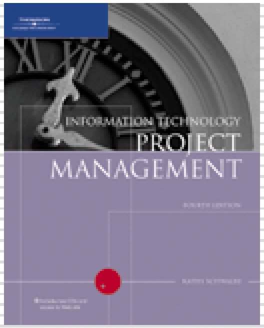
Chapter 12:
Project Procurement Management



Information Technology Project Management, Fourth Edition

Learning Objectives

- Understand the importance of project procurement management and the increasing use of outsourcing for information technology projects.
- Describe the work involved in planning purchases and acquisitions for projects, the contents of a procurement management plan and contract statement of work, and calculations involved in a make-or-buy analysis.
- Discuss what is involved in planning contracting, including the creation of various procurement documents and evaluation criteria for sellers.

Learning Objectives (cont'd)

- Understand the process of requesting seller responses and the difference between proposals and bids.
- Describe the seller selection process and recognize different approaches for evaluating proposals or selecting suppliers.
- Discuss the importance of good contract administration.
- Describe the contract closure process.
- Discuss types of software 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.
- India is the leading country for U.S. offshore outsourcing.

Debates on Outsourcing

- Some companies, such as Wal-Mart, prefer to do no outsourcing at all, while others do a lot of outsourcing.
- 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.

Why Outsource?

- To reduce both fixed and recurrent costs.
- To allow the client organization to focus on its core business.
- To access skills and technologies.
- 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.

Project Procurement Management Processes

- **Project procurement management**: Acquiring goods and services for a project from outside the performing organization.
- Processes include:
  - **Planning purchases and acquisitions**: Determining what to procure, when, and how.
  - **Planning contracting**: Describing requirements for the products or services desired from the procurement and identifying potential sources or **sellers** (contractors, suppliers, or providers who provide goods and services to other organizations).

Project Procurement Management Processes (cont'd)

- **Requesting seller responses**: Obtaining information, quotes, bids, offers, or proposals from sellers, as appropriate.
- **Selecting sellers**: Choosing from among potential suppliers through a process of evaluating potential sellers and negotiating the contract.
- **Administering the contract**: Managing the relationship with the selected seller.
- **Closing the contract**: Completing and settling each contract, including resolving any open items.

Planning Purchases and Acquisitions

- 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.

What Went Right?

- Several organizations, such as The Boots Company PLC in England, outsource their IT services to save money compared with the cost of running the systems themselves.
- Carefully planning procurement can also save millions of dollars, as the U.S. Air Force did by using a unit pricing strategy for a large office automation project.

Tools and Techniques for Planning Purchases and Acquisitions

- **Make-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.

Make-or-Buy Example

- Assume you can lease an item you need for a project for $800/day. To purchase the item, the cost is $12,000 plus a daily operational cost of $400/day.

- How long will it take for the purchase cost to be the same as the lease cost?

Make-or Buy Solution

- Set up an equation so both options, purchase and lease, are equal.
- In this example, use the following equation. Let *d* be the number of days to use the item:

  $12,000 + $400d = $800d

  Subtracting $400d from both sides, you get:

  $12,000 = $400d

  Dividing both sides by $400, you get:

  d = 30
- If you need the item for more than 30 days, it is more economical to purchase it.

