### Chapter 11

Project Procurement Management

# Learning Objectives

When you have completed this chapter you should be able to:

1. Understand the importance of good procurement management and the increasing use of outsourcing for information technology projects
2. Describe the main processes and deliverables of procurement management
3. Perform a simple make-or-buy analysis
4. Explain the various types of contracts, the risks involved in using each, and provide examples of when each might be used for an information technology project
5. Describe the basic contents of a Request for Proposal
6. Create and use a proposal evaluation worksheet
7. Understand the importance of having good contracts and managing them well

# Chapter Outline

**Importance of Project Procurement Management**

**Procurement Planning**

Procurement Planning Tools and Techniques

Types of Contracts

Statement of Work

**Solicitation Planning**

**Solicitation**

**Source Selection**

**Contract Administration**

**Contract Close-out**

# Lecture Notes

## Importance of Project Procurement Management

Many textbooks and people tend to ignore project procurement management, but it is an important part of project management. Many people use the term purchasing or outsourcing instead of procurement. For example, most people have had a variety of experiences purchasing clothing or basic household goods, as well as more expensive items such as automobiles or housing.

## Procurement Planning

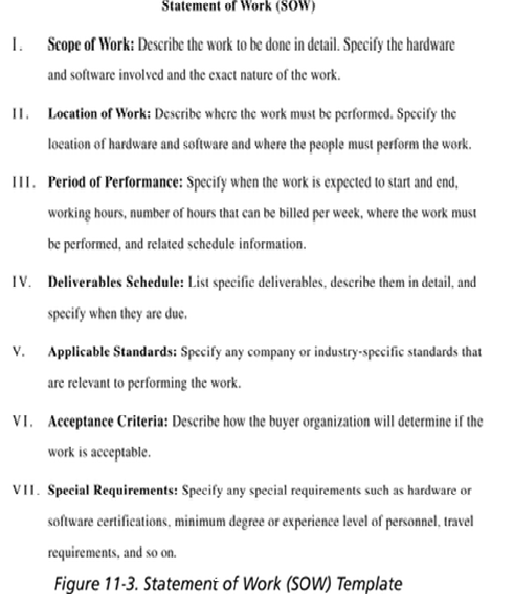
Procurement planning means deciding what to procure, when to procure it, and how to procure it. Performing a make-or buy analysis is a procurement planning technique to help decide if an organization should produce its own goods or services or purchase them from someone else. The decision is often based on finances and fit in the organization. For example, if you can make your own wedding gown exactly as you'd like it for $100 in materials and have the time and talent to do it, you might prefer to make it than spend a lot of time shopping and over $1,000 to buy it. However, if you need to buy an expensive sewing machine and give up a well-paying job to find time to make the dress, it would probably end up costing you more than $1,000 to make it.

***Types of Contracts***

* Fixed price or lump sum: involve a fixed total price for a well-defined product or service
* Cost reimbursable: involve payment to the seller for direct and indirect costs
* Time and material contracts: hybrid of both fixed price and cost reimbursable, often used by consultants
* Unit price contracts: require the buyer to pay the seller a predetermined amount per unit of service

***Statement of Work (SOW)***

* A statement of work is a description of the work required for the procurement
* Many contracts, mutually binding agreements, include SOWs
* A good SOW gives bidders a better understanding of the buyer’s expectations



## Solicitation

The main output of solicitation is the receipt of proposals or bids. Solicitation involves obtaining proposals or bids from prospective sellers:

Organizations can advertise to procure goods and services in several ways

* approaching the preferred vendor

## approaching several potential vendors

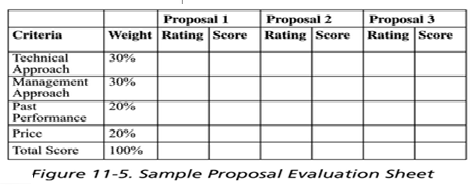
## advertising to anyone interested

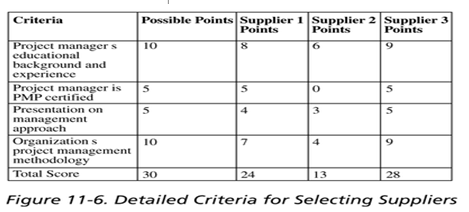
## A bidders’ conference can help clarify the buyer’s expectations

## Source Selection

Source selection is an important part of project procurement management. The sample proposal evaluation sheet and detailed criteria for selecting vendors given in Figures 11-5 and 11-6.

* Source selection involves
  + evaluating bidders’ proposals
  + choosing the best one
  + negotiating the contract
  + awarding the contract
* It is helpful to prepare formal evaluation procedures for selecting vendors
* Buyers often create a “short list”





***Be Careful in Selecting Suppliers and Writing Their Contracts***

## Many dot-com companies were created to meet potential market needs, but many went out of business, mainly due to poor business planning, lack of senior management operations experience, lack of leadership, and lack of visions. Check the stability of suppliers.

## Even well-known suppliers can impede project success. Be sure to write and manage contracts well with all suppliers

## Contract Administration

Contracts are legally binding, so it is very important to administer contracts well. The suggestions for ensuring adequate change control on projects that involve outside contracts⎯having key people review, approve, and document contract changes; performing an impact analysis before approving any changes; and documenting changes in writing.

## Contract Close-out

Contract close-out involves product verification and several administrative activities to update records and archive information for future use. Outputs of contract close-out include a contract file and formal acceptance and closure. Some organizations simply do not pay vendors if they have not delivered the goods or services as described in the contract. If the contract states that payments are based on performance as described in the contract, then it is legal to withhold payment for poor performance. Stress the importance of using legal advice in all contract matters, including close-out.

***Using Software to Assist in Project Procurement Management***

* Word processing software helps in writing proposals and contracts, spreadsheets help in evaluating suppliers, databases help track suppliers, and presentation software aids in presenting procurement-related information
* In the late 1990s and early 2000s, many companies started using e-procurement software to do many procurement functions electronically
* Companies such as Commerce One, Ariba, Concur Technologies, SAS, and Baan provide corporate procurement services over the Internet
* Organizations also use other Internet tools to help find information on suppliers or auction goods and services