

# PROCUREMENT MANAGEMENT

Get more done by asking for help!

*Please note that this tutorial is based on the PMBOK Version 6 which were released by PMI in September 2017. This article is revised in January 2020.*

The notes below contains ALL the concepts that any PMP aspirants should know, however; should not be limited. It is recommended to refer linked articles for detailed understanding.

Before we proceed, let's take a look at WHY we need Scope Management:

You are working on building a residential township for Trump Towers in Romania.

One of the vendors who was to provide the bricks mentioned that he cannot provide the same next week, opposite to what he promised. However, you cannot raise finger on him since the time-frame is not mentioned anywhere on your contract with the vendor.

You confirmed from the steel-bars vendor that he will provide the steel rods at \$50 per piece however, he mentioned that since the price of steal increased since the agreement

**Procurement:** The procurement refers to the formal way to obtain any service or a product.

Here is a snippet of various processes that are distributed across multiple phases of a project:

	INITIATION	-
	PLANNING	Plan Procurement Management
	EXECUTING	Conduct Procurement
	MONITORING & CONTROLLING	Control Procurements
	CLOSURE	

# PLAN PROCUREMENT MANAGEMENT

Phase: **PLANNING**

Knowledge Area: **PROCUREMENT MANAGEMENT**

The procurement management plan helps to strategise the procurement method, the type of contracts are made with vendors. This is not about the role of attorney or lawyers but of the project manager in the procurement.

## **SELLER**

The person/organization who provides goods or services is known as the Seller.

## **BUYER**

The person or organization that is purchasing the service/goods is called Buyer.

Role of a PM in the contract is usually blurred when there is already a procurement manager involved in the process. So as a Project Manager following are the roles and responsibilities:

- Understand the process so that you are aware of what will happen and when
- Help tailor to accommodate custom needs of project
- Estimate time and cost of each procurement like meeting, reports etc
- Identify the risks involved
- Understand not to ask anything that is not listed in contract unless you make necessary changes in the terms of the contract
- Plan, manage and monitor better by reading & understanding the terms of the project

Plan Procurement Process includes following important steps:

- Performing Make or Buy Analysis
- Create procurement Plan
- Select type of contract needed
- Create bid documents

Types of contract depends on various factors like:

- What is being purchased
- How elaborated and complete your SOW is
- Level of support that buyer can provide to seller
- The marketplace

**[IMP]** Based on the above factors there are 3 types of contracts:

1. Fixed Price (FP)
2. Time and Material (T&M)
3. Cost Reimbursable

## FIXED PRICE

The fixed price contract is the one that has the well defined specifications. In case the costs are more than assumed then the seller needs to bear the cost. Hence, the buyer has lesser risk.

- **Fixed Price and Incentive Fee (FPIF)** : Where the seller if meets the specific criteria get additional incentive (whether in fixed term or percent based)
- **Fixed Price and Award Fee (FPAF)**: In this the seller if meets the criteria they are given awards which could be pre-determined
- **Fixed Price and Economic Fee Adjustment Fee (FPEPA)**: The contract in which the contract is fixed on a price but may cover the uncertain costs that are not predictable.
- **Purchase Order**: The simplest form of contract that is usually signed by one party for the procurement of the commodity procurements.

## TIME & MATERIAL

The Time and Material has the buyer to pay based on the per-hour or per-item basis based on the consumption . This contract has simpler terms of negotiations. Since the seller's profit is based on the time you spend more and hence no benefits on completing the project earlier.

## COST REIMBURSABLE

When the exact project specifications are not known and hence the costs cannot be determined. This enables the seller to pay the allowable incurred costs.

There are multiple types of Cost Reimbursable contracts:

- **Cost Plus Fixed Fee (CPFF)**: The seller gets a payment fixed fee along with the predefined amount of fees like *project cost + \$100,000*
- **Cost Plus Incentive Fee (CPIF)**: The seller gets the pre-decided cost and incentives based on the parameters decided like project cost and 80% of any cost saved out of project budget or penalty of cost over-run.
- **Cost Plus Award Fee (CPAF)**: The seller pays the fixed cost along with a bonus/award, just like CPIF however in this there is no negative penalty involved.
- **Cost Plus Percentage of Cost (CPPC)**: The seller pays the cost of the work and a percentage of that work's budget as the fee for buyer like *project cost and 5% of the cost*

CONTRACTS AND RISKS INVOLVED



**BID DOCUMENTS:** Once the contract is selected, there is a need for buyer to create a bidding document which describes the buyer needs, following are the relevant documents:

- **Request for Proposal (RFP):** The detailed document that is sent by buyer to the seller. This contains information about the price, how work will be done etc This helps the sellers to understand the work and can estimate cost and work accordingly.
- **Invitation for Bid (IFB):** This is the request document from the seller that asks the buyers to provide the costs as per the work shared in the RFP.
- **Request for Quotation (RFQ):** This is a detailed document that asks for the cost as per hour/metre/items etc
- **Request for Information (RFI):** Before the bid documents are created, the RFI is sent out to the buyers in order to gather information on what work is feasible.

**Non Disclosure Document:** At times the seller do not want the public or their competition to know that they are procuring the item/service. Hence they ask buyers to sign a Non Disclosure.

## CONDUCT PROCUREMENT

Phase: **EXECUTION**

Knowledge Area: **PROCUREMENT MANAGEMENT**

The process of conducting the procurements includes getting the bid documents, analysing and selecting the best bid based on defined criteria. There are multiple ways by which the procurement requests can be sent out like:

- **Advertising:** The seller can publish advertisement in the newspaper or television.
- **Bidder Conference:** They can conduct the bidder conference to give a presentation to the buyers in order to provide info on the requirements.

**Seller Proposal:** The seller's response to the proposal to the bid documents is called seller proposal.

**Weighting System:** There could be certain parameters to select the best bid, however not all parameters are equal. Some may contain more weightage than the others. A sample of the weightage is shown below:

CRITERIA	WEIGHTAGE (A)	RATINGS (B)	AxB
Number of Years in the business	5%	2.5	
Geographically based in same city as us	25%	4	
Technical Ability	40%	2	
Project Management Ability	30%	4	

Items to negotiate: There are multiple factors that can cause the negotiation between buyer and seller, the important factors could be:

- Scope
- Schedule
- Price

Several other factors could be risk, quality, authority, payment schedule etc.

## CONTROL PROCUREMENT

Phase: **MONITORING & CTRL**

Knowledge Area: **PROCUREMENT MANAGEMENT**

The process of managing the entire legal relation with respect to the contract terms is taken care in the control procurement process. This ensures that the contract is closed as per the predetermined clauses.

- **Inspection:** The walkthrough of the project work for the review of the deliverables is known as inspection.
- **Audits:** In order to check that the work is done as per the seller's compliance, there are random audits conducted by the sellers and buyers.
- **Trend Analysis:** In order to track that the project work is getting better, worse or else is same, there is a trend analysis done.
- **Conflict:** At times, the procurement manager is the lead for the procurement process. Hence there are times where the Project Manager needs to coordinate with the person for the conflicts.
- **Claims Administrative:** Any sort of disagreement on the procurement can lead to conflict between the buyer and seller. Hence, the seller submits the Claims.

**Close Procurements:** The formal process of the closure of the contracts once the work is delivered, verified and payments completed.

- When the procurement deliverables are complete
- When the procurement is terminated before the work is complete