

Outsourcing and Contract Examples

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Introduction

The Sustainable Home Project is an entirely outsourced project, making it difficult to demonstrate an advantage for additional outsourcing. However, the framing contractor, Hammer and Nail Construction Inc. has been offered another job which will start near the half-way point of their contracted work on our project. Both have the potential for being very lucrative prospects and they don't wish to lose out on either opportunity.

Hammer and Nail is a high-end rough framing company with a reputation of being the best in the local area for quality and timeliness of work. They usually contract out at a higher price per job than most other companies, but are in demand with high quality home builders because of the high quality work they are known for. They typically insist on completing all the framing and roofing work on the job site to ensure that the building is straight level and built to their high professional standards.

The Problem:

The Sustainable Home Construction job needs to start framing on the 16th of April 2015, and is scheduled for completion and inspection on the 9th of June 2015. The other job site is scheduled to begin construction on the 5th of May and is also a quality home build with potential for follow-on contracts. Hammer and Nail has a large enough of a construction crew to handle only one job site at a time with 3 part time workers who can handle minor jobs under supervision. In order to meet the requirements of both job sites Hammer and Nail will have to outsource a portion of the work. They will need someone who is reliable enough to maintain their high construction standards and timeliness of work.

Spiffy Topper Roofing Company is based in the same local area and is known for quality roof repair and replacement. The owner is a former employee of Hammer and Nail Construction. Although the owners of the two companies don't always agree on management style, which is partly why Spiffy Topper was started, they both respect each other's workmanship and have referred customers to each other for the last several years.

Jim Purvis, the owner of Hammer and Nail, approached Johnny Rickenbacker of Spiffy Topper at the town Christmas parade with a plan to join forces. Johnny's construction crews had a busy year, the year before but, due to the economy, most people were holding off on major home repair. For the most part Spiffy Topper was doing patch and fix work instead of roof replacements, which pays the bills but doesn't sit well with Johnny. "It's hard to guarantee a patch in an old roof, the rest of the roof may fail then I look bad for fixing it even though my part is quality." Johnny was eager to start putting his guys to work on complete jobs again.

The Solution:

Spiffy Toppers crews were made up of experienced construction people with the same attitude towards "doing a job right" as Johnny and they, too, earned a premium wage. During their conversation Johnny told Jim that his crews could get the roofing work done in two thirds of the time Jim had planned for his crew. This meant shortening the scheduled roofing time from three weeks to two; and Hammer and Nail would be able to use the people they would have had roofing to complete the framing work even earlier. All in all they would be able to cut the entire job requirement time by 20 days, allowing Hammer and Nail to send two thirds of their workers and a foreman to start on the next project on time.

Since the original job bid for the Sustainable Home project was already accepted, reducing the schedule would not affect Hammer and Nail's net profit, as long as the outsourcing costs didn't exceed their expected organic cost. Knowing this, Johnny agreed to accept the rate Hammer and Nail had bid on the roofing job even though it was slightly lower than what he would have bid; but only, if he were given an opportunity to bid on future Sustainable Home project roofing jobs whenever Jim became aware them.

The two companies agreed and began to draw up the contract. One minor contention was who would bear overall responsibility on the job site for the work being done. Jim demanded that his foreman, a tough, no-nonsense sort who he has trusted for years, take the lead. But Johnny having worked for the man was unwilling to put his employees under his supervision. Johnny normally acted as a foreman on his roofing crews; he liked to work with the guys but decided working alongside a prior supervisor would put him at a disadvantage. The two agreed that Jim's foreman would have decision making power at the site but had to work through Johnny's assistant on roofing issues and if an unresolvable disagreement were to arise, both Johnny and Jim would be available to work it out. With the line of communication, the compensation, and time frames agreed upon. It seemed that all they need to do is get their respective legal counsel to draft the papers.

Conclusion

By outsourcing the roofing portion of the Sustainable Home Construction Project to Spiffy Topper Roofing, Jim was able to complete the contracted task in less time enabling him to start the new project on its proposed start date. Although Spiffy Topper would receive the profits for the roofing portion of the Sustainable Home job, having Johnny's company finish the

roofing allowed Jim to move his foreman and most of his crew to the next job without delay. This enabled Johnny to accept concurrent projects and created greater profit in the long run.

Appendix:

Fixed Price Construction Contract

This Construction contract, valid April 24, 2015 between Hammer and Nail Construction of 9874 Framers Dr., Boulder Colorado 80301, and Spiffy Topper Roofing Inc. of 12345 Roofing Ln, Boulder Colorado 80301.

Spiffy Topper Roofing Inc. desires to provide construction services to Hammer and Nail Construction and Hammer and Nail Construction desires to obtain such services from Spiffy Topper Roofing Inc.

1. DESCRIPTION OF SERVICES. Beginning April 24, 2015, Spiffy Topper Roofing Inc. will afford Hammer and Nail construction the following services, to be completed on or near May 14, 2015, and not later than June 7, 2015 without risk of penalty as specified in paragraph 7

PAYMENTS:

Install roof framing to include trusses and fasciae

Install roof sheeting as specified in the blue print

Install roofing vapor barrier in accordance with applicable code

Install roof shingles as specified by the customer

2. SCOPE OF WORK. Spiffy Topper Roofing Inc. will afford all labor, tools, and equipment required to complete services previously described for a single-family residential home with detached two car garage at 4569 Green Building Rd. Boulder Colorado, 80301 here after referred to as the “worksite”.

