

Procurement Management

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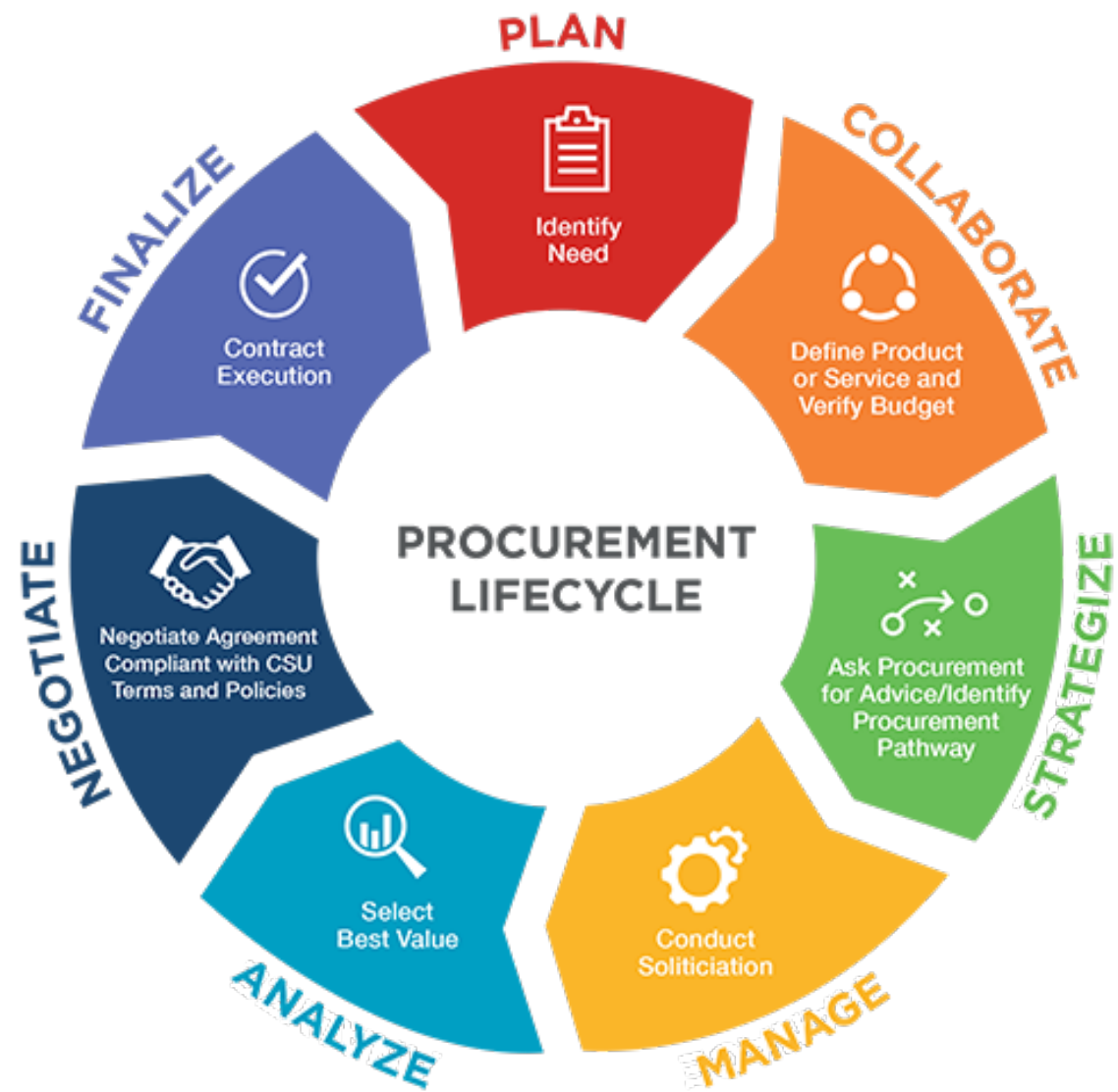
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Procurement Management

- Importance
- Make or buy decision
- Types of contracts
- Procurement cycle



Procurement Management

- The acquisition of products or services not produced or delivered by the project team
- May require the assistance of experts
- Your project may be on the other side also—providing services to another organization
- Legal implications of signing a contract
- The make or buy decision
 - Expertise
 - Resource availability
 - Licensing, regulatory requirements



