Six-Step Approach to Capital Purchases

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Abstract. Capital equipment acquisition offers tremendous opportunities for value improvement. A capital buyer, already faced with tight timetables and challenging specifications, must enter into deep technical reviews with an incumbent supplier, or at best a narrow population of qualified suppliers, and may be unprepared for the commercial discussions that follow. A robust capital acquisition approach should include: a) Establishing a cross-functional team and approved project charter; b) Defining project expectations, equipment performance specs, and initial procurement strategy; c) Developing supplier qualification criteria; d) Creating and distributing RFx documents and filtering suppliers through commercial and technical reviews, e) Creating a negotiation planning checklist; and f) Completing final negotiations, supplier selection, and defined project review process. By adopting this multi-step approach, the buyer can realize low total lifecycle cost as manifested in properly negotiated cost savings, contractual protections, and cost avoidances (e.g., reduced downtime and maintenance) through the product lifecycle. This process involves both internal and external stakeholders, and includes a post award process that tracks dates, obligations and deliverables from all parties.

Step 1: Mobilize Team and Establish Project Objectives. This is a basic project management kickoff approach. Project charter should be written by the project lead and approved by a Sponsor/Champion; team should be selected, and project timeline drafted and agreed upon.

- Establish project objectives and constraints
- Identify core team members, project manager, subject matter advisors, and steering committee
- Identify advisory team members, including Legal, Finance, Engineering
- Obtain steering committee buy-in for charter, team selection, and timeline

Step 2: Determine Key Requirements and Agree on Procurement Strategy. It is important to establish up front the key performance objectives for the equipment (e.g., we want to increase production capacity by 10,000 pieces per shift), and the constraints within which we are operating (e.g., footprint for the equipment). This information, coupled with an understanding of the equipment market in which we are operating, will drive the overall procurement strategy: competitive bidding, should-cost analysis, leveraged negotiation, supplier partnership.
- Develop/confirm core scope and objectives, in a ‘total lifecycle management’ framework
  - Identify business requirements
  - Identify technical requirements
  - Identify functional requirements
  - Identify contractual requirements
- Prioritize business and technical requirements into functional specification document
- Evaluate market
- Determine level of desired supplier relationship
- Identify potential suppliers
- Prepare first draft of negotiation checklist
- Obtain executive sponsor approval

**Step 3: Draft RFx Docs and Establish Supplier Filtering Criteria.** In this phase the project team incorporates requirements and attributes into RFx and negotiation planning documents. The RFI is intended to help us understand overall supplier capabilities and desire to provide total value to this project. It is also important to include desired contract terms in the RFP, to reduce the negotiation effort on these points later.

The RFP will be used to differentiate the suppliers based on their specific proposed solution. To the extent that a project team is able to develop and provide functional specifications and constraints, rather than full technical specifications, the suppliers are able to draw more fully on their strengths in developing the solution proposal. The litmus test of the solution proposal must satisfy the technical and business needs of the Team.

**Summary:**
- Conduct team review and document technical and business needs of the business
- Develop evaluation matrix with initial requirements, priorities
- Issue RFI & RFP to potential suppliers

**Step 4: Finalize and Distribute RFx Documents and Screen Suppliers.** In the case of broad initial supplier participation in the RFI and RFP, it may be to one’s advantage to conduct a bidder’s conference, in which all potential suppliers hear the same RFI and RFP clarifying details at the same time. In many instances this would be impractical, as the number of potential suppliers may be limited.

- Conduct Bidders’ Conference if appropriate
- Potential suppliers prepare responses to RFI & RFP
- Filter the field to a short-list of qualified suppliers
- Schedule and attend potential supplier presentations
- Invite suppliers meeting key RFP requirements to negotiate

**Step 5 Refine Negotiation Strategy and Finalize Negotiation Planning Checklist.** The negotiation plan should include Critical, Important, Desired, and Concession/Throwaway items for discussion. By understanding the supplier’s relative strengths and weaknesses from the
RFI and presentation meeting, the negotiating team can design an effective negotiation approach.

- Core team negotiates
- Determine roles ahead of time:
  - Lead negotiator
  - Technical expert
  - Note taker (scribe)
  - Observer
- Conduct parallel negotiations with all suppliers on short list
- Evaluate results against negotiation plan
- Select supplier

**Step 6 Complete the Deal and Establish Relationship Manager.** Once the supplier is selected, a relationship manager should be appointed and a supplier management plan established. This process will solidify the tactical details with the supplier, and establish the monitoring/feedback approach. In this phase it is important to establish an escalation process for issues not resolved by the relationship manager and the supplier

- Develop supplier management plan
  - Key deliverables and dates
  - Supplier obligations
  - Our deliverables and dates
  - Our obligations
- Monitor and measure progress
- Identify and resolve issues

**Conclusion.** Technical and commercial objectives (On Time, on Budget, and on Purpose) can co-exist within a properly developed and executed capital procurement process. By establishing the requirements, procurement strategy, and selection criteria up front and then properly executing the strategy, a purchaser can drive high total value in equipment purchases, including low total lifecycle cost, high equipment performance, and high probability of suppliers meeting critical targets.