threat</i>	Sensitivity to uncertainty of threat description.	<ul style="list-style-type: none">• Uncertainty in threat accuracy.• Sensitivity of design and technology to threat.• Vulnerability of system to threat and threat countermeasures.

DOD Risk Areas, Definitions, and Examples



Risk Area	Definition	Significant Risks
<i>Requirements</i>	Sensitivity to uncertainty in the system description and requirements.	<ul style="list-style-type: none"> • Operational requirements vaguely stated or not properly established. • Requirements not stable. • Required operating environment not described. • Requirements too constrictive—identify specific solutions that force high cost.
<i>Design</i>	Degree to which system design could change if the threat parameters change.	<ul style="list-style-type: none"> • Design implications not sufficiently considered in concept exploration. • System will not satisfy user requirements. • Mismatch of user manpower or skill profiles with system design solution or human machine interface problems. • Design not cost effective. • Design relies on immature technologies or “exotic” materials to achieve performance objectives.

DOD Risk Areas, Definitions, and Examples



Risk Area	Definition	Significant Risks
<i>Modeling and Simulation (M&S)</i>	Adequacy and capability of M&S to support all life-cycle phases.	<ul style="list-style-type: none"> • Same risks contained in the significant risks for test and evaluation. • M&S are not verified, validated, or accredited for the intended purpose. • Program lacks proper tools and M&S capability to assess alternatives.
<i>Technology</i>	Degree to which technology has demonstrated maturity to meet program objectives.	<ul style="list-style-type: none"> • Program depends upon unproven technology for success—there are no alternatives. • Program success depends on achieving advances in state-of-the-art technology. • Potential advances in technology will result in less than optimally cost-effective system or make system components obsolete. • Technology relies on complex hardware, software, or integration designs.
<i>Logistics</i>	Ability of the system configuration and documentation to achieve logistic objectives.	<ul style="list-style-type: none"> • Inadequate supportability late in development or after fielding, resulting in need for engineering changes, increased costs, or schedule delays.

DOD Risk Areas, Definitions, and Examples



Risk Area	Definition	Significant Risks
<i>Concurrency</i>	Sensitivity to uncertainty resulting from combining or overlapping phases or activities.	<ul style="list-style-type: none"> • Immature or unproven technologies will not be adequately developed before production. • Production funding will be available too early—before development effort has sufficiently matured. • Concurrency established without clear understand of risk.
<i>Industrial Capabilities</i>	Abilities, experience, resources, and knowledge of the provider to design, develop, manufacture, and support the system.	<ul style="list-style-type: none"> • Contractor has poor track record relative to costs and schedule. • Contractor experiences loss of key personnel. • Prime contractor relies excessively on subcontractors for major development efforts. • Contractor will require significant capitalization to meet program requirements.
<i>Cost</i>	Ability of system to achieve life-cycle support objectives; includes effects on budgets, affordability, and effects of errors in cost estimating techniques.	<ul style="list-style-type: none"> • Realistic cost objectives not established early. • Excessive life-cycle costs due to inadequate treatment of support requirements. • Significant reliance on software.

