

Lecture 15

13. Project Procurement Management

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Outline

- Procurement Management Process Flow
- Plan Purchase and Acquisitions Process
 - Make Buy Checklist
 - Make or Buy Analysis
 - Contracts
 - Procurement Management Plan
- Plan Contracting Process
 - Standard Forms & Evaluation Criteria
- Request Seller Responses Process
 - Bidder Conference & Advertising
- Select Sellers Process
 - Contract and Contract Negotiation
- Contract Administration Process
 - Buyer conducted Seller's Review
 - Inspections and Audits
 - Claims Administration
- Contract Closure Process
 - Procurement Audits
 - Closed Contracts
 - Updated Organizational Process Assets

Project Procurement

- It's a group of processes required to purchase or to acquire the products, services, goods or results needed from outside of the project team to perform the work.
- Project Procurement Management Processes:
 - Plan Purchase and Acquisition
 - Plan Contract
 - Request Seller Responses
 - Select Sellers
 - Contract Administration
 - Contract Closure

Procurement Management Process Flow

- Trigger: Need for Procurement
- Step 1: Procurement Planning
- Output: Make Buy Decision
- Step 2: Contract Planning
- Output: Issue Request for Proposal
- Step 3: Request Seller Response
- Output: Receive Proposal
- Step 4: Selecting Seller
- Output: Award Contract
- Step 5: Contract Administration
- Output: Product/Service/Goods Acquired
- Step 6: Contract Closeout
- Output: Formal Closure to the Contract

Plan Purchase and Acquisition Process

- It identifies the different project needs that could be purchased or acquire products, services, goods or results from outside the project organization.
- This process involves considering what to acquire, how much to acquire, how to do so, and when to acquire. But prior to that we need to assess whether to acquire or not as well.
- It's a part of Project Planning.

Plan Purchase and Acquisition Process

Plan Purchase and Acquisition Overview		
Inputs	Tools and Techniques	Outputs
<ol style="list-style-type: none">1. Organizational Process Assets2. Enterprise Environmental Factors3. Project Scope Statement4. WBS & WBS Dictionary5. Risk Management Plan6. Risk Register7. Risk Related Contractual Agreements8. Resource Requirements9. Project Schedule10. Activity Cost Estimates11. Cost Baseline	<ol style="list-style-type: none">1. Make Buy Decision Analysis2. Expert Judgment3. Contract Types	<ol style="list-style-type: none">1. Procurement Management Plan2. Contract Statement of Work3. Make Buy Decisions4. Requested Changes

Enterprise Environmental Factors

- The conditions of the marketplace.
- What products, services, goods or results are available in the market.
- From whom could we get the goods.
- Under what conditions.

Organizational Process Assets

- It provides the existing formal and informal policies, procedures, guidelines and management system for procurement that are considered in developing the procurement management plan and selecting the contract types to be used.
- Procurement history of the organization.

Make Buy Checklist

- Reasons to Make

- Cheaper to Make
- Experience making it
- Idle production facility available
- Compatible and fits in production line
- Part is proprietary
- Not dependent on supplier
- High transportation costs

- Reasons to Buy

- Cheaper to Buy
- No Production Facility
- Avoid fluctuating or seasonal demand
- Inexperience with making process
- Available suppliers
- Maintain existing suppliers
- Higher reliability and quality

Make or Buy Analysis

- It is a general management technique used in determining whether an organization should make or perform a particular product or service inside the organization or buy from someone else.
- Often involves financial analysis, includes both direct and indirect costs.
- Experts could be used for analysis.
- Make Buy Decision Tree analysis could be done as well.
- Lease or Purchase Analysis is a varied method of analysis.