Procurement Management

- Fixed Price
- Cost reimbursable
- Time and materials



Fixed Price Contract

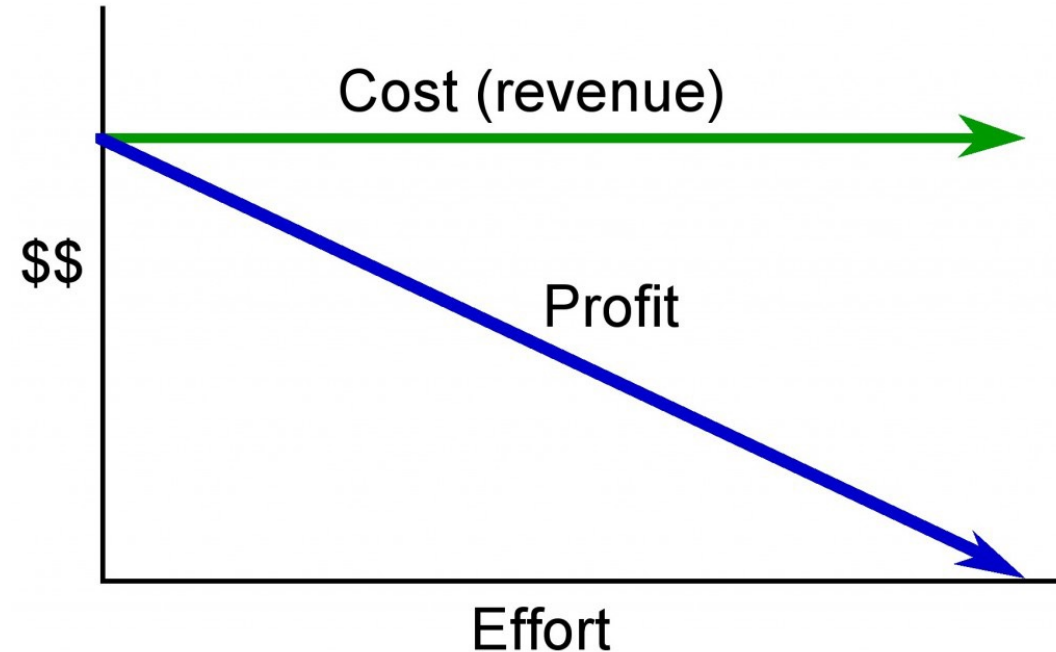


Figure 17.6.1: A fixed price contract the cost constant regardless of effort applied or delivery date.

Illustration from Barron & Barron Project Management for Scientists and Engineers,
<http://cnx.org/content/col11120/>



Cost Reimbursable Contract

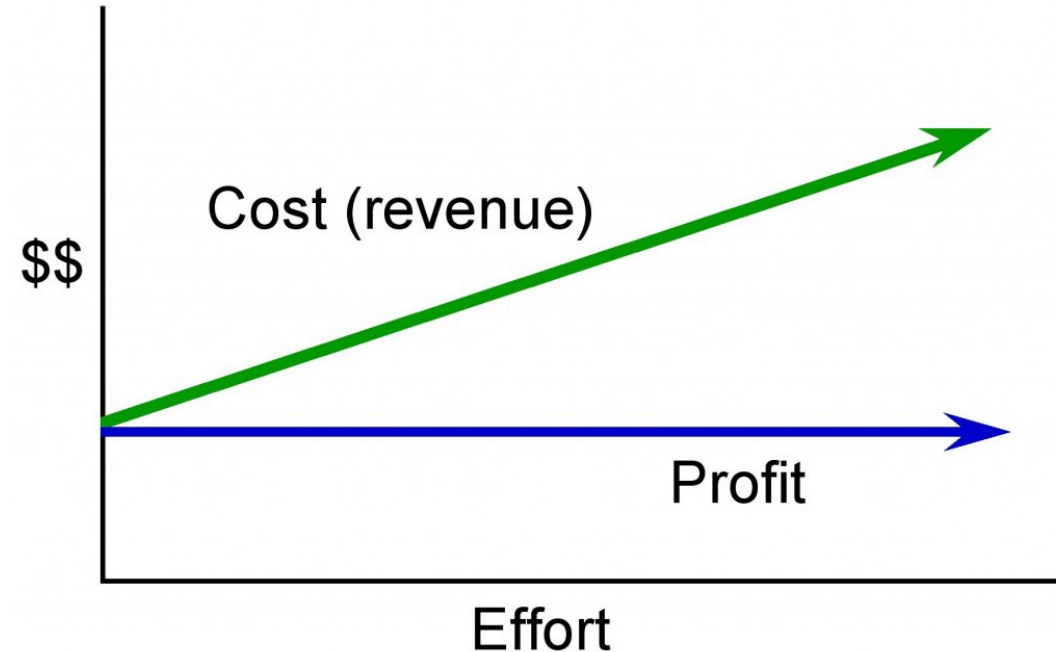


Figure 17.6.2: In a cost reimbursable or cost plus contract, the seller is guaranteed a fee.

