

Procurement management



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**Conduct
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Procurement, Sourcing, and Purchasing

→ Procurement

- **Scope:** Procurement is a broader term that encompasses the entire process of acquiring goods and services. This includes identifying needs, sourcing suppliers, negotiating contracts, and managing supplier relationships.
- **Strategic Focus:** Procurement is strategic in nature. It involves planning and decision-making to ensure that the organization gets the best value for its money. This includes considering factors like quality, cost, and supplier reliability.

→ Sourcing

- **Scope:** Sourcing is the part of procurement that is commonly associated with finding and evaluating suppliers.
- **Tactical Focus:** Sourcing is tactical and involves identifying potential suppliers, assessing their capabilities, and selecting the best ones to meet the organization's needs.

→ Purchasing

- **Scope:** Purchasing is part of procurement. It refers to the act of buying goods and services. This includes placing orders, receiving goods, and processing payments.
- **Operational Focus:** Purchasing is more operational and transactional. It deals with the day-to-day activities of acquiring goods and services as needed.

What is project procurement management?

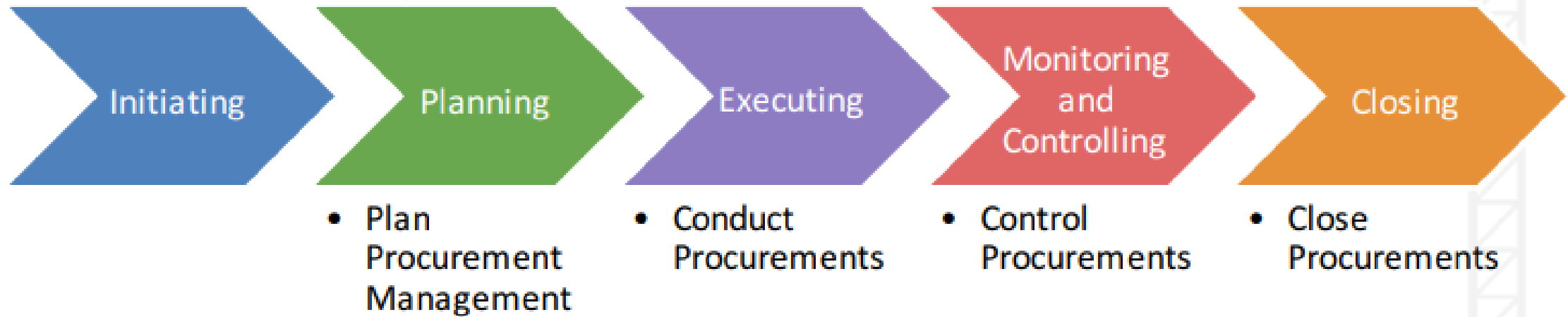
Process to acquire goods, services or results from outside the team to support the project

Contract management and change control processes required to administer contracts

Control of any contract by any outside organization that is delivering goods etc.

Involves agreements that describe a relationship between a buyer and a seller

Project Procurement Management Processes



Project procurement management processes

1. Plan Procurement Management:

Documenting project procurement decisions, specifying the approach, and identifying potential suppliers (also sometimes referred to as “seller”), developing tenders.

2. Conduct Procurements:

Publishing/sending out tenders, obtaining suppliers responses, selecting a suppliers, and awarding a contract.

3. Control Procurements:

Managing procurement relationships, monitoring contract performance, making changes and corrections as appropriate, and closing out contracts.

4. Closing Procurements:

Final acceptance (or rejection) of procured goods or services, negotiation of outstanding issues, documentation of performance and lessons learned.

“Plan Procurement Management is the process of documenting project procurement decisions, specifying the approach and identifying potential suppliers. The key goal of this process is to determine whether to acquire goods and services from outside the project and, if so, what to acquire as well as how and when to acquire it.”

Project Procurement Plan

Key inputs:

Key Inputs to the Procurement Plan

- Project Scope Statement
- Work Breakdown Structure (WBS)
- Requirements Documents
- Risk Register
- Activity Resource Requirements
- Project Schedule
- Activity Cost Estimates
- Stakeholder Register
- Enterprise Environmental Factors
- Organizational Process Assets

Project Procurement Plan *Continued*

Make or Buy Analysis

Consider Buying when:

- The organization does not have the capability to perform the Work.
- Suppliers have greater expertise
- The available resources are committed or not sufficient to complete the Work within the schedule
- It's more cost effective to go outside
- Risk sharing is beneficial to the project



