

# Key Commercial Point Sentinel During “Order Transfer” From Client and Sales for Execution in Manufacturing Industries



S. Sundarbabu, S.Venkatachalam

**Abstract:** *The Moment Purchase order received in project-driven manufacturing industries and the initial review among key stake holders need to be conducted to understand the technical and commercial requirements of a project. The sales team involved in booking the order and the representatives of clients certainly attend the review meeting known as “Order transfer” to kickstart the project. Usually, the project life cycle needs to be broken down in to 7-9 important phases and the Project Manager/ the Executive sponsor must lead further meetings at the end of every phases before the next. Phase gate checklists are the key tools used during different stages of projects from Initiation till closing. As per PMBOK (Project management body of knowledge), Phase gate checklists are mandatory to decide on further progress for any project at different stages. The research specifically emphasizes the key commercial points to be finalized frozen before initiating the order acceptance process followed by project execution. There are chances of overlooking or misjudging important terms and conditions at initial stages, which may lead to complications in the course of project completion, and, sometimes, hinder going ahead with the project itself. By introducing checklists during the order transfer from customer to sales or sales to factory will avoid such mishaps and will be helpful for a smooth handover to operations. Currently many checklists are in practice and tailored to conduct the phase gates for different firms. However, they need to be modified in such a way that they will be universally utilized by all types of manufacturing industries. In this article, we deal with the modified checklist for manufacturing industries which will be helpful in avoiding any missing key commercial information during the order transfer.*

**Keywords:** Checklist, Order Transfer, Phase Gates.

## I. INTRODUCTION

Phase gate checklist is an extract from the bible of Project Management “PMBOK”. This idea was earlier introduced in 1983 "Ethics, Standards, and Accreditation Committee Final Report." Later, the checklists are widely used in all types of project stages and other fields to decide on the “GO, NO-GO” for further proceedings. Also, it includes the RAIL action to be evolved and the major points to be addressed and

completed at consecutive stages, which will eliminate the gaps at every phase. This process is an innovative idea by modifying the available checklist to suit best for the current market scenario.

Currently, 90% of the industries are utilizing the individual checklists that suit specifically their respective areas of operation. However, it is essential to have one universal checklist which will be suitable for any industry so that the commercial points are completely clarified during order transfer without a pitfall.

## II. LITERATURE REVIEW

As per the author Mr. Stratton’s literature on project gates, in his book “Chutes & Ladders”, the phase gate review offers a project manager the prospect of establishing improvements accomplished at regular intervals, any change order / impact from latest phase gate review and also his work plan for upcoming periods. Because of an effective gate review, the project manager will gain the agreement that the current stage of progress is acceptable, risk measured, scope of work monitored, strategies found OK, and the team itself committed to the project. In case unanticipated complications arise in the project, stake holders may ask the project manager about his failure to anticipate the problem, since they were present too during the phase gate review. However, all successful outcomes are based on the correct process that uses the modified checklist. Hence, I have proposed a modified checklist that can be used for successful project outcomes.

According to Dave Nielsen, there will be only two major reasons for conducting phase gate meetings at regular intervals. (1) To convince all the project stakeholders and the team players that the project is staying the course. Phase gate review meetings are required for meeting the opportunities to accomplish project success. My revised checklist provided herewith will support the gate meetings in a better way and enhance the chance of project success.

## III. PROBLEM STATEMENT

Phase gate reviews are most important to track the status of a particular project and ensure that the project is on track, and shall foresee the future issues to tackle them with appropriate actions. Presently, there are many checklists that have been utilized for the Phase Gate Reviews.

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Considering the current scenario, checklists needs modification to get track of action points to be completed for every stakeholder, which may help the project to be completed successfully.

## IV. DIFFERENCE BETWEEN GENERAL PHASE GATE CHECKLISTS AND THE PROPOSED MODIFIED CHECKLISTS

General phase gate checklists touch upon the commercial terms and conditions from clients, and there won't be any clarity to identify potential problems that could be encountered during the course of execution and project handover.

Modified checklists are necessary at this aggressive era, to guard against any potential threat to businesses and also protect firms against a possible drop in profits.

