

Assignment:

Managing Procurement

Duration: 60 Minutes

Determine the Procurement Need

1. You are the project manager of the HTG Project for your organization. This project is to host a fitness event at a new community fitness center and walking trail in your neighborhood. Your project will welcome people from your city to tour the fitness center, walk the fitness trail, and participate in some games and exercises. You'll need to provide brochures about the center, t-shirts for the fitness center, and refreshments for people walking the trails. You'll also need to hire four photographers to take pictures of people using the trails and fitness center for the media. You have eight weeks to complete the project before grand opening event. What additional information would you as the project manager need to know to plan for procurement?

2. You've just learned that this event should bring 5,000 people to the grand opening weekend. Will this change the procurement planning at all?

3. You've just learned that you'll also need to create postcards to send out to over 25,000 people in the community surrounding the walking trail and fitness center. How will this affect the project costs and procurement?

4. Given what you've read so far, what type of items do you need to procure?

5. What type of contracts would you most likely use in this scenario?

6. John is a project manager of the NKL Project for his company. John has discovered that to create a portion of his project deliverables, his team could complete the project work for \$17,650, with a monthly fee of \$4,334. A vendor that John has worked with in the past reports that they could complete the same work for \$13,450 but the monthly support for their solution is \$6,000. If John elects to create the solution in-house rather than turn to the vendor, how long must the solution be in use to be more cost effective than the vendor's?

7. As a project manager and PMP candidate, you need to recognize the characteristics of each contract type. Here's a quick table listing the seven contract types. Write a quick description of each contract type to help you remember the contracts and their characteristics. In the final column, identify who carries the risk of cost overruns:

Contract	Characteristic	Risk Owner
Firm fixed price		
Cost plus incentive fee		
Fixed-price incentive fee		
Fixed-price with economic price adjustment		
Cost plus fixed fee		
Time and material		
Cost plus award fee		

Administer Project Procurements

1. You are the project manager of the HNK Project for your organization. This project is to build a web-based software product that will allow customers to query information in a secured database. You have hired a web developer to create social media applications and mobile phone applications that will also allow access to the secure data. A change has been requested that will affect the project scope for the entire project. This change will also affect the procured services of the application developer. What are some concerns you would have as the project manager in regard to the contract and the approved change?

2. In the space provided next draw an illustration for the change control system and how a change in the project scope can also affect the contract. (You can refer to Chapter 4 of this book for the complete change control process if you find it helpful.)

3. You are serving as a project manager of a company that completes projects for others. In your role as project manager for the seller, how can you best represent the profit-driven goals of your company and still best represent the buyer?

4. Sandy is the project manager for her organization. Her organization has hired the BAJ Contractors to build a large, stone patio as part of Sandy's current project. The BAJ Contractors company reports that they would like to be paid for the materials and work performed so far. What activities should Sandy complete in regard to the payment request?

Assignment Solution: Planning Project Procurement

Your answers may be slightly different than what's presented here, but these are the most ideal solutions.

1. What additional information would you as the project manager need to know to plan for procurement?

You'll want to review the project's scope statement, WBS, and WBS dictionary to help you determine what needs to be created. For example, you'll need specific details about the brochures, t-shirts, and types of refreshments to be offered. You'll also need information about the need for the photographers. Will the photos be digital? Instant? And how will the photos be used? The project's scope baseline, schedule, and cost estimates can all influence the procurement process. You may also want to reference the risk register for risk-related contracts.

2. You've just learned that this event should bring 5,000 people to the grand opening weekend. Will this change the procurement planning at all?

Yes, as costs can fluctuate, depending on the amount of people attending the event. The project manager will need to consider what the participants will receive, insurance coverage, staffing, and other cost-related concerns that will be linked to procurement.

3. You've just learned that you'll also need to create postcards to send out to over 25,000 people in the community surrounding the walking trail and fitness center. How will this affect the project costs and procurement?

The requirements of the 25,000 postcards will greatly affect the procurement process. The project manager will need to consider the timing for designing the postcard, printing the card, and mailing the card with enough time for the recipients to react accordingly. A rush in production can affect the pricing of the item to be procured.

4. Based on what you've read so far, what type of items do you need to procure?

Based on this limited information, the project manager will need to procure brochures, t-shirts, and refreshments. The project manager will also need to procure photographers and postcards.

5. What type of contracts would you most likely use in this scenario?

Ideally the project manager will use fixed-price contracts, though the rush for postcards or other procurement could cause the project to be required to use a cost-plus contract. The photographers may want to use a time and materials contract, though there's no evidence they'd need to.

6. John is a project manager of the NKL Project for his company. John has discovered that to create a portion of his project deliverable, his team could complete the project work for \$17,650, with a monthly fee of \$4,334. A vendor that John has worked with in the past reports that they could complete the same work for \$13,450 but the monthly support for their solution is \$6,000. If John elects to create the solution in-house rather than turn to the vendor, how long must the solution be in use to be more cost effective than the vendor's?

