

# IT PROJECT MANAGEMENT

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# Procuring Goods and Services



# Finding a Vendor

- Risk tolerance: An organization's risk tolerance is defined as its ability and willingness to take on risks. If your firm has a high risk tolerance, then you can consider vendors that someone with a lower risk tolerance wouldn't consider.
- Cost: If cost is one of your biggest considerations, you need to find a software-testing vendor who can get you the most bang for your buck.
- Time: If time is your biggest concern, you must find a vendor who can successfully complete the work within a tight timeframe. Unfortunately, if you want something done in a hurry, you usually have to pay big bucks for it, so be sure cost isn't too big a factor.

- As you search for your vendors, your process works a little something like this:
  1. Send out a Request for Information (RFI).
  2. Set up a bidders' conference. A bidders' conference is optional, not required.
  3. Send a Request for Proposals (RFP).
  4. Review proposals and make your final decision.

# Using RFIs to solicit vendors

- The best way to solicit information from vendors is to create formal documentation to request information. This formal request is appropriately referred to as a Request for Information (RFI).
  - The software testing application must integrate with the development database residing on our on-site servers.
  - Is any specialized hardware required on our end?
  - How long has your company been providing application-testing services?
  - What are the general qualifications of the personnel who would be providing software-testing services?
  - Can you perform the software testing on-site, or do we have to come to you?

# Hosting a bidders' conference

- There is more than one correct way to host a bidders' conference.
- Often, when a vendor provides an explanation to one of your questions, one of his competitors may jump in to challenge or one-up the explanation. This is where the process can get interesting, and where you must exert your control
- Finally, give the vendors the opportunity to make a final statement as to their capabilities and continued interest in working on your project.
- At the close of the meeting, present each of the interested and eligible parties a Request for Proposal (RFP) package and give them an overview of the logistics for the presentation of all proposals, including due date and any unique requirements you are placing on the bid process.

# Selecting the Vendor

# Considering market conditions

- Market conditions may influence the desirability of your contract to purchase.
- If there is a booming market for software development, the software vendors may have all the business they can handle.
- If that is the case, you're dealing with a seller's market and probably won't get the terms and concessions you would expect in other times.
- If, however, business is slow for the vendors, you can realistically expect to get some good deals on performance guarantees and payment terms.

# Using a screening system

- Start to get rid of it by using a screening system to sort through all the ins and outs of the proposals before you. A screening system can be something as simple as making a plus/ minus (or pros and cons) list on a legal pad.
- Any screening system should, in the end, give you a clear idea of the advantages and disadvantages of each vendor.
- Sometimes, one vendor shows a clear advantage over the others and makes the selection simple; unfortunately, that doesn't often happen.
- In any system, be sure that you can tally and evaluate the minutiae of the contracts, as well as the major items.

# Using the help of others

- It's also beneficial to ensure that your system involves other people. Though the final decision is yours, you might as well have more than one set of eyes looking into all the facets of a proposal.
- An evaluation committee using a screening tool such as a product comparison spread sheet can provide essential input and insights as you approach decision time.

# Implementing a weighting system

- A weighting system looks at all the criteria. Some features of an application may be considered absolutely essential for your use, while others may not be as necessary.
- That number is then multiplied by a weighted factor to arrive at the true value of that feature in relationship to the other features in the system.

Table 12-1		Weighting System	
<b>Vendor: Testy McTesty</b>			
Demonstration Item	Weight (0–0.5)	Your Score (0–5)	Total
Ease of use	0.5	5	2.5
System security	0.4	5	2.0
User configuration	0.4	4	1.6
On-site support	0.5	3	1.5
Vendor experience	0.2	5	1.0
Documentation	0.3	3	0.9
Interfaces	0.4	4	1.6
<b>TOTAL</b>			<b>11.1</b>

# **Negotiating for the Best Solution**

# Starting with price

- When you requested a proposal from vendors, you may have specified that you wanted their best and final price for the products they were offering. And, of course, when the proposals came in, vendors said that the offer was the vendor's best and final price. Yeah, right. That might have happened once, but nobody in the history of the planet remembers it.
- As you know, because you develop software, there's a substantial profit margin in software after it's released and matures. That "best and final" price you were offered is so heavy on profit that it wouldn't float if it was loaded on a super tanker. You always have room to negotiate pricing for a software product.

# Considering time, cost, and quality issues

Here's what you need to negotiate as far as the Iron Triangle is concerned:

- Be sure that your agreement with the software vendor includes timelines and benchmarks that are realistic regarding your needs.
- Include penalties for not meeting targets.
- Don't jeopardize your project by allowing the vendor to provide a product at a time that is clearly out of touch with your reality.
- Factor in all the costs when purchasing your application.
- Be sure you know what is covered under your warranty and what services you might be paying for in areas where the warranty doesn't apply.
- Spell out how much support in manpower and equipment you need to assure a smooth implementation.
- Make sure that other resources with costs are accounted for in writing, including such items as room space for testing, extra computer servers, additional power capabilities, and cabling for the testing equipment.
- Make sure there's something in writing that gives you an out if something doesn't work as specified. You must be able to control the quality of the product you are producing, and therefore you must also be able to rely on the quality of the software application you are buying.

# **Administering Contracts**

# Selecting the contract type

<b>Contract Types Defined</b>		
<b>Contract Type</b>	<b>Definition</b>	<b>Who Bears the Risk?</b>
Fixed price contracts (contracts with a single fee)	You pay the vendor an agreed upon price for the work	The vendor bears the risk here because he's getting paid the same amount whether he has to spend more time on the project than expected or the project goes as planned.
Reimbursed costs contracts	The vendor is reimbursed for all costs incurred	The buyer bears more of the risk here because if prices increase after signing the contract, the buyer still has to reimburse for the higher costs even though the buyer doesn't get extra goods or services for the increased price.
Time and materials contracts	The vendor is reimbursed for the time and materials during completion of the project	The buyer bears more of the risk because if it takes the vendor longer to complete the project, the buyer has to pay for that extra time. Also, if the price of the materials increases, the buyer pays more for those materials.

# Writing the terms and conditions

- Free On Board (FOB) point: Otherwise known as the place where delivery is considered to occur. We have no idea where the term originated or what that means, exactly.
- Payment terms:
  - At product delivery
  - At initial installation
  - Upon first use
  - After completion of installation
  - At product acceptance
- Extraneous work and materials: This is work that's not included in the product purchase unless otherwise specified. In many cases, software vendors provide only the software of which their product consists.

# **Creating the statement of work**

- The statement of work, at a minimum, should include in detail
- The product that is being installed
- The process and procedures for installing the product
- A specific statement about who will be doing the work
- A specific list of resources that are necessary for completing the project
- Specific milestones for marking the advancement of the project
- The expected amount of time to achieve completion of the project

# **Closing the Vendor Contract**

# Auditing the goods and services

- As the project manager, you need to ensure that the software application you purchased performed as agreed upon. If you have some of the vendors' employees perform areas of the system testing, you're expected to demonstrate the results of the audits of these testing services.

# **Signing off for the procured goods and services**

- There are trigger points for contract payments at defined times or accomplishment targets in the contract. The final trigger is your acceptance of the system as a complete and functioning product. When you and the vendor agree that the goods and services you received are the goods and services you expected, you can sign off that the vendor has met its obligation.
- Signing off is a formal transaction with full documentation indicating both your and the vendor's agreement that the project is complete to the satisfaction of all stakeholders. At this point, and only at this point, is the contract complete.