9. Procurement Management

9. 1. Processes of Procurement Management

= the processes that ensure the procurement of necessary products/services from other companies/associations/organizations

>> **cooperation with specialized departments (Procurement, Legal, Accounting)**

Procurement planning (PA)	define the required procurements (what + when) and the procurement procedures
Solicitation planning (PA)	elaborate the documents needed for offer solicitation + fill the list of potential providers
Solicitation (E)	obtain offers, proposals from potential providers

Providers' selection (E)   choose the provider and set the contract

Contract administration (E)   manage the contract during its availability +
                                    manage the relationship with the provider
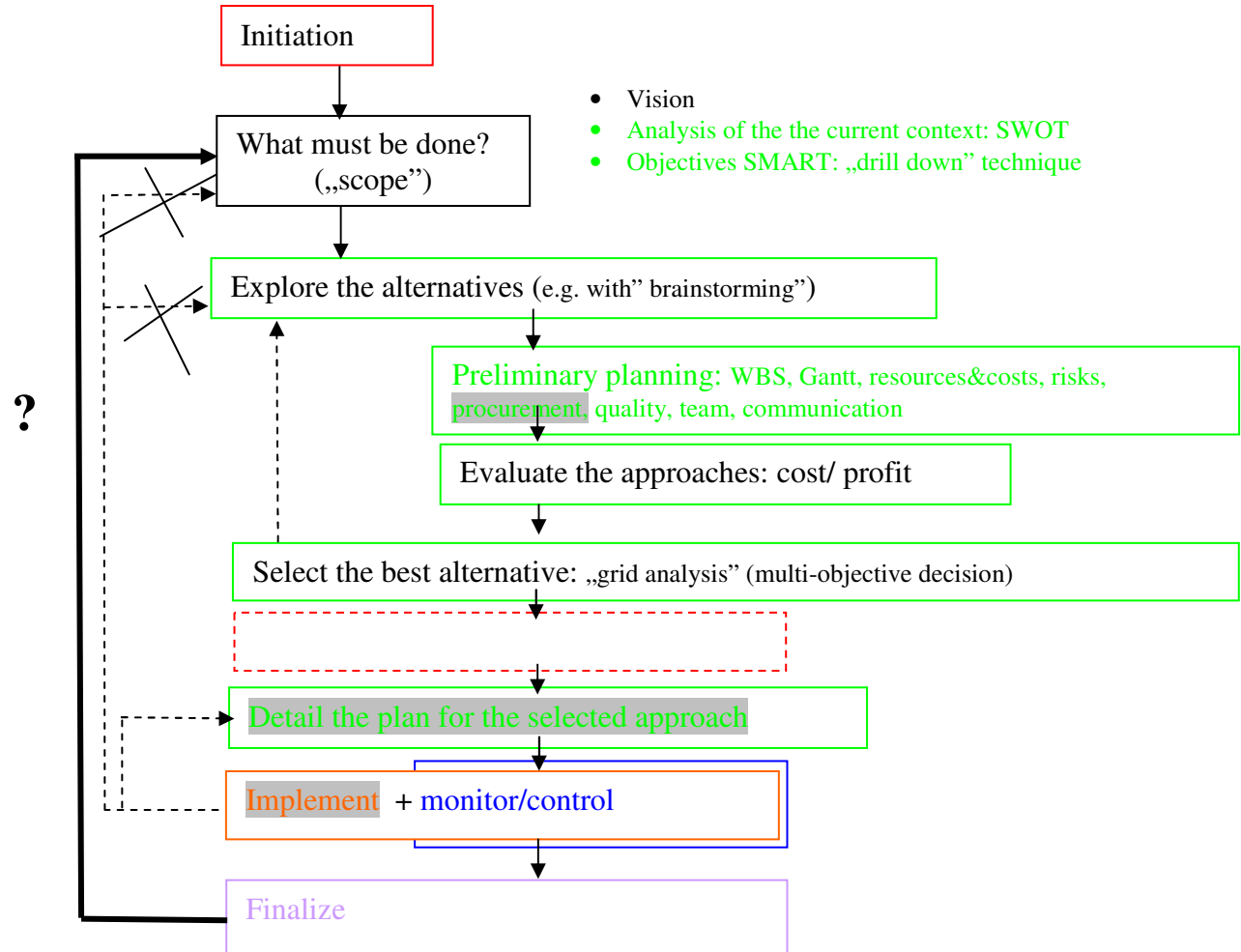
Contract closure (F)   validate the received product/service + end the
                                    contract at administrative level
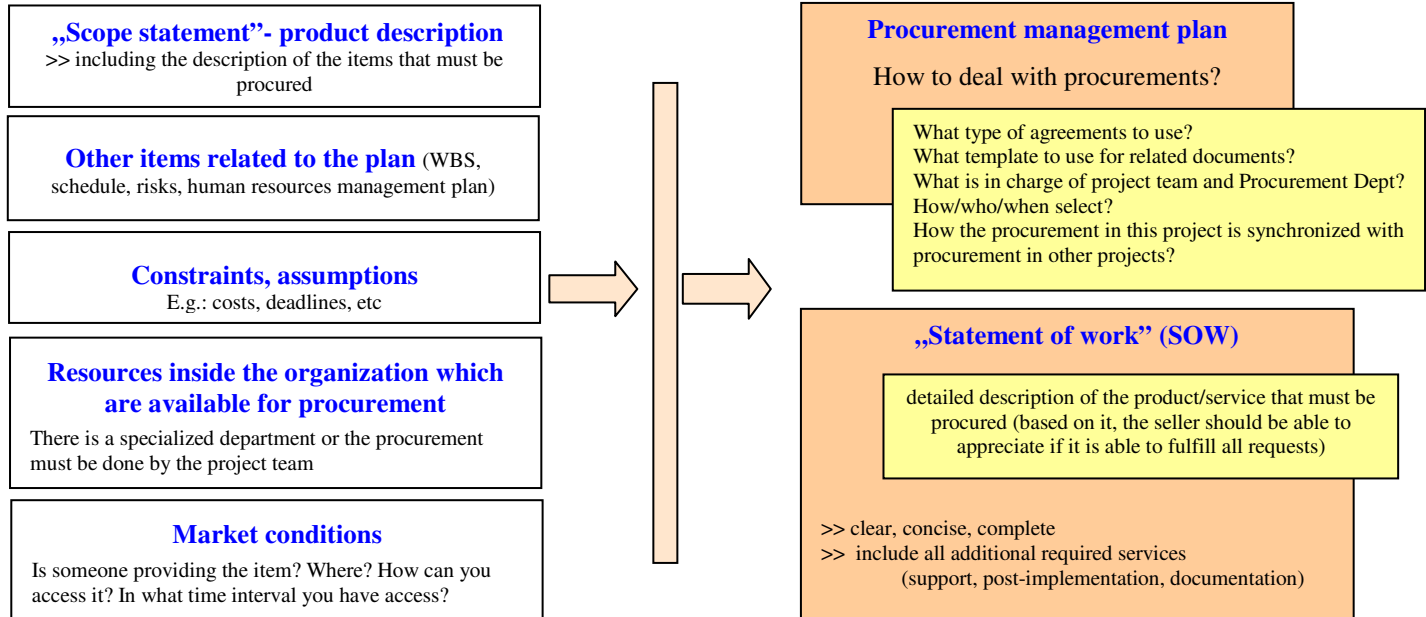