Single vs. Multiple Sourcing

	Single Sourcing	Multiple Sourcing
Advantage	<ul style="list-style-type: none">• Efficient just-in-time processes• Higher quality at lower total cost to the buyer• Higher levels of buyer–supplier cooperation• Lower transaction costs, as it is just one supplier• Builds loyalty and trust	<ul style="list-style-type: none">• Creates competition between suppliers• Best price advantage for the buyer, as suppliers compete• Lower risk by reducing exposure to disruptions• Increased flexibility, as it creates additional options
Disadvantage	<ul style="list-style-type: none">• Greater risk of supply chain disruption• Creates lock-in• Higher costs due to lack of supplier competition• Higher risk of missing critical changes in supplier markets	<ul style="list-style-type: none">• Higher total transaction costs with supplier base• Relationships more difficult to manage• Possibly decreases supplier responsiveness

Supplier Requirements

Technical requirements that the supplier is required to satisfy

Requirements with contractual and legal implications that may include health, safety, security, performance, environmental, insurance, intellectual property rights, equal employment opportunity, licenses, permits, and other nontechnical requirements.



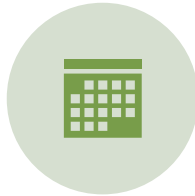
Potential contract types

- Fixed price
- Cost-reimbursable
- Time and material

(Firm) Fixed price contract



The cost of procurement is fixed at the time of the agreement



Requires a well-defined scope statement and schedule so that the requirements are specific



Sets the total price you will pay for the goods, services or results



Change scope can increase the price, and sometimes even reduce it



Specific form: Fixed price incentive fee (FPIF). This fixed-price arrangement gives the buyer and seller some flexibility. Agreed metrics are set (cost, time etc.) and the supplier gets a financial incentive if criteria are met before reaching the cost ceiling



Cost Reimbursable Contracts

- The seller is paid for all actual costs plus a fee or markup
- Typically used when the scope can only be roughly defined, however, general project milestones and deliverables are known. Still, the project will evolve and change over time.
- For instance, if we ask someone to construct a custom house, we want them to follow the plan. But we also want to pick our finishes as we go. We do not know the total scope at the onset.
 - So, we will pay the actual cost of any supplies, plus a fee for his/her time.

Time and Material Contracts



Typically used when the scope of the contract is not well known and we know it will change over time. It allows for the scope to be developed as we go and still allows the supplier to recover their costs.



Hybrid Contracts that use elements of the Fixed Fee approach and the Cost-Reimbursable approach.



In one case, the seller might get reimbursed all allowed costs plus a fee that is a markup to the billed cost.



In another case, maybe a fixed unit rate per unit employed is paid. The unit may be man hours, or material installed or supplied etc.

Contract Selection Criteria



- What types of contracts does our organization/industry usually use?
 - Context matters
- The better the definition surrounding the procurement activity, the more we can use a fixed price with minimum risk
- Fixed priced contracts allocate the most risk to the supplier
- Time and material contracts represent the least risk to the supplier and the most to the buyer

“Conduct Procurement is the process of **obtaining seller responses, selecting a seller, and awarding a contract**. The goal of this process is that it selects a qualified seller and implements the legal agreement for delivery. The end results of the process are the **established agreements** including formal contracts.”

Executing procurement

1. Bidder conferences = meetings between buyers and prospective sellers before proposal – provide a clear and common understanding

2. Bidder evaluations = selected sellers are evaluated based on their proposals

3. Negotiations = procurement professionals seek to create a favorable supplier contract

4. Agreements = contract as a mutually binding agreement – legal relationship between buyer and seller

→ Control procurement

Supplier Selection Criteria (Examples)

References and Past Performance

- Checking references and reviewing a supplier's past performance on similar projects can provide insights into their reliability and quality.

Compliance and Certifications

- Checking for compliance with industry standards, regulations, and certifications such as ISO, environmental standards, and safety regulations.

Supplier Self-Assessment

- Suppliers complete a questionnaire or assessment form detailing their capabilities, processes, and compliance with standards and regulations.

Site Visits and Audits

- Visiting a supplier's site or conducting an audit allows you to assess their facilities, processes, and quality control measures firsthand.

“Control Procurement is the process of **managing procurement relationships**; monitoring **contract performance**, and making changes and corrections as appropriate; and **closing out contracts**.”

