

# Chapter 12: Project Procurement Management

**Information Technology Project  
Management, Sixth Edition**

Note: See the text itself for full citations.



# Announcements

- ▶ ~~10/27 - Chapter 7, then team breakouts~~
- ▶ ~~11/3 - Chapter 8, then team breakouts~~
- ▶ ~~11/10 - Chapter 9, then team breakouts~~
- ▶ ~~11/17 - Chapter 10 & 11~~
- ▶ ~~11/24 - No Class Happy Thanksgiving~~
- ▶ 12/1 - Chapter 12
- ▶ 12/8 - Final Demo presented; Final reports due
- ▶ 12/15 - Final Exam

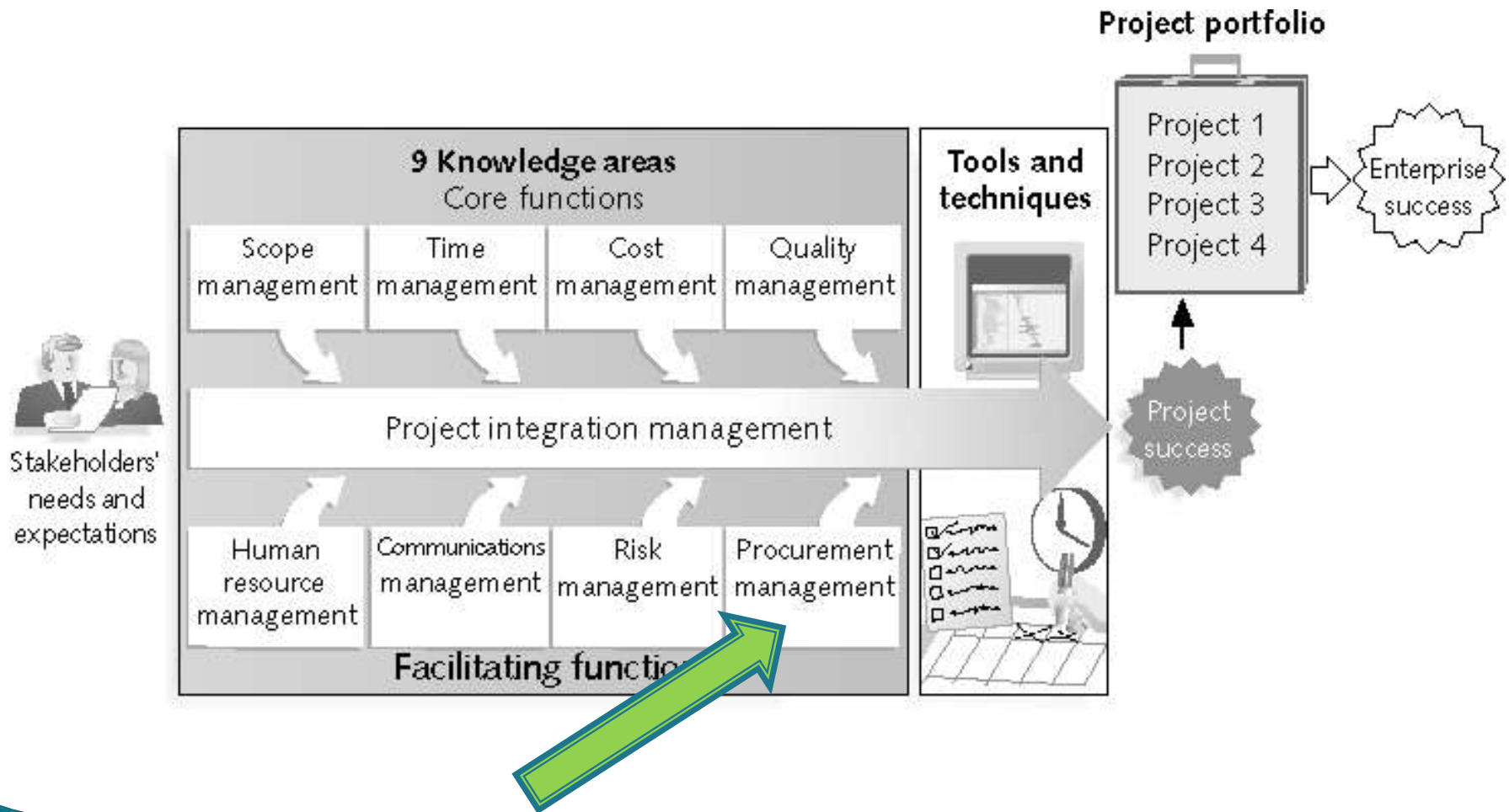
# Learning Objectives

- ▶ Understand the importance of project procurement management
- ▶ Describe the work involved in planning procurements for projects, including determining the proper type of contract, preparing a procurement management plan, statement of work, source selection criteria, and make-or-buy analysis
- ▶ Discuss what is involved in conducting procurements and strategies for obtaining seller responses, selecting sellers, and awarding contracts