DOD Risk Areas, Definitions, and Examples



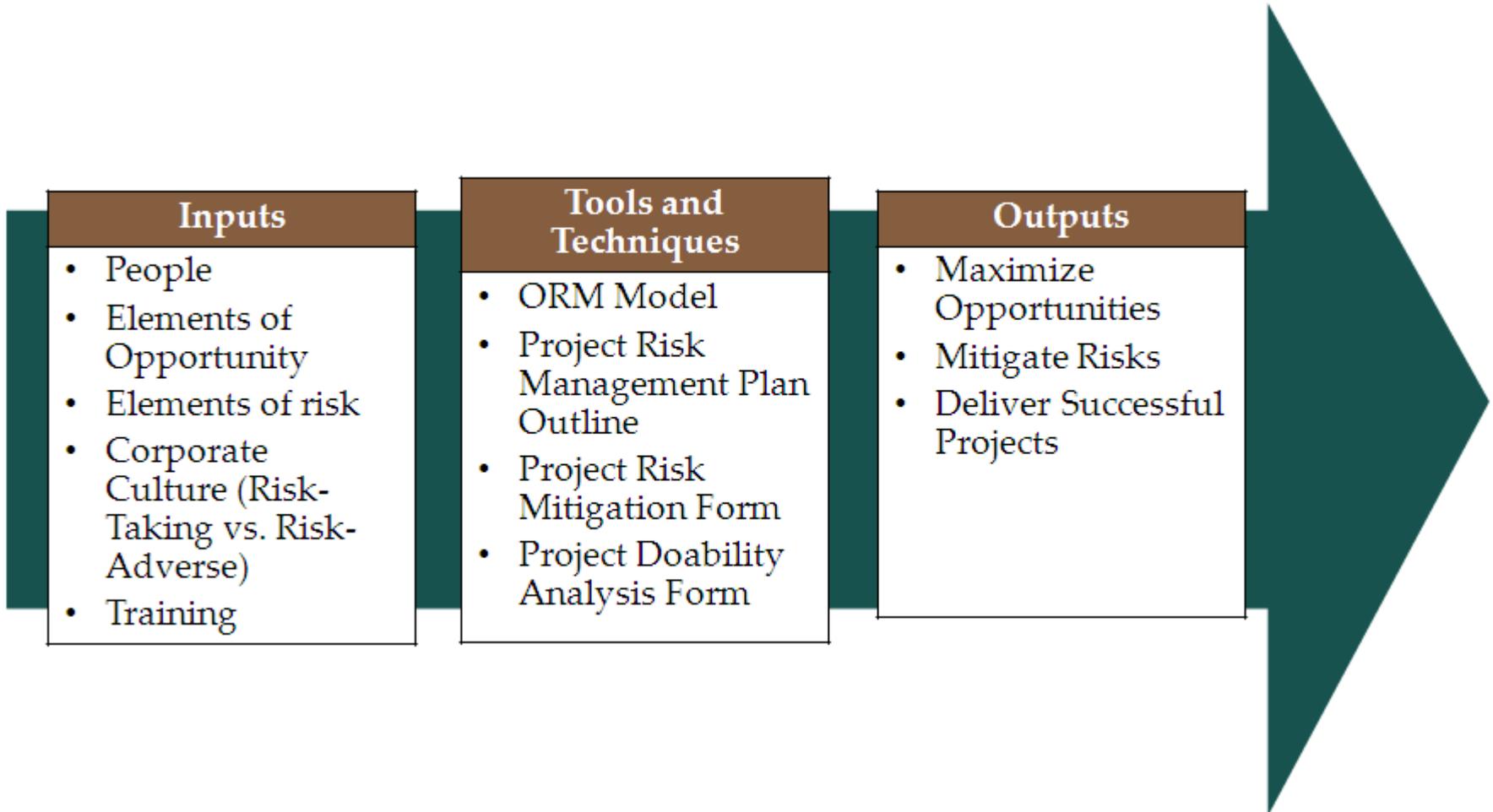
Risk Area	Definition	Significant Risks
<i>Schedule</i>	Sufficiency of time allocated for performing the defined acquisition tasks.	<ul style="list-style-type: none"> • Schedule not considered in trade-off studies. • Schedule does not reflect realistic acquisition planning. • Acquisition program baseline schedule objectives not realistic and attainable. • Resources not available to meet schedule.
<i>Management</i>	Degree to which program plans and strategies exist and are realistic and consistent.	<ul style="list-style-type: none"> • Subordinate strategies and plans are not developed in a timely manner or based on the acquisition strategy. • Proper mix (experience, skills, stability) of people not assigned to Program Management Office or to contractor team. • Effective risk assessments not performed or results not understood and acted upon.