To solve this buy-versus-build decision follow these steps:

- ▶ Find the difference of buy and build: $\$17,650 - \$13,450 = \$4,200$
- ▶ Find the difference of the monthly maintenance fee: $\$4,334 - \$6,000 = -\$1,666$
- ▶ Divide the difference of the out-of-pocket fees by the difference of the monthly fees: $\$4,200 / \$1,666 = 2.52$
- ▶ If the in-house solution is going to be used for more than 2.5 months, it's better to build the solution than to buy the solution.

7. As a project manager and PMP candidate, you need to recognize the characteristics of each contract type. Here's a quick table listing the seven contract types. Write a quick description of each contract type to help you remember the contracts and their characteristics. In the final column, identify who carries the risk of cost overruns:

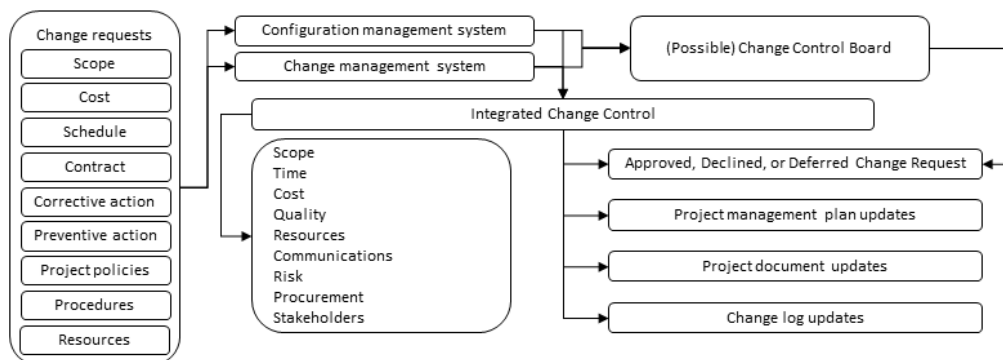
Contract	Characteristic	Risk Owner
Firm fixed price	The seller offers a price for the work to be completed, and the price does not change.	The seller has the risk of cost overruns.
Cost plus incentive fee	The buyer pays for the cost of the work plus an incentive for performance in the contract.	The buyer has the risk of cost overruns.
Fixed-price incentive fee	The seller offers a price for the work to be completed, and the cost of the work does not change. The buyer offers a bonus for the seller to meet certain performance objectives.	The seller has the risk of cost overruns.
Fix price with economic price adjustment	The seller offers a price for the work to be completed, but the price could change based on economic conditions, such as inflations or cost of materials.	The seller has the risk of cost overruns, but the buyer could carry the risk for the cost increases based on what's happening in the marketplace.
Cost plus fixed fee	The buyer must pay for the costs of the materials plus a fixed fee for the vendor to complete the work.	The buyer has the risk of cost overruns.
Time and materials	The seller charges the buyer for the time, such as an hourly rate, plus the cost of materials to complete the work.	The risk is generally distributed and low as long as the contract carries a not-to-exceed clause.
Cost plus award fee	The buyer must pay for the costs of the work and materials and the buyer awards the seller an award based on project performance. The percentage or amount of the award is unknown to the seller until the award is given.	The buyer has the risk of cost overruns, but the seller has the risk of receiving a small award.

Assignment Solution: Administering the Project Contracts

1. You are the project manager of the HNK Project for your organization. This project is to build a web-based software product that will allow customers to query information in a secured database. You have hired a web developer to create social media applications and mobile phone applications that will also allow access to the secure data. A change has been requested that will affect the project scope for the entire project. This change will also affect the procured services of the application developer. What are some concerns you would have as the project manager in regard to the contract and the approved change?

A contract change control system is needed whenever procurement is used in a project. Contract change control systems may be defined as part of the organizational process assets, the enterprise environmental factors, and in the contract itself. The buyer and the seller must be in agreement as to how changes are allowed into the contract terms—though often changes require a contract addendum or an entirely new contract, depending on the situation. In this scenario the terms of the contract need to be inspected to determine how changes are allowed. The project manager and the developer will also need to discuss the changes and determine what additional fees, schedule changes, and specific work is needed to make the changes happen.

2. In the space provided next draw an illustration for the integrated change control and how a change in the project scope can also affect the contract.



3. You are serving as a project manager of a company that completes projects for others. In your role as project manager for the seller, how can you best represent the profit-driven goals of your company and still best represent the buyer?

Sellers can still represent the best interests of the buyer and make a profit. As a project manager representing the buyer, you need not neglect the duties of your organization or the best interest of the buyer. A balance of obligations is needed: the project manager must represent the employer and help the buyer meet their project goals. These objectives are not mutually exclusive. The contract, however, should address the responsibilities and expectations of both parties, and then the buyer and the seller adhere to the agreed terms of the contract.

4. Sandy is the project manager for her organization. Her organization has hired the BAJ Contractors to build a large, stone patio as part of Sandy's current project. The BAJ Contractors company reports that they would like to be paid for the materials and work performed so far. What activities should Sandy complete in regard to the payment request?

The terms of the contract should define the payment systems, procedures, and conditions for payment to the BAJ Corporation. Sandy should reference the contractual terms and then, if appropriate, complete a procurement audit to confirm that the terms of the contract have been met and that the seller qualifies for a payment. Sandy, as the buyer, should not delay the contractual payment terms, as she has obligations in the contract as well.