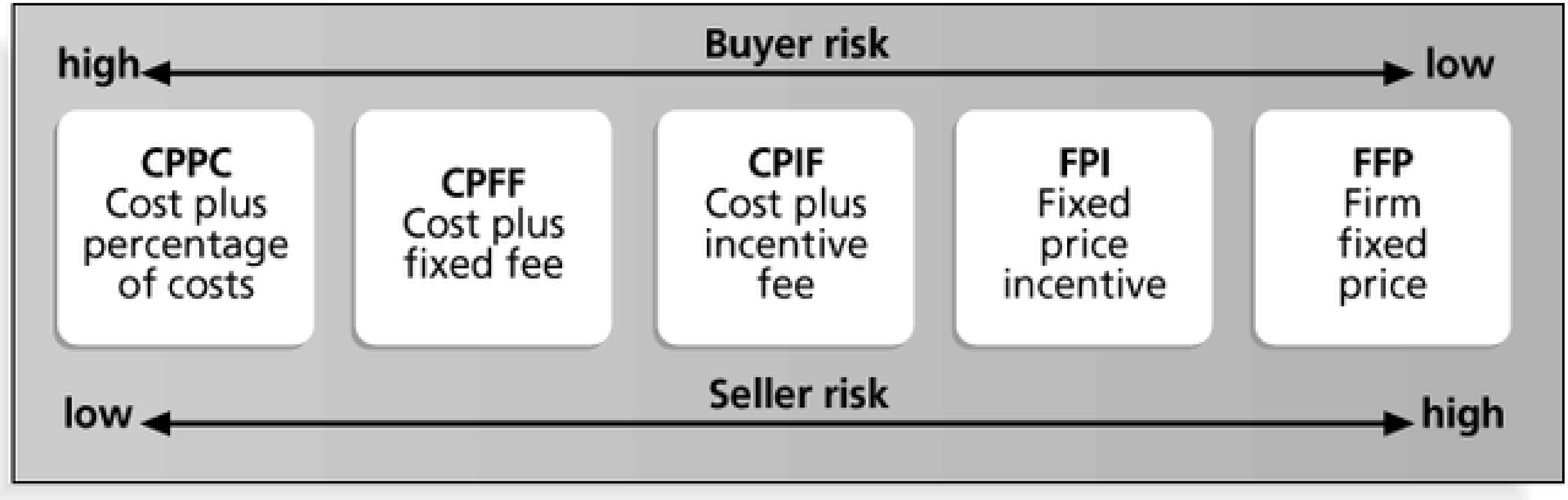
Types of Contracts

- 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.

Cost Reimbursable Contracts

- **Cost plus incentive fee (CPIF)**: The buyer pays the supplier for allowable performance costs plus a predetermined fee and an incentive bonus.
- **Cost plus fixed fee (CPFF)**: The buyer pays the supplier for allowable performance costs plus a fixed fee payment usually based on a percentage of estimated costs.
- **Cost plus percentage of costs (CPPC)**: The buyer pays the supplier for allowable performance costs plus a predetermined percentage based on total costs.

Figure 12-2. Contract Types Versus Risk



Contract Clauses

- Contracts should include specific clauses to take into account issues 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 varies 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 12-2. Statement of Work (SOW) Template

I.	**Scope of Work:** Describe the work to be done to 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.

Planning Contracting

- Involves preparing several documents needed for potential sellers to prepare their responses and determining the evaluation criteria for the contract award.
  - **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 12-3. Request for Proposal (RFP) 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.

Requesting Seller Responses

- Deciding whom to ask to do the work, sending appropriate documentation to potential sellers, and obtaining proposals or bids.
- Organizations can advertise to procure goods and services in several ways:
  - Approaching the preferred vendor.
  - Approaching several potential vendors.
  - Advertising to anyone interested.
- A bidders' conference can help clarify the buyer's expectations.

Selecting Sellers

- Also called source selection.
- Involves:
  - Evaluating proposals or bids from sellers.
  - Choosing the best one.
  - Negotiating the contract.
  - Awarding the contract.

Figure 12-4. Sample Proposal Evaluation Sheet

		Proposal 1		Proposal 2		Proposal 3	
Criteria	Weight	Rating	Score	Rating	Score	Rating	Score
Technical Approach	30%						
Management Approach	30%						
Past Performance	20%						
Price	20%						
Total Score	100%						

Seller Selection Process

- 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.

Media Snapshot

- Many organizations realize that selecting appropriate sellers can often provide a win-win situation.
- Several companies, including those owned by famous celebrities, work closely with outside sources to help both parties come out ahead.
- For example, Oprah Winfrey celebrated the premiere of her show’s nineteenth season by giving each of her 276 audience members a new car that was donated by Pontiac.

Administering the Contract

- 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.

- Many project managers ignore contractual issues, which can result in serious problems.

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 (cont'd)

- 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.

Closing the Contract

- 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.
- A records management system provides the ability to easily organize, find, and archive procurement-related documents.

Using Software to Assist in Project Procurement Management

- Word processing software helps write proposals and contracts, spreadsheets help evaluate suppliers, databases help track suppliers, and presentation software helps present procurement-related information.
- E-procurement software does many procurement functions electronically.
- Organizations also use other Internet tools to find information on suppliers or auction goods and services.

Chapter Summary

- Project procurement management involves acquiring goods and services for a project from outside the performing organization.
- Processes include:
  - Planning purchases and acquisitions
  - Planning contracting
  - Requesting seller responses
  - Selecting sellers
  - Administering contracts
  - Closing contracts