DOD Risk Areas, Definitions, and Examples

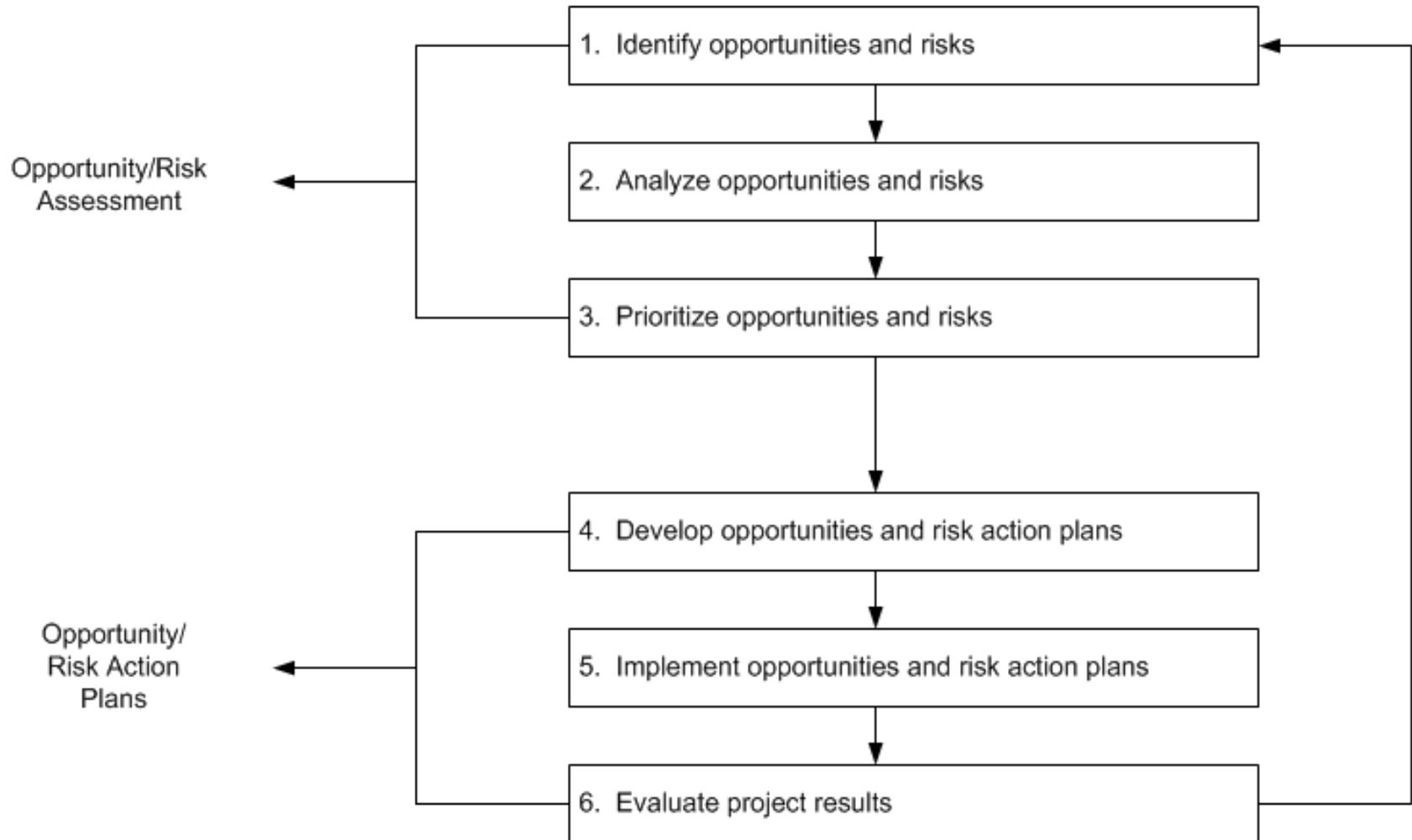


Risk Area	Definition	Significant Risks
<i>External Factors</i>	Availability of government resources external to the program office required to support the project, such as facilities, resources, personnel, government-furnished equipment, etc.	<ul style="list-style-type: none"> • External government resources are unknown or uncertain. • Little or no control over external resources. • Changing external priorities are a threat to performance.
<i>Budget</i>	Sensitivity of program to budget changes and reductions.	<ul style="list-style-type: none"> • Budget practices (releasing funds, quarterly or monthly) negatively affect long-term planning processes. • Budget changes or reduction can negate contractual arrangements and continuity of operations.
<i>Earned Value Management System (EVMS)</i>	Adequacy of the contractors EVMS process and realism of integrate baseline.	<ul style="list-style-type: none"> • Baseline proves unrealistic. • Accurate and meaningful measures difficult to obtain. • Contractor's EVMS does not effectively support project tracking.

The Opportunity and Risk Management Process



Opportunity and Risk Management Six-Step Model



Project Risk Mitigation Form



Risk Event Results

Mitigation Strategy/Strategies Selected

Results of Mitigation Strategy/Strategies

Follow-up Actions Required (If Needed)

Opportunity and Risk Management Worksheet



#	Opportunity or Risk Event	Probability % or H, M, L	Impact \$ or H, M, L	Priority 1, 2, 3 or H, M, L	Develop Opportunities or Risk Mitigation Strategy	Contract/Project Status

Project Doability Analysis



Project Manager Doability Assessment:

Yes

No

Executive Summary

Project Name:	
Customer:	
Location(s):	Estimated Revenue in US\$:
Start Date:	Completion Date:
Prepared by:	Phone #:
Fax:	E-Mail:

I. Describe the project requirements/deliverables.

II. Evaluate the project technical requirements/ability/research & development.

III. Evaluate the feasibility of the project schedule (attach milestone schedule).

Project Doability Analysis (Cont'd)



IV. Evaluate the reasonableness of the project financial commitments (attach the project business case).

V. Conduct high-level risk assessment. Consider the following risks if appropriate: pricing, payment terms, acceptance, warranty, R&D, implementation, environmental, etc. (attach the risk management plan).

