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TOP STORY

Applying Lean to Contract Management

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In both government and the private sector, it's common to hear stories about how broken the contracting process has become. In fact, the process is usually a constraint to the work it's supposed to be enabling.

Long lead times can plague supply chains, shrink the profitability of contractors, and torpedo the job satisfaction of professionals on both sides. But the countless re-orgs, reforms, and commissions devised to solve the problem get nowhere.

And that's a shame, because a proven methodology exists to address this problem—one that's simple and inexpensive to use.

That methodology is the Toyota Production System (TPS), better known in most business circles as *lean*. Lean methodology can be used very powerfully to reduce lead time and increase quality, profits, and job satisfaction across the contracting/supply chain industry. But lean is often overlooked as an improvement tool for contract management, or is applied locally rather than organization-wide, limiting the gains that can be achieved.

I can personally attest to the power of lean to make dramatic improvements in the contracting process. In my role as general manager of marketing and sales development for a maintenance, repair, and overhaul organization (MRO), I worked directly on improving the speed and quality of proposal and contract processes using lean tools, helping drive a roughly 75 percent increase in revenues in just three years. As a consultant and teacher using lean, I've helped acquisition professionals developing requests for proposals (RFPs) reduce lead times by 50 percent.

Although we don't have the space here to dissect the entire contract process from a lean perspective, we can cover four common problems and the lean countermeasures you can implement immediately for big results.

1. LACK OF ORGANIZATIONAL FOCUS

This is the single biggest problem you'll face working with people in the frenetic world of contracting. To move a contract along smoothly, its mission must remain clearly articulated at all times, and situational awareness is critical. Yet this is rare. A program manager must obtain inputs and approvals from many different contributors in many different disciplines outside his or her control (contracting, engineering, logistics, finance, etc.), for whom a given contract is only a small part of daily business. Without articulating, documenting, and communicating the contract's mission, the *de facto* mission becomes "answer the email by the deadline." But with a clearly communicated mission and active visualization of the process, contributors become motivated and focused, enabling the contract to compete successfully against mundane daily tasks and distractions.

2. TOO MUCH WORK IN PROCESS (WIP)

Contracting is a project that usually runs late (like everything else). The natural human response to waiting is to start new pieces of the project so that time won't be wasted. But a fundamental principle of lean is that you should never have too much work started that hasn't been completed. Excess WIP means more tracking and reporting, prioritizing and reprioritizing, expediting and facilitating, switch-tasking and batching, and finally, compromising quality and content to meet the deadline.

When you start new documents because the old ones aren't finished or approved, you may be following incomplete instructions or using data with an expiration date, causing rework down the line (if you're lucky enough to catch your mistakes). You also cause bottlenecks as you generate more work, which is something that budget batching in government is notorious for.

For every organization or team undertaking a contract, there's an optimal WIP related to that contract. Leadership must stagger the start of programs to keep WIP optimal, and the way to do that is to make WIP visual. An old-school white board with sticky notes showing work in queue, work in process, and work completed provides a sense of urgency and situational awareness for the entire team and even the management hierarchy. As an example, I've seen a WIP board help an organization meet its contract deadlines 100 percent on time (up from 65 percent), allowing more proactivity in negotiating contracts and saving money.

3. A BROKEN FLOW OF INFORMATION

This is what happens when there are too many handoffs. I've seen as many as 54 approvals needed for a contract award from different people at different levels in different disciplines. And all those people have other tasks on their lists, so a queue forms in their email inboxes, especially when there's a lack of organizational focus. When that contract task finally pops to the top of the list, what are the chances it's 100 percent complete or that all the appropriate information has been provided? In many organizations, zero. That means rework. In fact, you can take the percentage of time that requests are actually complete and accurate at each handoff and multiply them together to compute what's known as *rolled throughput yield* (RTY). In my experience consulting on contract processes, RTY is often below 10 percent.

The rework that ensues usually consists of email ping-pong, adding more lead time. One way to circumvent this is to use a tool called single-text negotiation (from the book, *Getting to Yes: Negotiating Agreement Without Giving In* by Roger Fisher and William Ury). With proper organizational focus, you simply decide the document in question is top priority, create and circulate the draft, hold an in-person or virtual meeting where the document can be seen by all contributors, and review and edit the document in real time.

Using this tool for reconciling statements of work, reviewing meeting minutes, etc., can cut contracting lead time dramatically, in some cases by months. It also helps participants learn each other's requirements for the next go-round.

4. VARIATION IN THE PROCESS

Although policies and rules such as the *Federal Acquisition Regulation (FAR)* govern the execution of contracting processes, these rules are high-level. Each person involved in the process interprets the rules, with the best of intentions, in his or her own way (we call this "between" variation—as in, variation between people). Then, each person may not perform a task the same way twice ("within" variation, or variation within each person's process). You'll find this extra variation everywhere—

from documents to strategies to inspections, approvals, and input from specialists. Often, criteria for approval at each stage are not only non-standard—they're capricious and arbitrary. This inevitably leads to delay and rework.

The answer, despite what goes on in most organizations, is not to institute even more policies and approvals. Instead, each department or discipline should create standard work (documented best practices and templates) to support clearly stated existing policies. When it isn't possible to achieve consensus through single-text negotiation, it's important to investigate what it will take to get approval at a given stage and create a submission template for all materials accordingly.

Here's an example: I was in a situation where my company was losing business because the lead time for proposals and contracts was too long. The constraint was legal approval—or so we thought. After unsuccessfully demanding better response times, we decided to approach legal and ask how we could submit documents for faster approvals. That shed light on the real constraint—the sales team. Each salesperson used an individual template to create a proposal or contract, a variation that slowed the process of legal review and caused rework. Using single-text negotiation, the sales team created one standard proposal and contract template for each product, eliminating the legal constraint quickly and dramatically.

Developing RFPs from requirements, answering RFPs with proposals, and awarding contracts are all highly demanding tasks. But wastes in the process make things much more difficult than they have to be. Using lean to eliminate those wastes will give you the time and space to use the full range of your skills to do your job—which is good news for you, your organization, and ultimately your customer. **CM**

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