Contract Types

- Fixed Price Contracts
 - Fixed Price Lump Sum Contracts
 - Fixed Price Incentive Contracts
- Cost Reimbursable Contracts
 - Cost Plus Fee or Cost Plus Percentage of Cost Contract
 - Cost Plus Fixed Fee
 - Cost Plus Incentive Fee
- Time and Material Contracts
- Unit Price Contracts
- Turn Key Contract

Procurement Management Plan

- The Procurement Management Plan describes how the procurements process will be managed from developing procurement documentation through contract closure.
- It includes:
 - Type of Contract Used
 - Managing Multiple Providers
 - How Procurement will be coordinated?
 - Standardized documents used
 - Identifying Prequalified selected sellers if any to be used
 - Constraints and assumptions that could affect planned purchases and acquisition
 - Establishing the forms and formats to be used for the contract statement of work
 - Will prepare independent estimates and if they are needed as evaluation criteria
 - Procurement metrics to be used to manage contracts and evaluate sellers

Planned Contracting Process

- The planned contracting process prepares the document needed to support the request seller response processes and select seller processes.
- It is a part of “Project Planning Phase”.

Planned Contracting Process

Planned Contracting Overview		
Inputs	Tools and Techniques	Outputs
<ol style="list-style-type: none">1. Procurement Management Plan2. Contract Statement of Work3. Make Buy Decisions4. Project Management Plan5. Risk Register6. Risk Related Contractual Agreements7. Resource Requirements8. Project Schedule9. Activity Cost Estimates10. Cost Baseline	<ol style="list-style-type: none">1. Standard Forms2. Expert Judgment	<ol style="list-style-type: none">1. Updated Contract Statement of Work2. Procurement Document3. Evaluation Criteria

Standard Forms

- It includes standard contracts, standard descriptions of procurement items, non disclosure agreements, proposal evaluation criteria checklists, standardized version of all parts of the needed bid documents.

Evaluation Criteria

- Evaluation Criteria are developed and used to rate or score proposals.
- Evaluation Criteria are often included as a part of procurement documents.

Request Seller Responses Process

- The request seller responses process obtains responses such as bids, quotations, proposals from prospective sellers on how project requirements can be met.
- It is a part of “Project Planning Phase”.

Request Seller Responses Process

Request Seller Responses Overview		
Inputs	Tools and Techniques	Outputs
<ul style="list-style-type: none">1. Organizational Process Assets2. Procurement Management Plan3. Procurement Documents	<ul style="list-style-type: none">1. Bidder Conference2. Advertising3. Develop Qualified Seller List	<ul style="list-style-type: none">1. Procurement Document Package2. Qualified Seller List3. Proposals

Bidder Conferences

- These are the meetings with prospective sellers.
- These meetings are held prior to preparation of bid or proposal.
- They are used to ensure that all prospective sellers have a clear common understanding of procurement.
- Its objective is to ensure equal opportunity to all prospective sellers, treat people with consideration and respect, understand what motivates them, communicate carefully with them.

Advertising

- Existing list of potential sellers can often be expanded by placing advertisements in general circulation publication such as newspaper or specialty publication such as professional journals.
- while designing and producing an advertisement, advertisement writing style can be defined in order to achieve the following objectives:
 - Get attention
 - Gain interest
 - Create desire
 - Get action

Select Sellers Process

- It receives bid or proposals and applies evaluation criteria as applicable to select one or more sellers who are both qualified and acceptable as a seller.
- It is a part of Project Execution Phase.

Select Seller Process

Select Seller Overview		
Inputs	Tools and Techniques	Outputs
<ol style="list-style-type: none">1. Organizational Process Assets2. Procurement Management Plan3. Procurement Document Package4. Evaluation Criteria5. Proposals6. Qualified Seller List7. PM Plan8. Risk Register9. Risk Related Contractual Agreements	<ol style="list-style-type: none">1. Weighing System2. Independent Estimates3. Screening System4. Contract Negotiation5. Seller Rating System6. Expert Judgment7. Proposal Evaluation Technique	<ol style="list-style-type: none">1. Selected Seller2. Contracts3. Contract Management Plan4. Resource Availability5. Updated Procurement Management Plan6. Requested Changes

