



The Road to System Integration

Step 2: Contracting

A material handling system can only be considered integrated when all of its elements are in sync, both physically and informationally. The same is true of every step along the path to system integration. Planning, contracting, installing, startup, and achieving return on investment (ROI) are separate steps, but they must all be taken. And they must be taken in sequence.

If the steps in an integrated system project are thrown out of sync, you'll hit a major roadblock on the way to material handling system integration. This series of quarterly reports offers advice to guide you through that journey.

Our previous report covered project planning; this one offers advice for successfully contracting with suppliers. Whether you work with multiple suppliers or with a single supplier that provides all the elements of your system, the guidelines are the same.

Detailed RFPs

The first step in crafting a successful contract comes before you've even selected a supplier. After completing your project planning, you will likely issue a request for proposal (RFP)—also known as a request for quote (RFQ)—to a short-list of potential suppliers. If you take the time to prepare a detailed RFP that clearly defines your requirements, you can later use this RFP as the basis for a contract.

“The best suppliers will take a customer's RFQ and provide creative design alternatives to provide an even stronger ROI,” says BEUMER's John Sarinick, chair of the Integrated Systems & Controls (ISC) Industry Group of Material Handling Industry of America (MHIA). “This will help you to determine if the supplier's specific experience and expertise match your needs.”

Reviewing a supplier's written proposal is just the first step in the evaluation process. The next step is to schedule a presentation where you can meet members of the supplier's team face to face. This in-person meeting will be the first step in establishing trust and building a partnership that will last for many years.

You'll also want to contact the supplier's references. Be sure to talk to the actual users of the supplier's services—ask them how well their system performs and how well the supplier handled any complications that arose during installation and startup. For complex projects, consider scheduling a site visit.

A Detailed Contract

Designing and installing an integrated material handling system is a complex project that can't be completed on a gentleman's agreement and a handshake. You will need a detailed contract that provides guidelines and protection for you and your supplier. Your supplier or your own company's purchasing department may have a generic contract to use as a jumping-off point, or you may have a detailed RFP to use as a basis for your contract. Either way, you and your supplier should enter the contract negotiation ready to work together to craft a mutually beneficial contract.

Defining and Measuring Success

One may think the ultimate goal of the contract is to clearly define the requirements to successfully achieve the business goals established during the planning phase. However, the contract's ability to measure success is just as important.

Typically success is measured via detailed, mutually agreeable acceptance test plans. The most common test plans include static, throughput, accuracy and a variety of functional plans to measure performance.

Quantity of test product and duration of the testing phase (typically from one to four months depending upon the complexity of the integrated system) are important details. It's in your and the supplier's best interest to ensure there is clear understanding of success during the contract phase – don't leave success to chance.

Payment Terms

The payment terms outlined in your contract should meet the needs of both parties—your supplier's need to pay for the materials and labor, and your need to ensure you only pay for work that's done correctly. Most contracts call for a down payment that reflects the scope of the project and additional payments to be made at agreed-upon milestones.

Don't Forget Training

Be sure your contract provides for sufficient training for your personnel. While training will represent only a small portion of the dollar value of your contract, it will play a large role in the success of your project. Your contract should provide for the training needed before the startup of the new system. It should also include stand-by assistance available from your supplier in the first weeks or months after the system launches.

Keep Communication Flowing

Negotiating a mutually beneficial contract requires open and honest communication between you and your supplier. After you've signed that contract, keep those lines of communication open to ensure a smooth ride down the remainder of your road to systems integration.

The next *ISC Quarterly Report* will focus on installing the many components of your integrated materials handling system.

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