



# SNS COLLEGE OF ENGINEERING



Kurumbapalayam(Po), Coimbatore – 641 107

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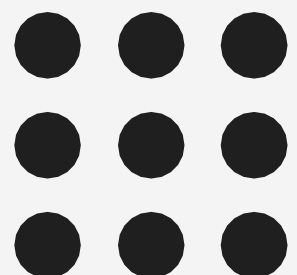
## Department of Information Technology

Course Name – IT8075 Software Project Management

IV Year / VII Semester

Unit 4 – Project Management and Control

Topic 8 – Managing Contracts





# Managing Contracts



- External resources required in the form of services.
- These can be arranged in form of contract.
- Example – staff on short term contracts to carry some project tasks

Contract for completed software package include (Acquiring software)

- a bespoke system created for one customer
- Off-the-self package or shrink wrapped software
- Customized off the self (COTS) – core system is modified to meet the needs of the client.
- Equipment purchase - contract for supply of goods
- Software purchase (supply of software) – supplying a service (write the software) or granting a license to use the software

# Managing Contracts

## Types of contract

### Fixed price contract

- price is fixed when the contract is signed

### Time and materials contract

- customer is charged at fixed rate per unit of effort

### Fixed price per delivered unit contracts

- associate with function point counting

# Managing Contracts

## Fixed Price Contract

- Price is fixed when contract is signed
- Customer requirement has to be fixed in early
- Under development customer cannot change requirements without renegotiating price of contract

### Advantage

- Known customer expenditure
- supplier motivation

### Disadvantage

- Higher prices to allow for contingency
- Difficulties in modifying requirements
- Upward pressure on the cost of changes
- Threat to system quality



# Managing Contracts

## Time and Material Contract

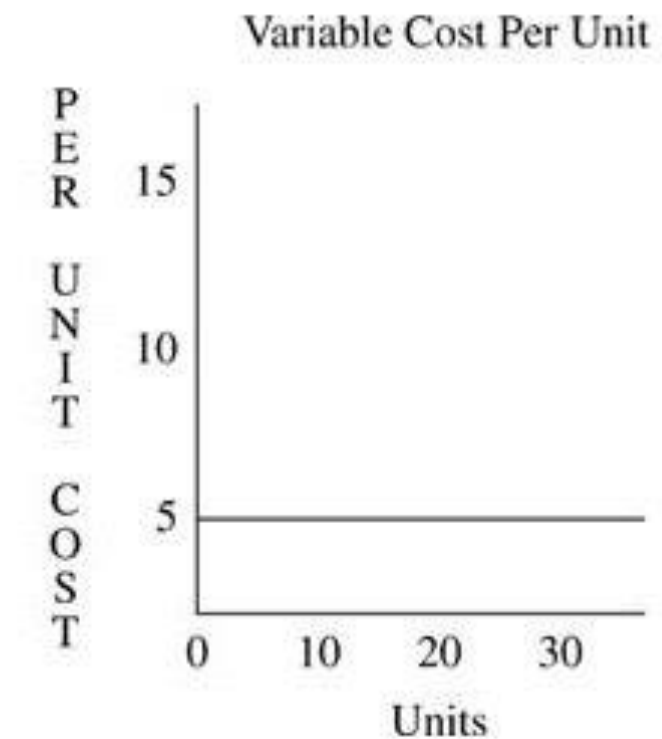
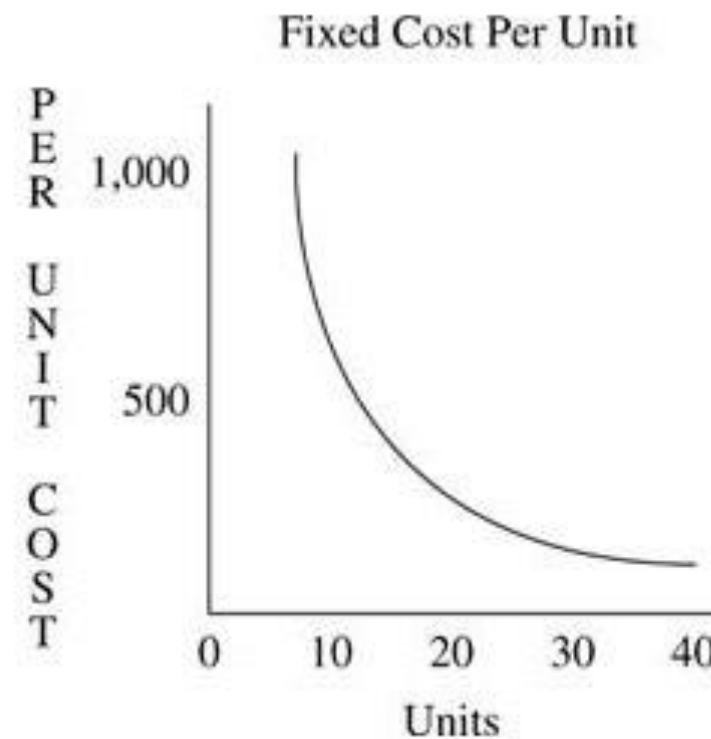
- Customer is charged at a fixed rate per unit effort
- Example – per staff-hour.
- Supplier provide initial estimate of the cost based on requirement
- Invoices customer for work done at regular intervals