VI. Describe significant assumptions implicit in the evaluation of the technical schedule, and financial commitments.

VII. Assess the skills of the selected project team members (experience, education, training, professional certifications, strengths, and weaknesses).

VIII. Executive Assessment of Project

Doable: Yes No

Contract Management Risk and Opportunity Assessment Tool (CMROAT)



CMROAT[®] was designed to help organizations, both buyers and sellers, assess the risk and opportunities associated with a potential or actual contract.

The tool was originally designed for use by buyers and has evolved to provide a similar assessment capability for sellers in both the U.S. government and commercial markets worldwide. The tool provides a high-level, first-pass evaluation of the risks and opportunities associated with a contract.

The tool is intended to be completed by the contract manager, project manager, and other functional team members.

The best time to use CMROAT is prior to contract award.

Using CMROAT in Four Steps



The process of performing the risk and opportunity assessment involves four basic steps:

1. **There are two versions of CMROAT[®]**, one for buyers (CMROAT-BP[®]) and one for sellers (CMROAT-SP[®]). Select the appropriate version and complete the survey.
2. **Evaluating the risk.** Answer a series of 10 questions on risk analysis, with a score for each to be calculated. The questions have been weighted on a scale of 1 (low) to 5 (high) in terms of their relative importance to each other. The score is calculated by multiplying the raw score (risk factor – **R**) by the pre-established weight value (**W**). The total risk score for each question is then calculated and entered into the space provided, resulting in the total risk score on each page. Then, transfer the total risk score for each question to the summary scorecard. After completing all 10 questions on risk analysis, add up the grand total risk on the summary scorecard.

Using CMROAT in Four Steps



The process of performing the risk and opportunity assessment involves four basic steps:

- 3. Evaluating the opportunity.** Likewise, answer a series of 10 questions on opportunity analysis and calculate a score for each. The questions have been weighted on a scale of 1 (low) to 5 (high) in terms of their relative importance to each other. This score is calculated by multiplying the raw score (opportunity factor – **O**) by a pre-established weight value (**W**). After each question has been scored, transfer the total opportunity score to the summary scorecard. After completing all 10 questions on opportunity analysis, add up the grand total opportunity on the summary scorecard.
- 4. Mapping the risk and opportunity to the matrix.** The grand total scores for risk and opportunity are plotted on the matrix. The location of this score on the matrix helps determine the extent of opportunity and the level of risk that will need to be managed to ensure on-time delivery of quality products, services, or solutions at a fair and reasonable price.

CMROAT – Seller’s Perspective



The process of performing the risk and opportunity assessment involves four basic steps:

10 Risk Elements	10 Opportunity Elements
1. Buyer Commitment	1. Promotes Seller’s Strategic Direction
2. Contract Timetable	2. Revenue Generated
3. Contract Duration	3. Margin Strategy
4. Seller’s Previous Experience	4. Future Business Potential
5. Seller’s Participation in Contract Definition	5. Provides Added Experience and/or New Skills
6. External Resource Coordination	6. Resource Utilization
7. Requirements Evaluation Time Frame	7. Buyer Favors the Seller
8. Technology and Product Maturity	8. Products and Services are all the Sellers
9. Geographic Distribution	9. Presale Expense
10. Contract Manager’s Assessment	10. Contract Manager’s Assessment

CMROAT – Seller’s Perspective



RISK ANALYSIS The Seller’s Perspective

Weight Factor (W)	x	Risk Factor (R)	=	Total Score (W x R)
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1. Buyer Commitment

Buyer commitment is a vital factor in the success of a contract. A committed buyer will place a high degree of importance on the contract and will make it part of its business plan. A committed buyer will apply resources, such as a project manager and staff, as well as a budget to implement the contract. A committed buyer is less likely to change or cancel the contract, and therefore represents a lower risk.

Risk Factor (R)

How committed is the buyer to the contract?