In order transfer, the executive sponsor, project manager and project stakeholders will discuss the queries related to only the respective knowledge area and discipline. In this process there are chances of missing out commercial points which hold the biggest threat for project and organization. The threatening commercial points shall be included in the modified checklist so that the points will be discussed during order transfer, and discrepancy shall be resolved or taken up immediately for an early resolution.

### 4.2 Decision Makers

**Executive Sponsor:** According to PMBOK, the executive sponsor is an individual or a group that offers resources and support for the project, program, and is responsible for empowering accomplishment.

Once the project champion / owner approves that conditions have been met the project can be proceeded to next stage. In case, the conditions have not been met, RAIL is generated which needs to be resolved to proceed with the project execution, or finally the business case cannot be justified on continuing the project. The project's executive sponsor is the only authorized entity to decide on the project Business Case if it can no longer be justified on continuing with the project.

**Project Manager:** According to PMBOK, the personnel allotted by the company to lead the team accountable for accomplishing the project purposes is the project manager. The Project Manager, depending the intricacy of the running project, shall be the stakeholder official to decide if the project Business Case can no longer be justified on continuing the project, in case every phase has not fulfilled the scope and requirements.

**Project Cross functional team:** These personnel may comprise associates, Board of directors, internal or external team members, sub-suppliers, suppliers, the executive sponsor, end-user, customers and Project Manager. Key stake-holders also need to participate jointly in the decision-making depending on the situations of the running project.

### 4.3 Traditional Model Phase Gate Checklist and Process during order initiation

The model phase gate checklist depicted below, originating from PMI, doesn't specifically emphasize the commercial points that are intended to be included in the modified checklist

The image shows a 'Project Kickoff Checklist' from Project Management.com. It includes an introduction stating the document is for project managers to ensure they are ready for project kickoff sessions. The checklist is divided into two sections: 'Before the meeting...' and 'During and after the meeting...'. Each section contains a table with 'Question' and 'Notes' columns. Questions cover topics like team identification, stakeholder confirmation, project charter, communication plans, and agenda distribution.

Fig.1. Project Kick-Off Check List from PMI Article

Referring to Fig-01, checklist provided by PMI contains only generic points related to project outlook and NOT on the vital contractual terms. Hence, the researcher proposes to include the contractual points in the modified checklist

The image shows a 'Project Check List' from PMI Article. It is a table with 'Criteria' and 'Comments' columns. The criteria include questions about funding, budget, delivery to client, risks, resources, and return on investment. Below the table, there are sections for 'PROJECT DISPOSITION' with 'GO', 'NO GO', and 'NO GO' outcomes and their descriptions.

Fig.2. Project Check List from PMI Article

Referring to another checklist from ProjectManagement.com, the traditional checklist discusses only the criteria related to funding and approval from Management. The researcher desires to include the contractual points before deciding on GO NO-GO for the project. Also, a few of the traditional checklists recommended by PMI USA are depicted in Fig-03 & Fig-04.

The image shows a 'STAGE GATE REVIEW ASSESSMENT DASHBOARD' from PMI Article. It is a complex dashboard with a grid of colored cells representing different project phases and criteria. The phases listed include Initiation, Concept, Planning, Requirements, Design, Development, Test, Implementation, and O&M. The criteria listed include Overall Business Case, Allocation, Budget, O&C, External Approvals, Patents, Human Resources, Performance, Security, O&C Deliverables, Phase Exit Criteria, and Overall Governance. A legend at the bottom right indicates the meaning of the colors: Green for Success, Yellow for At Risk, Red for Failure, and Blue for Pending Review.

Fig.3. Project Check List from PMI Article

INITIATION PHASE ASSESSMENT		
Project Name	<Project Name>	
Business Owner	<Business Owner>	
Project Manager	<Project Manager>	
Primary Contact	<Primary Contact Phone Email>	
Current Phase	Initiation Phase	
Overall Review Status	Pending Review	
Overall Review Comments		
		<b>STATUS</b>
Acquisitions		Pending Review
Budget		Pending Review
CPIC		Pending Review
Enterprise Architecture		Pending Review
Finance		Pending Review
Human Resources		Pending Review
Performance		Pending Review
Section 608		Pending Review
Security		Pending Review

Fig.4. Project Check List from PMI Article

Flaws: the order transfer takes place during the initiation process, and, as per PMBOK, those commercial threatening points are not clarified. Hence, in this article, it is insisted to go for a modified checklist to overcome the unforeseen burden due to commercial terms and conditions.