Contract Negotiation

- It clarifies the structure and requirements of the contract so that mutual agreement can be reached prior to signing the contract.
- Five stages of Negotiation are:
 - Protocol (Get to know each other)
 - Probing (Each party identifies issues of concern)
 - Scratch Bargaining (Bargaining occurs, concessions are made)
 - Closure (to positions summed up and final concessions made)
 - Agreement (Both Party have identical understanding of agreement)

Contract

- Contract is an agreement made between two or more parties to do or not to do any business, which is enforceable by law.
- A contract is awarded to each selected seller. It is the key output of the Seller Selection Process.
- Project Contracts should be treated as two way contracts.
- A contract objectively addresses:
 - The type of support and service required
 - The timing and cost of services
 - Task/outcome specific performance measurement criteria
 - Fall back and contingency arrangements
 - TOR and Project Description

Contract Administration Process

- It ensures that the sellers' performance meets contractual requirements and that the buyer perform according to the terms of the contract.
- Both the buyer and the seller administer the contract for the similar purposes.
- Each party ensures that they meet their contractual obligations and their own legal rights are protected.
- It's a part of project controlling phase.

Contract Administration Process

Contract Administration Overview		
Inputs	Tools and Techniques	Outputs
<ol style="list-style-type: none">1. Contract Agreement2. Contract management Plan3. Selected Sellers4. Performance Reports5. Approved Change Requests6. Work Performance Info	<ol style="list-style-type: none">1. Contract Change Control System2. Buyer conducted Performance Review3. Inspections and Audit4. Performance Reporting5. Payment System6. Claims Administration7. Record Management System8. IT	<ol style="list-style-type: none">1. Contract Documentation2. Requested Changes3. Recommended Corrective Actions4. Updated Organizational Process Assets5. Updated Procurement Management Plan6. Contract Managment Plan

Buyer Conducted Sellers' Performance Review

- A procurement performance review is a structured review of the seller's progress to deliver project scope and quality, within cost and unscheduled as compared to the contract.
- It can include a review of seller prepared documentation and buyer inspection, as well as quality audits conducted during sellers' execution of the work.
- This document suggests:
 - Completeness of contractual obligation
 - Overall performance or fulfill contacts requirements
 - Payment direction as per contract

Inspections and Audit

- Inspections and Audits required by the buyer and supported by the seller as specified in the contract documentation, can be conducted during execution of the project to identify any weaknesses in the seller's work processes or deliverables.

Claims Administration

- Contested changes and constructive changes are those requested changes where the buyer and seller can't agree on compensation for the change, or can't agree that a change has even occurred.
- These contested changes are variously called claims, disputes or appeals.
- Claims are the documented, processed, monitored and managed changes throughout the contract life cycle, usually in accordance with the terms of the contract.

Contract Closure Process

- The contract closure process performs the formal project closing activities.
- All the work must be verified prior to contract closure.
- The process includes administrative activities, like updating records to reflect final results and archiving such information for future use.
- Early contract closure could be done in case of special early termination of the project, which results from a process of mutual agreement.

Contract Closure Process

Contract Administration Overview		
Inputs	Tools and Techniques	Outputs
<ul style="list-style-type: none">1. Procurement Management Plan2. Contract Management Plan3. Contract Documentation4. Contract Closure Procedure	<ul style="list-style-type: none">1. Procurement Audits2. Record Management System	<ul style="list-style-type: none">1. Updated Organizational Process Assets2. Closed Contracts

Procurement Audits

- The objective of a procurement audit is to identify success and failures that warrant recognition in the preparation or administration of other procurement contracts on the project, or on other projects within the performing organization.

Closed Contracts

- The buyer, usually through its authorized contract administrator, provides the seller with formal written notice that the contract has been completed.
- Requirements for formal contract closure are usually defined in the terms of the contract, and would be included in the contract management plan.

Organizational Process Assets Updates

- Contract Filing
- Deliverable Acceptance Notices
- Lesson Learned Documentation

References

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Thank You

सार्वजनिक खरिद प्रकृया वा कार्यविधि मात्र होइन यो जटिल तथा गतिशिल प्रणाली हो ।