## Advantages

- Ease of changing requirements
- Lack of price pressure

## Disadvantage

- Customer liability
- Lack of incentives for supplier



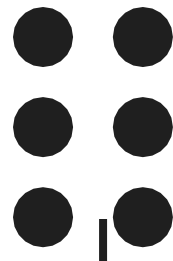
# Managing Contracts

## Fixed price per unit delivered contracts

- Associated with function point counting
- Size of the system to be delivered is calculated
- Size is estimated in lines of code. Price per unit is quoted.
- Final price = unit price X number of units

Function point count	Function design cost per FP	Implementation cost per FP	Total cost per FP
Up to 2000	\$242	\$725	\$967
2001 – 2500	\$255	\$764	\$1019
2501 – 3000	\$265	\$793	\$1058
3001 – 3500	\$274	\$820	\$1094
3501 – 4000	\$284	\$850	\$1134

# Managing Contracts



## Fixed price per unit delivered contracts

### Advantages

- Customer understanding
- Comparability
- Emerging functionality
- Supplier efficiency
- Life cycle range

### Disadvantages

- Difficulties with software size measurement
- Changing requirements

DO YOU  
KNOW YOUR  
CUSTOMERS



## Measurement Matters



# Managing Contracts

## Another way of categorizing contracts

- Open
- Restricted
- Negotiated



## Open tendering process

- any supplier can bid in response to the invitation to tender
- all tenders must be evaluated in the same way
- government bodies may have to do this by local/international law (including EU and WTO - World Trade Organization)

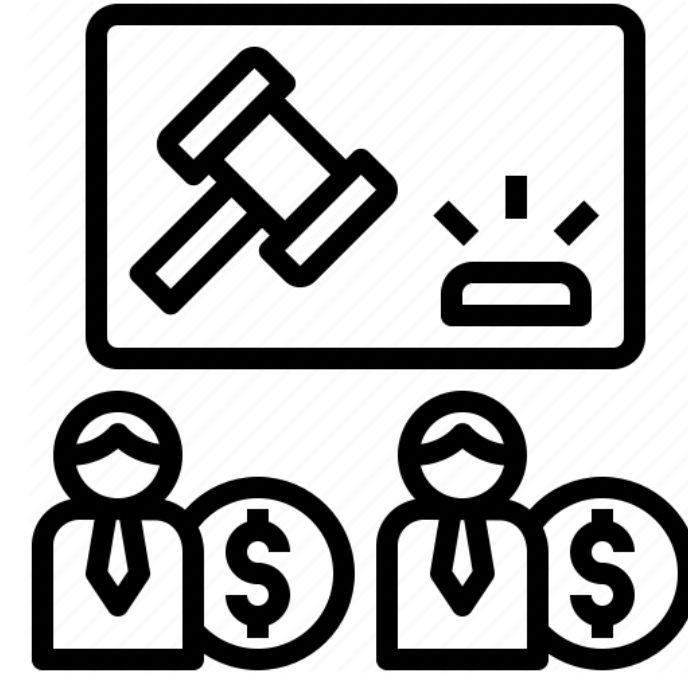




# Managing Contracts

## Restricted tendering process

- bids only from those specifically invited
- can reduce suppliers being considered at any stage



## Negotiated procedure

- negotiate with one supplier e.g. for extensions to software already supplied



**THANK YOU**