**V. KEY POINTS TO BE INCLUDED IN MODIFIED CHECKLIST (SUGGESTIONS)**

In this article, the researcher tried to cover all the major points that needed clarification during initiation phase as given below:

Points to be discussed are listed (but not limited to):

- A. Liquidated Damage
- B. Limitation of Liability - All liability against the order shall be capped lower than the contract value.
- C. Time is the Essence of Contract - This point has been mentioned in all contracts until 1990 for the case of Foundation Development Corp. v. Loehmann's Inc. 788 P.2d 1189 (Arizona 1990). It is advised not to include this phrase as far as possible to avoid breach of contract, which means the purchaser can enforce any liability upon the supplier in terms of consequential damages. This point shall be "Time is NOT the Essence of Contract"
- D. IN/OUT - In any case, the IN/OUT clause should be mentioned in the contract. It should explicitly mention any warranted equipment and must be moved out of installed space to the warehouse or site work shop at the purchaser's expense. Bringing back after the service to the same space also needs to be capped by the purchaser. Failure to mention this in the contract would entail a huge cost that would include incurring expenditure on the movement and service of the warranted equipment.
- E. Rebate / Discount - Percentage of Rebate and discount should be mentioned clearly to purchaser during bidding.
- Termination - The termination clause should be mutually discussed and agreed upon between purchaser and seller, which will not affect either the party.

**VI. METRICS SHALL BE MEASURED FROM MODIFIED CHECKLIST**

- a) Liquidated Damage: Ratio between the liquidated damages incurred / forecasted to incur with the purchase order value can be identified.
- b) Limitation of Liability: Ration between Liability for manufacturer between the purchase order received and total project cost for the purchaser.

c) Storage and Suspension: Inventory cost or space availability / allocation in the event of delayed goods pick-up or contract suspension by purchaser.

**VII. ADDED POINTS OVER PROPOSED MODIFIED CHECKLIST**

INITIATION PHASE ASSESSMENT		
Project Name	<Project Name>	
Business Owner	<Business Owner>	
Project Manager	<Project Manager>	
Primary Contact	<Primary Contact Phone Email>	
Current Phase	Initiation Phase	
Overall Review Status	Pending Review	
Overall Review Comments		
		<b>STATUS</b>
Business Date		Pending Review
Reviewer Name		
Reviewer Comments		
Status	Question	Explanation
Additional Question(s)?		
Additional Question(s)?		
Not Applicable	Insert New Questions Above This Line	
		<b>LIMITATION OF LIABILITY</b>
Business Date		Pending Review
Reviewer Name		
Reviewer Comments		
Status	Question	Explanation
Is there a Rough Order of Magnitude on cost and schedule in the Business Needs Statement?		
Additional Question(s)?		
Not Applicable	Insert New Questions Above This Line	

**VIII. CONCLUSIONS**

By using the proposed checklist, the researcher discussed and clarified the key commercial points during initial stage of the project initiation. Many industries discuss these commercial points during order awarding stage. However, a stringent checklist should be adopted to avoid any issue during the closure phase of the project.

Failure to follow the modified checklist or discuss the key commercial points may lead to the following issues to the manufacturing industries:

- ✓ The finished goods can't be moved out of the manufacturer's location.
- ✓ Slippage delivery on-time performance.
- ✓ Liquidity damages as per contract.
- ✓ Increased inventory cost to the firm.
- ✓ Weak cashflow metrics.
- ✓ Impact on Gross Margin of the project.
- ✓ Customer Annoyance.

Hence, it is highly necessary for the decision makers to follow the proposed modified checklist during the order initiation phase gate to decide on "GO, NO-GO" in the initial stage itself.

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