# Learning Objectives (continued)

- ▶ Understand the process of administering procurements by managing procurement relationships and monitoring contract performance
- ▶ Describe the process of closing procurements

# REVIEW: Project Management Framework – 9 Knowledge Areas



# REVIEW:(continued)

Knowledge Area	Project Management Process Groups				
	Initiating	Planning	Executing	Monitoring and Controlling	Closing
<i>Project Communications Management</i>	Identify stakeholders	Plan communications	Distribute information, Manage stakeholders expectations	Report performance	
<i>Project Risk Management</i>		Plan risk management, Identify risks, Perform qualitative risk analysis, Perform quantitative risk analysis, Plan risk responses		Monitor and control risks	
<i>Project Procurement Management</i>		Plan procurements	Conduct procurements	Administer procurements	Close procurements



# Figure 12-1. Project Procurement Management Summary

## Planning

Process: **Plan procurements**

Outputs: Procurement management plan, procurement statements of work, make-or-buy decisions, procurement documents, source selection criteria, and change requests

## Executing

Process: **Conduct procurements**

Outputs: Selected sellers, procurement contract award, resource calendars, change requests, project management plan updates, project document updates

## Monitoring and Controlling

Process: **Administer procurements**

Outputs: Procurement documentation, organizational process asset updates, change requests, project management plan updates

## Closing

Process: **Close procurements**

Outputs: Closed procurements, organizational process asset updates

Project Start

Project Finish

# Project Procurement Management Processes

- ▶ **Project procurement management:** acquiring goods and services for a project from outside the performing organization
- ▶ Processes include:
  - **Planning procurements:** determining what to procure, when, and how
  - **Conducting procurements:** obtaining seller responses, selecting sellers, and awarding contracts
  - **Administering procurements:** managing relationships with sellers, monitoring contract performance, and making changes as needed
  - **Closing procurements:** completing and settling each contract, including resolving of any open items



# Importance of Project Procurement Management

- ▶ **Procurement** means acquiring goods and/or services from an outside source
- ▶ Other terms include purchasing and outsourcing

# Planning Procurements

- ▶ Identifying which project needs can best be met by using products or services outside the organization
- ▶ If there is no need to buy any products or services from outside the organization, then there is no need to perform any of the other procurement management processes

# Tools and Techniques for Planning Purchases and Acquisitions

- ▶ **Build-or-buy analysis:** general management technique used to determine whether an organization should make or perform a particular product or service inside the organization or buy from someone else
- ▶ Often involves financial analysis
- ▶ Experts, both internal and external, can provide valuable inputs in procurement decisions

# Build-or-Buy Example

## ► Build the website yourself

- Pro's: take your time, change things around, no cost for changes, you own code.
- Con's: are it could take longer, maybe you don't have the skillset, you will have to maintain

## ► Have someone build it for you

- Pro's— quicker, they have skillset.
- Con's: have to be clear in what they are building, changes cost money, they might own the code, changes/maintenance might cost more in the long run.

# Key Terms : 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

# Types of Contracts

- ▶ Different types of contracts can be used in different situations:
  - **Fixed price** or **lump sum** contracts: involve a fixed total price for a well-defined product or service
  - **Cost reimbursable** contracts: involve payment to the seller for direct and indirect costs
  - **Time and material** contracts: hybrid of both fixed price and cost reimbursable contracts, often used by consultants
  - **Unit price** contracts: require the buyer to pay the seller a predetermined amount per unit of service
- ▶ A single contract can actually include all four of these categories if it makes sense for that particular procurement



# Contract Clauses

- ▶ Contracts should include specific clauses that take into account issues that are unique to the project
- ▶ Can require various educational or work experience for different pay rights
- ▶ A **termination clause** is a contract clause that allows the buyer or supplier to end the contract

# Procurement Management Plan

- ▶ Describes how the procurement processes will be managed, from developing documentation for making outside purchases or acquisitions to contract closure
- ▶ Contents vary based on project needs

# Contract Statement of Work (SOW)

- ▶ **A statement of work** is a description of the work required for the procurement
- ▶ If a SOW is used as part of a contract to describe only the work required for that particular contract, it is called a **contract statement of work**
- ▶ A SOW is a type of scope statement
- ▶ A good SOW gives bidders a better understanding of the buyer's expectations

# Figure 12-3. Statement of Work (SOW) Template

## Statement of Work (SOW)

- I. **Scope of Work:** Describe the work to be done in detail. Specify the hardware and software involved and the exact nature of the work.
- II. **Location of Work:** Describe where the work must be performed. Specify the location of hardware and software and where the people must perform the work.
- III. **Period of Performance:** Specify when the work is expected to start and end, working hours, number of hours that can be billed per week, where the work must be performed, and related schedule information.
- IV. **Deliverables Schedule:** List specific deliverables, describe them in detail, and specify when they are due.
- V. **Applicable Standards:** Specify any company or industry-specific standards that are relevant to performing the work.
- VI. **Acceptance Criteria:** Describe how the buyer organization will determine if the work is acceptable.
- VII. **Special Requirements:** Specify any special requirements such as hardware or software certifications, minimum degree or experience level of personnel, travel requirements, and so on.

