

# Chapter 12: Project Procurement Management

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PROJECT MANAGEMENT | 7e

Kathy Schwalbe

Note: See the text itself for full citations.

# Learning Objectives

- ▶ Understand the importance of project procurement management and the increasing use of outsourcing for information technology (IT) projects
- ▶ Describe the work involved in planning procurements for projects, including determining the proper type of contract to use and preparing a procurement management plan, statement of work, source selection criteria, and make-or-buy analysis
- ▶ Discuss how to conduct procurements and strategies for obtaining seller responses, selecting sellers, and awarding contracts

# Learning Objectives (cont'd)

- ▶ Understand the process of controlling procurements by managing procurement relationships and monitoring contract performance
- ▶ Describe the process of closing procurements
- ▶ Discuss types of software that are available to assist in project procurement management

# Importance of Project Procurement Management

- ▶ **Procurement** means acquiring goods and/or services from an outside source
- ▶ Other terms include purchasing and outsourcing
- ▶ Experts predict that global spending on computer software and services will continue to grow
- ▶ People continue to debate whether offshore outsourcing helps their own country or not

# Debates on Outsourcing

- ▶ Some companies, such as Wal-Mart, prefer to do no outsourcing at all, while others do a lot of outsourcing. GM recently announced plans to switch from outsourcing 90% of IT service to only 10%
- ▶ Most organizations do some form of outsourcing to meet their IT needs and spend most money within their own country
- ▶ The U.S. temporary workforce continues to grow as people work for temporary job agencies so they can more easily move from company to company

# IT Outsourcing Market Continues to Grow

- ▶ U.S. companies are transferring more work abroad, especially in the areas of IT infrastructure, application development and maintenance, and innovation processes
- ▶ India, China, and the Philippines are the preferred locations for outsourcing, and Latin America is growing in popularity
- ▶ A shortage of qualified personnel, not cost savings, is the top reason for global outsourcing of IT services

# Why Outsource?

- ▶ To access skills and technologies
- ▶ To reduce both fixed and recurrent costs
- ▶ To allow the client organization to focus on its core business
- ▶ To provide flexibility
- ▶ To increase accountability

# Contracts

- ▶ A **contract** is a mutually binding agreement that obligates the seller to provide the specified products or services and obligates the buyer to pay for them
- ▶ Contracts can clarify responsibilities and sharpen focus on key deliverables of a project
- ▶ Because contracts are legally binding, there is more accountability for delivering the work as stated in the contract
- ▶ A recent trend in outsourcing is the increasing size of contracts



# What Went Wrong?

- ▶ In 2011, New York City's mayor, Michael Bloomberg, acknowledged that City Hall had mismanaged its major IT projects and vowed to improve their oversight
- ▶ For example, prosecutors said the \$700 million price tag for the CityTime payroll system was inflated by fraud, and the mayor demanded \$600 million back from the main contractor
- ▶ The automated personnel system, Nycaps, suffered significant delays and cost overruns due to leadership issues, increasing from an original estimate of \$66 million to over \$363 million

# Project Procurement Management Processes

- ▶ **Project procurement management:** Acquiring goods and services for a project from outside the performing organization
- ▶ Processes include:
  - **Planning procurement management:** Determining what to procure and when and how to do it
  - **Conducting procurements:** Obtaining seller responses, selecting sellers, and awarding contracts
  - **Controlling procurements:** Managing relationships with sellers, monitoring contract performance, and making changes as needed
  - **Closing procurements:** Completing and settling each contract or agreement, including resolving of any open items