1. The buyer has assigned personnel and a budget.
2. The buyer has assigned a budget, but no personnel.
3. The buyer has assigned personnel, but no budget.
4. The buyer has not assigned personnel or a budget.

$$\underline{5} \times \begin{array}{|c|c|c|c|} \hline 1 & 2 & 3 & 4 \\ \hline \square & \square & \square & \square \\ \hline \end{array} = \underline{\quad}$$

Risk Analysis

The Seller's Perspective



2. Contract Timetable

Each contract has a set start and completion date. The buyer will normally require that the contract be completed within a specific time. Typically, this is driven by the buyer's business cycle, selling season, and other factors. The ability to meet the contract timetable requirements is highly dependent on the magnitude of the contract and the availability and coordination of the correct skills and resources. A contract timetable that is flexible and can be established by the supplier with no penalty clause represents the least risk.

Risk Factor (R)

How has the contract timetable been established?

1. Contract start and end dates are flexible and will be established by the seller.
2. Contract start and end dates will be mutually established by the buyer and the seller.
3. Contract start and end dates have been set by the buyer. There are no penalty clauses, but changing the schedule and milestones is difficult and must be negotiated with the buyer.
4. Contract start and end dates have been set by the buyer and are not changeable. Penalty clauses may exist for not meeting milestones.

$$\underline{4}^x \begin{array}{|c|c|c|c|} \hline 1 & 2 & 3 & 4 \\ \hline \square & \square & \square & \square \\ \hline \end{array} = \underline{\quad}$$

Opportunity Analysis

The Seller's Perspective



1. Promotes Seller's Strategic Direction

Any contract and related project, if properly executed, will promote the reputation and image of the seller.

However, the more valuable opportunities are those that are consistent with the seller's core business and strategic direction. These contracts:

- Support our strategic market direction,
- Support our focus on key accounts,
- Utilize our knowledge of specific industries, and
- Represent an excellent example of the type of business the seller seeks and will serve as a reference for future sales efforts with other accounts.

The more of these attributes a contract has, the better the opportunity. If properly executed, a contract with all of the above attributes promotes the seller as an industry leader.

Opportunity Factor (O)

How many of the seller's major strategies as outlined above are matched by this contract?

1. One
2. Two
3. Three
4. Four

Weight Factor (W)	x	Opp. Factor (O)	=	Total Score (W x O)
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$$\underline{5} \times \begin{array}{|c|c|c|c|} \hline 1 & 2 & 3 & 4 \\ \hline \square & \square & \square & \square \\ \hline \end{array} = \underline{\quad}$$

Opportunity Analysis

The Seller's Perspective



2. Revenue Generated within 12 Months of Award

At this point in the contract assessment, exact pricing has not yet been performed. However, an estimate of the amount of revenue expected as a result of the contract should be developed. The estimate should include only revenue that will be generated within the scope of the contract as defined by the contract. The revenues should include all hardware, software, and service revenues. (Do not include future revenue potential beyond the scope of this contract.)

Opportunity Factor (O)

What is the estimated value of the contract in U.S. dollars, including all hardware, software, and services?

1. \$500,00 or less
2. Greater than \$500,000, but less than \$2,500,000
3. At least \$2,500,000, but less than \$5,000,000
4. \$5,000,000 or greater

	1	2	3	4	
<u>4</u> ^x	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	= <u> </u>

CMROAT – Seller’s Perspective



SUMMARY SCORECARD

Risk Analysis

	Weight Factor (W)	x	Risk Factor (R)	=	Total Score (W x R)
1.	__5__	x	_____	=	_____
2.	__4__	x	_____	=	_____
3.	__3__	x	_____	=	_____
4.	__4__	x	_____	=	_____
5.	__3__	x	_____	=	_____
6.	__3__	x	_____	=	_____
7.	__3__	x	_____	=	_____
8.	__2__	x	_____	=	_____
9.	__2__	x	_____	=	_____
10.	__3__	x	_____	=	_____

Grand Total Risk = _____

Opportunity Analysis

	Weight Factor (W)	x	Oppt. Factor (O)	=	Total Score (W x O)
1.	__5__	x	_____	=	_____
2.	__4__	x	_____	=	_____
3.	__4__	x	_____	=	_____
4.	__3__	x	_____	=	_____
5.	__3__	x	_____	=	_____
6.	__3__	x	_____	=	_____
7.	__2__	x	_____	=	_____
8.	__2__	x	_____	=	_____
9.	__1__	x	_____	=	_____
10.	__3__	x	_____	=	_____