Illustration from Barron & Barron Project Management for Scientists and Engineers,
<http://cnx.org/content/col11120/>



Time and Materials

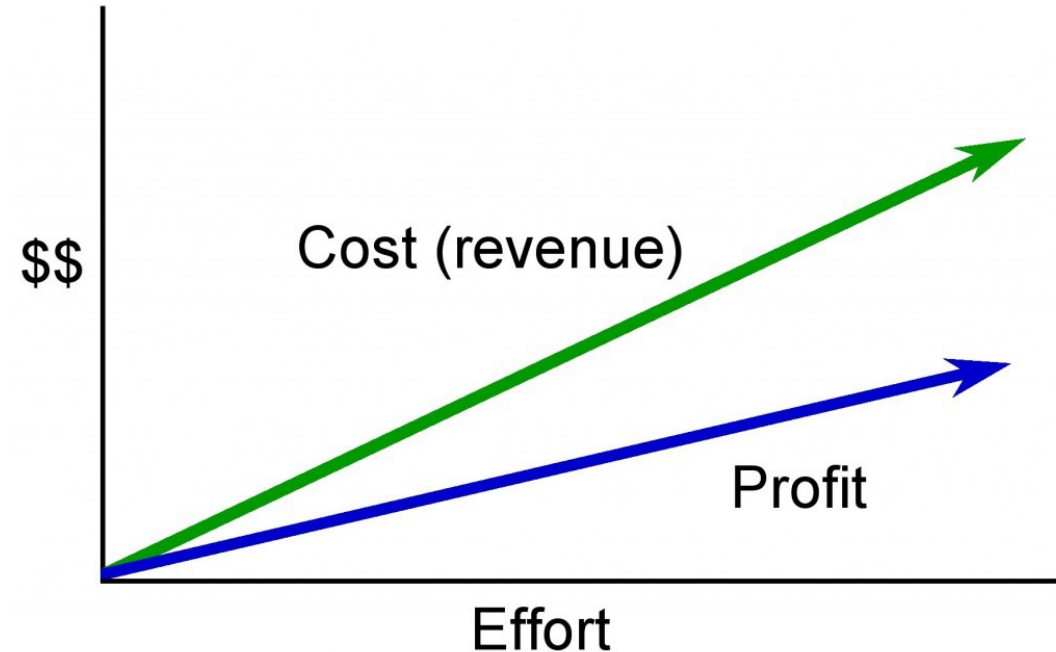


Figure 17.6.3: In a time and materials contract the cost (or revenue to the vendor) increases with increased effort.

Illustration from Barron & Barron Project Management for Scientists and Engineers,
<http://cnx.org/content/col11120/>



Fixed Price Contract types

Type	Known Scope	Share of Risk	Incentive for Meeting Milestones	Predictability of Cost
Fixed Total Cost	Very High	All Contractor	Low	Very High
Fixed Unit Price	High	Mostly Project	Low	High
Fixed price with Incentive Fee	High	Mostly Project	High	Medium-high
Fixed Fee with Price Adjustment	High	Mostly Project	Low	Medium

Figure 17.6.1.1 Table of Fixed Price Contracts and Characteristics

Source: <http://pm4id.org/9/5/>



Cost-Reimbursable Contract Types

Cost Reimbursable (CR)	Known Scope	Share of Risk	Incentive for Meeting Milestones	Predictability of Cost
CR with Fixed Fee	Medium	Mostly Project	Low	Medium-high
CR with Percentage Fee	Medium	Mostly Project	Low	Medium-high
CR with Incentive Fee	Medium	Mostly Project	High	Medium
CR with Award Fee	Medium	Mostly Project	High	Medium
Time and Materials	Low	All Project	Low	Low

Figure 17.6.2.1 Table of Contract Types and Characteristics

Source: <http://pm4id.org/9/5/>



Procurement Cycle

- Procurement Plan
- Selecting the Contract Approach
 - Skill level, uniqueness
 - Type of relationship: supplier, vendor, partnership
 - RFP, RFQ, personal contact
 - How well known is the scope of the work?
 - Risks—what are they? Who assumes them?
 - How much float if any?
 - How important to be sure of cost in advance?
- Soliciting bids



Procurement Cycle - continued

- Qualifying bidders
- Request for Quote (RFQ)
- Request for Proposal (RFP)
- Evaluating the bids
 - Usually a matrix approach
 - Cost is NOT the only consideration
- Awarding the contract
- Managing the contracts
- Logistics and expediting
- Change coordination



Procurement Management Summary

- Make or buy analysis
- Contract types
 - Fixed Price
 - Cost reimbursable
 - Time and materials
- The Procurement Cycle
 - Bidder qualification
 - RFP or RFQ
 - Analysis and selection
 - Contract negotiation
 - Contract administration
 - Contract closure



Chapter Summary

- Procurement is an important activity for project managers
- Procurement management includes deciding about contracts and relationships with vendors, suppliers, partners
- All stages of procurement should be closely monitored
- Reporting to the team and to management are important components in budget and procurement management



Questions?



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