# Procurement Documents

- ▶ **Request for Proposals:** used to solicit proposals from prospective sellers
  - A **proposal** is a document prepared by a seller when there are different approaches for meeting buyer needs
- ▶ **Requests for Quotes:** used to solicit quotes or bids from prospective suppliers
  - A **bid**, also called a tender or quote (short for quotation), is a document prepared by sellers providing pricing for standard items that have been clearly defined by the buyer

# Figure 12-4. Request for Proposal (RFP) Template

## **Request for Proposal Template**

- I. Purpose of RFP**
- II. Organization's Background**
- III. Basic Requirements**
- IV. Hardware and Software Environment**
- V. Description of RFP Process**
- VI. Statement of Work and Schedule Information**
- VII. Possible Appendices**
  - A. Current System Overview**
  - B. System Requirements**
  - C. Volume and Size Data**
  - D. Required Contents of Vendor's Response to RFP**
  - E. Sample Contract**



# Evaluation Criteria

- ▶ It's important to prepare some form of evaluation criteria, preferably before issuing a formal RFP or RFQ
- ▶ Beware of proposals that look good on paper; be sure to evaluate factors, such as past performance and management approach
- ▶ Can require a technical presentation as part of a proposal

# Conducting Procurements

- ▶ Deciding whom to ask to do the work
- ▶ Sending appropriate documentation to potential sellers
- ▶ Obtaining proposals or bids
- ▶ Selecting a seller
- ▶ Awarding a contract

# Figure 12-5. Sample Proposal Evaluation Sheet

		Proposal 1		Proposal 2		Proposal 3, etc.	
Criteria	Weight	Rating	Score	Rating	Score	Rating	Score
Technical approach	30%						
Management approach	30%						
Past performance	20%						
Price	20%						
Total score	100%						

# Seller Selection

- ▶ Organizations often do an initial evaluation of all proposals and bids and then develop a short list of potential sellers for further evaluation
- ▶ Sellers on the short list often prepare a best and final offer (BAFO)
- ▶ Final output is a contract signed by the buyer and the selected seller

# Administering Procurements

- ▶ Ensures that the seller's performance meets contractual requirements
- ▶ Contracts are legal relationships, so it is important that legal and contracting professionals be involved in writing and administering contracts
- ▶ It is critical that project managers and team members watch for **constructive change orders**, which are oral or written acts or omissions by someone with actual or apparent authority that can be construed to have the same effect as a written change order

# Suggestions for Change Control in Contracts

- ▶ Changes to any part of the project need to be reviewed, approved, and documented by the same people in the same way that the original part of the plan was approved
- ▶ Evaluation of any change should include an impact analysis; how will the change affect the scope, time, cost, and quality of the goods or services being provided?
- ▶ Changes must be documented in writing; project team members should also document all important meetings and telephone phone calls



# Suggestions for Change Control in Contracts (continued)

- ▶ Project managers and teams should stay closely involved to make sure the new system will meet business needs and work in an operational environment
- ▶ Have backup plans
- ▶ Use tools and techniques, such as a contract change control system, buyer-conducted performance reviews, inspections and audits, and so on

# Best Practice

- ▶ Accenture developed a list of best practices from experienced outsourcers throughout the world:
  1. Build in Broad Business Outcomes Early and Often
  2. Hire a Partner, Not Just a Provider
  3. It's More Than a Contract, It's a Business Relationship
  4. Leverage Gain-Sharing
  5. Use Active Governance
  6. Assign a Dedicated Executive
  7. Focus Relentlessly on Primary Objectives

# Closing Procurements

- ▶ Involves completing and settling contracts and resolving any open items
- ▶ The project team should:
  - Determine if all work was completed correctly and satisfactorily
  - Update records to reflect final results
  - Archive information for future use
- ▶ The contract itself should include requirements for formal acceptance and closure

# Tools to Assist in Contract Closure

- ▶ Procurement audits identify lessons learned in the procurement process
- ▶ Negotiated settlements help close contracts more smoothly
- ▶ A records management system provides the ability to easily organize, find, and archive procurement-related documents

# Chapter Summary

- ▶ Project procurement management involves acquiring goods and services for a project from outside the performing organization
- ▶ Processes include:
  - Plan procurements
  - Conduct procurements
  - Administer procurements
  - Close procurements