Close Procurement

Acceptance of Final Documentation

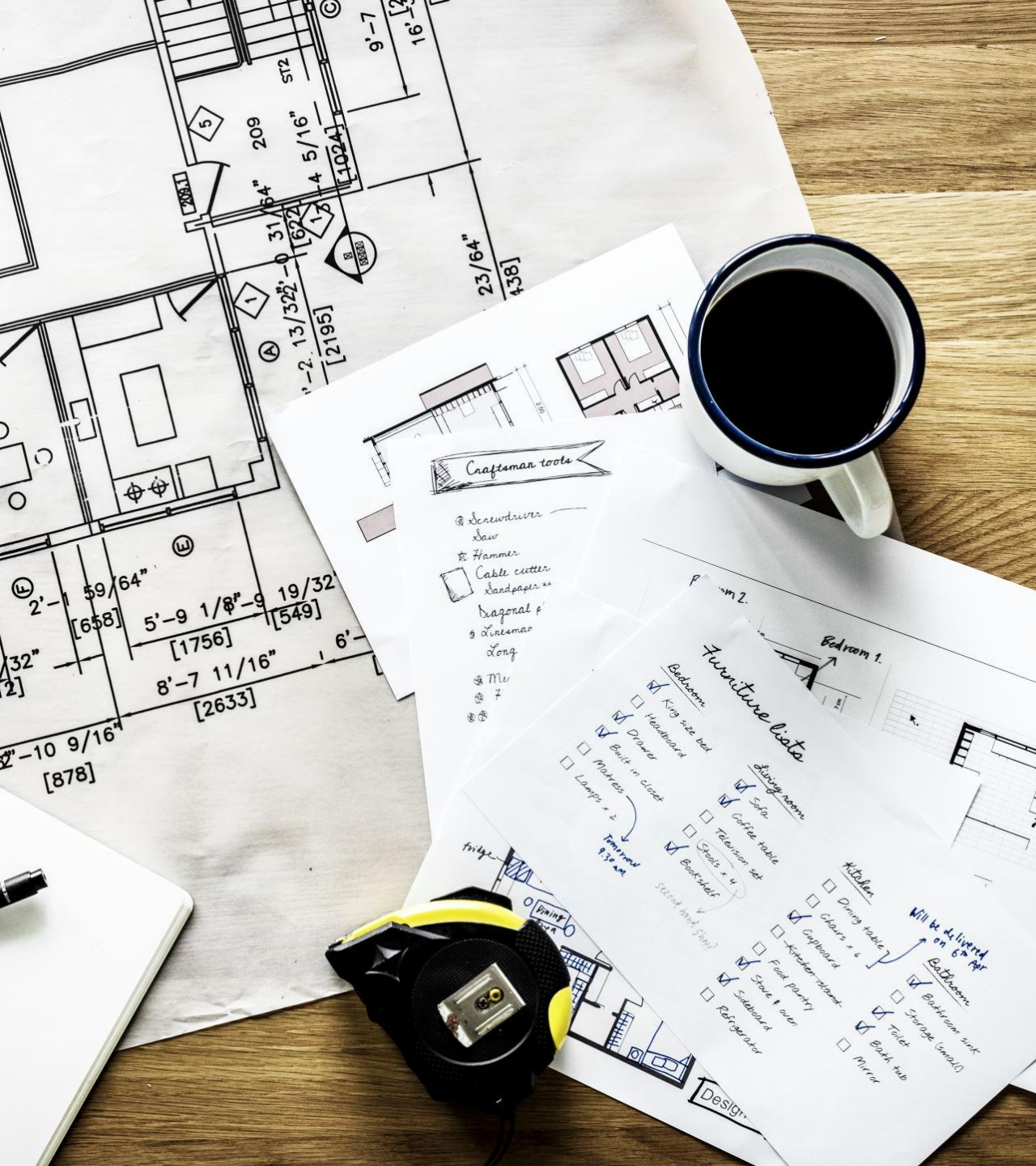
Procurement Audits

Procurement Negotiations

- Settlement of outstanding issues
- Settlement of all claims
- Agreement on final payments

Records Management

Lessons Learned Documentation



Components of a Procurement Plan

- Types of contracts to be used
- Risk Management issues
- Standardized Procurement Documents
- Identify of the metrics that will be used to judge the supplier's performance.
- Planned delivery or implementation dates for the products or services that are being provided
- **Make or Buy Analysis Process**
- Bid evaluation process
- Setting schedule dates for each contract
- Establishing WBS requirements
- Establishing form of the Statement of Work for each contract
- Identifying pre-qualified sellers and qualification process

Project Name: Sensor Shirt prototype						
Project Manager: Daniel					Date: 16/8/22	
What		Why	When	Who	Other	
Description		Type of contract	Reason	WBS Timing	Source	Comments
Sensors	Temperatures Humidity Heart rate Movement Glucose Levels ECG Blood Pressure	Fixed price	Mock-up & Prototype	1.3 Concept	<u>SensorLyne</u>	
Wires	Flat flex wires	Fixed price	Mock-up & Prototype	1.3 Concept	Wires Ltd.	
Electrical circuit boards	PCB	Fixed price	Mock-up & Prototype	1.3 Concept	PCB Way	

Group work



Brainstorm everything you need for your project – equipment, parts, services



Conduct a make or buy analysis



Fill out the procurement plan and decide on type of contract



Reflect on risk sharing/transferring