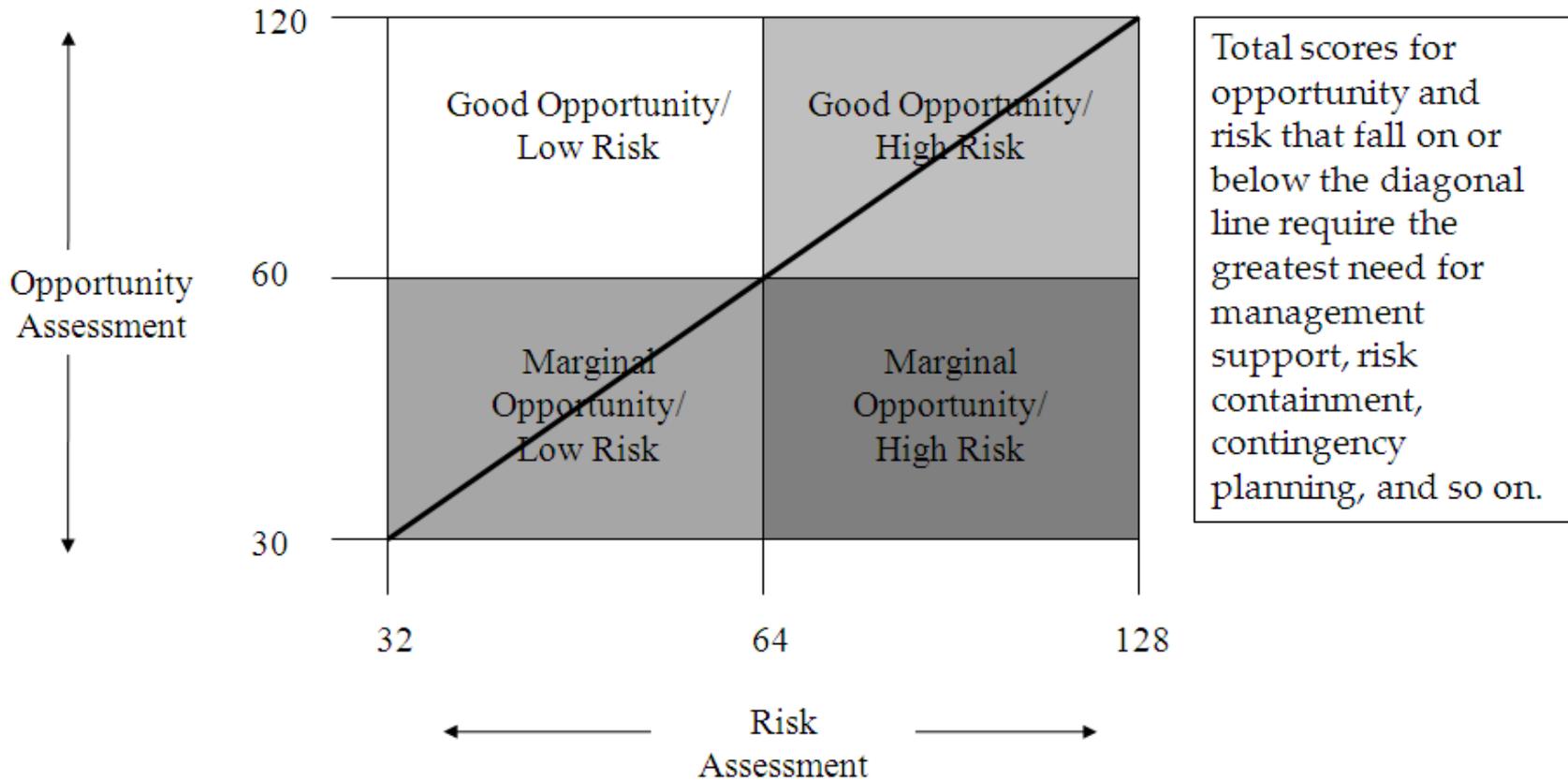
Grand Total Opportunity = _____

Action: Plot Grand Total Scores on the CMROAT© Matrix!

CMROAT – Seller's Perspective



Risk and Opportunity Matrix



CMROAT – Buyer’s Perspective



10 Risk Elements	10 Opportunity Elements
<ol style="list-style-type: none">1. Buyer’s Executive Commitment to Resources and Budget2. Contract Delivery Schedule3. Contract Performance Period4. Supplier’s Past Performance5. Changing Contract Requirements6. Level/Extent of Outsourcing7. Procurement Acquisition Lead Time8. Technology and Product Maturity9. Geographic Manager’s Assessment10. Contract Manager’s Assessment	<ol style="list-style-type: none">1. Contract Promotes the Buyer’s Strategic Direction2. Seller Offers the Lowest Price Technically Acceptable3. Seller Offers Rapid Delivery4. Use of Breakthrough Technology5. Provides Value-Added Experience and/or New Skills6. Ease of Procurement7. Doing Business with a High-Quality Small Business8. Seller Offers Lowest Life-Cycle Cost to Buyer9. Reduced Procurement Expense10. Contract Manager’s Assessment

CMROAT – Buyer’s Perspective



RISK ANALYSIS The Buyer’s Perspective

Weight Factor (W)	x	Risk Factor (R)	=	Total Score (W x R)
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1. Buyer’s Executive Commitment to Resources and Budget

The buyer’s executive commitment is a vital factor in the success of a contract. Committed executive support is important to ensure that sufficient resources and budget are provided to achieve success. Committed executive support is less likely to cancel a contract, and therefore, represents a lower risk.