3. PLANS, SPECIFICATION AND CONSTRUCTION DOCUMENTS. Hammer and Nail will make available to Spiffy Topper Roofing Inc. all plans, specifications, drawings, blueprints, and any other required construction documents for Spiffy Topper Roofing Inc. to provide the services described herein. Any such material will remain the property of Hammer and Nail Construction and will be returned upon completion of said services.

4. COMPLIANCE WITH LAWS. All contracted services will be in compliance with all applicable federal, state, and local laws, and regulations including, but not limited to, all requirements of the Fair Labor Standards Act, the Americans with Disabilities Act, and Federal Family and Medical Leave Act.

5. WORK SITE. Hammer and Nail Construction declares it has been contracted to provide construction services on the worksite property and is authorized to contract services within their agreed upon scope based upon agreement with Sustainable Home Construction Company.

6. MATERIALS AND LABOR PROVIDED. All materials for the contracted labor at the worksite will be provided to the worksite by the general contractor, Sustainable Home Construction Company. Any labor required prerequisite to services provided by Spiffy Topper Roofing Inc. will be accomplished prior to the contractual start time contained herein.

7. PAYMENT. An agreed upon payment of \$8750.40 will be dispersed to Spiffy Topper Roofing by Hammer and Nail Construction upon completion of said services. No other agreed upon monetary amount will be dispersed for early completion. However, a 5% per week penalty will be assessed for past due work if Spiffy Topper fails to meet the inspection deadline of June 7, 2015.

8. TERMS Spiffy Topper Roofing will have 24 hour access to the worksite contingent on them providing power, compressed air, and lighting as needed after 1700 hours Mountain Time.

Electrical power and air compression will be provided on site by Hammer and Nail Construction Company between 0600 and 1700 Monday thru Friday.

9. CHANGE ORDER. Changes to the scope of services provided by Spiffy Topper Roofing may be dictated by natural weather phenomena, customer needs, regulatory compliance needs and as negotiated between Hammer and Nail Construction Company, Spiffy Topper Roofing Inc., Sustainable Home Construction Company, and the customer. Any delay to the contractual start date for any reason by any party must be communicated to all remaining parties as soon as possible and not later than one week prior to contracted service start date. Any delay which cannot be coordinated shall be renegotiated with the appropriate parties and may negate predetermined completion dates.

10. PERMITS. All permits will be secured and maintained by the Sustainable Home Construction Company. Said permits will be available at their worksite construction office for reference by all interested parties.

12. INSURANCE. Spiffy Topper Roofing Inc. shall be responsible to insure their employee, and worksite activities, vehicles, and equipment in accordance with federal, state, and local law. It is the sole responsibility of Spiffy Topper Roofing Inc. to provide replacement for loss of labors on the contracted worksite to complete the services herein contracted if needed.

13. CONFIDENTIALITY. Any copyright applicable material, real property, intellectual property, design and construction techniques used on the worksite remain the property of Sustainable Home Construction Company and may only be used on contracted projects under

their contractual obligation. Individual techniques used by any other subcontractors to include Hammer and Nail Construction, and Spiffy Topper Roofing outside of those employed specifically by the Sustainable Home Construction Company for the building of the sustainable home remains the prerogative of the initiating organization to share or retain at their desire.

14. WARRENTY. Spiffy Topper Roofing Inc. shall provide workmanship applicable to the desired outcome agreed upon by Hammer and Nail Construction, Spiffy Topper Roofing, Sustainable Home Construction Company, the customer, government inspectors, and building codes of the state of Colorado. Any lapse in quality for the contracted services shall be corrected at the expense of Spiffy Topper Roofing Inc.

15. AMENDMENT. Any amendments to the agreements herein must be agreed upon by all parties in order to be of force. To include but not limited to, change in contractual scope, additional services, change in dates, change in materials, or change in time requirements.

16. GOVERNING LAW. All federal, state and county codes as dictated by regulations, laws and standards set by the inspector shall be adhered to, as well as the international and LEED building codes to ensure LEED certification requirements. Spiffy Topper Roofing is responsible to know and understand these standards and abide by them while providing services herein.

22. NOTICE. Upon notification by inspectors, the customer, Hammer and Nail Construction and/or Sustainable Home Construction Company that work quality, code requirements, blue print, or structural requirements have not been met, Spiffy Topper Roofing shall make the required corrections within two days. If said corrections exceed the not later than completion date agreed to herein, penalties listed in paragraph 7 PAYMENTS may be invoked.

23. SIGNATORIES. The signatures below are legal representatives for their respective companies. Jim Purvis, owner of Hammer and Nail Construction, and Johnny Rickenbacker, owner of Spiffy Topper Roofing Inc.. The representatives herein agree to all the provisions stated in this document and shall be legally bound to the agreements herein.

X_____.

Jim Purvis

Owner, Hammer and Nail Construction

(Contractor license:plmn698532)

X_____.

Johnny Rickenbacker

Owner, Spiffy Topper Roofing Inc.

(Contractor license:rfgn852369)

X_____.

Tobin James

CEO, Sustainable Home Construction Company

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