Risk Factor (R)

How committed are the buyer’s executives to the contract and related project?

1. The executives have assigned personnel and a budget.
2. The executives have assigned a budget, but no personnel.
3. The executives have assigned personnel, but no budget.
4. The executives have not assigned personnel or a budget.

5 x

1	2	3	4
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

 =

Risk Analysis

The Buyer's Perspective



2. Contract Delivery Schedule

Each contract has a set start and completion date. The buyer will normally require that the contract be completed within a specific time. Typically, this is driven by the buyer's business cycle and end-customer demands. The ability to meet the contract schedule requirements is highly dependent on the magnitude of the contract and the availability and coordination of the right talent at the right time. A contract schedule that is reasonable and can be established by the buyer, with penalty clauses for late delivery, represents the least risk to the buyer.

Risk Factor (R)

How has the contract delivery schedule been established?

1. Contract start and end dates have been set by the buyer and are not changeable.
Penalty clauses may exist for not meeting milestones.
2. Contract start and end dates have been set by the buyer.
There are no penalty clauses, but changed the schedule and milestone is difficult and must be negotiated with the buyer.
3. Contract start and end dates will be mutually established by the buyer and the seller
4. Contract start and end dates are flexible and will be established by the seller.

$$\underline{4} \times \begin{array}{|c|c|c|c|} \hline 1 & 2 & 3 & 4 \\ \hline \square & \square & \square & \square \\ \hline \end{array} = \underline{\quad}$$

Opportunity Analysis

The Buyer's Perspective



1. The Contract Promotes the Buyer's Strategic Direction

Any contract, if properly executed, will promote the reputation and image of the buyer. However, the more valuable the opportunities are those that are consistent with the buyer's core business and strategic decision.

Weight Factor (W)	x	Opp. Factor (O)	=	Total Score (W x O)
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Opportunity Factor (O)

How much does the contract support the major strategies and goals of the buyer?

1. Not at all
2. Little
3. Moderate
4. High

5 x

1	2	3	4
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

 =

Opportunity Analysis

The Buyer's Perspective



2. Seller Offers the Lowest Price Technically Acceptable

Obtaining quality products, services, and/or solutions at the lowest possible price is usually a key source selection factor for most buyers.

Opportunity Factor (O)

Buyer's value obtaining quality products, services, and solutions at the lowest possible price.

1. Offer is not within the competitive price range.
2. Offer is within 10 percent of the lowest price technically acceptable.
3. Offer is within 5 percent of the lowest price technically acceptable.
4. Offer is the lowest price technically acceptable.

$$\underline{4} \times \begin{array}{|c|c|c|c|} \hline 1 & 2 & 3 & 4 \\ \hline \square & \square & \square & \square \\ \hline \end{array} = \underline{\quad}$$

CMROAT – Buyer’s Perspective



SUMMARY SCORECARD

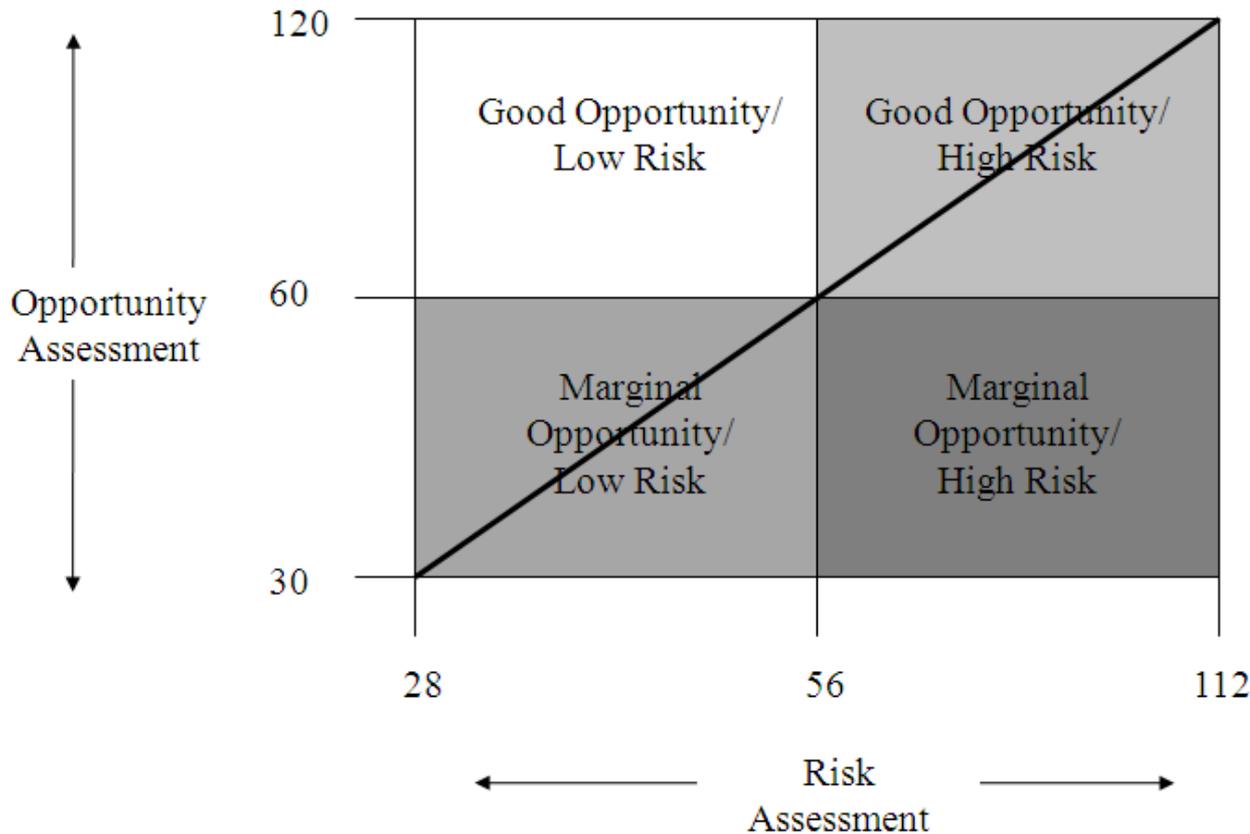
Risk Analysis				Opportunity Analysis			
Weight Factor (W)	x	Risk Factor (R)	= Total Score (W x R)	Weight Factor (W)	x	Oppt. Factor (O)	= Total Score (W x O)
1. 5	x	_____	= _____	1. 5	x	_____	= _____
2. 4	x	_____	= _____	2. 4	x	_____	= _____
3. 3	x	_____	= _____	3. 4	x	_____	= _____
4. 4	x	_____	= _____	4. 3	x	_____	= _____
5. 3	x	_____	= _____	5. 3	x	_____	= _____
6. 3	x	_____	= _____	6. 3	x	_____	= _____
7. 3	x	_____	= _____	7. 2	x	_____	= _____
8. 2	x	_____	= _____	8. 2	x	_____	= _____
9. 2	x	_____	= _____	9. 1	x	_____	= _____
10. 3	x	_____	= _____	10. 3	x	_____	= _____
Grand Total Risk = _____				Grand Total Opportunity = _____			

Action: Plot Grand Total Scores on the CMROAT©Matrix!

CMROAT – Buyer's Perspective



Risk and Opportunity Matrix



Total scores for opportunity and risk that fall on or below the diagonal line require the greatest need for management support, risk containment, contingency planning, and so on.

Interpreting Results



According to the CMROAT user surveys and interviews, most people find CMROAT simple to use and very effective in providing a quick high-level risk and opportunity assessment.

Typically, we find organizations receive the best value from their use of CMROAT when they have five or more representatives/team members from different functional departments or organizations complete the survey tool and compare results.

In the case of CMROAT, as in any assessment tool, the real value to the organization using the tool is in analyzing the results, then discussing and implementing appropriate actions that should be taken to further improve business performance.

Numerous organizations in the aerospace, defense, engineering, electronics, telecommunications, and other industries have used CMROAT or other modified versions as an effective tool to conduct a quick multifunctional assessment of risk versus opportunity on a proposed or actual contract.

**This tool is a modified extract from the book, Contract Management Organizational Assessment Tools, by Gregory A. Garrett and Dr. Rene Rendon, NCMA 2005.*

Thank you!



If you have additional questions contact:

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