Remarks:

The provider is not from the same organization

Think from the buyer standpoint!!

Initiation

What must be done?
(„scope")

- Vision
- Analysis of the the current context: SWOT
- Objectives SMART: „drill down" technique

Explore the alternatives (e.g. with" brainstorming")

Preliminary planning: WBS, Gantt, resources&costs, risks, procurement, quality, team, communication

Evaluate the approaches: cost/ profit

Select the best alternative: „grid analysis" (multi-objective decision)

Detail the plan for the selected approach

Implement + monitor/control

Finalize

?

9. 1. 1. Procurement Planning (PA)

= determine the need of products/services that must be procured by the project and how the procurement should be carried out

WHEN/WHAT/HOW MUCH/HOW TO PROCURE?

„Scope statement"- product description
>> including the description of the items that must be procured

Other items related to the plan (WBS, schedule, risks, human resources management plan)

Constraints, assumptions
E.g.: costs, deadlines, etc

Resources inside the organization which are available for procurement
There is a specialized department or the procurement must be done by the project team

Market conditions
Is someone providing the item? Where? How can you access it? In what time interval you have access?

Procurement management plan

How to deal with procurements?

What type of agreements to use?
What template to use for related documents?
What is in charge of project team and Procurement Dept?
How/who/when select?
How the procurement in this project is synchronized with procurement in other projects?

„Statement of work" (SOW)

detailed description of the product/service that must be procured (based on it, the seller should be able to appreciate if it is able to fulfill all requests)

>> clear, concise, complete
>> include all additional required services
         (support, post-implementation, documentation)

Remarks:

- o Externalization is needed?

  - decide after a deep cost analysis

    - cost of the product/service + delivery cost

    - costs demanded by procurements management

  - the politics of the company is important: buy/ let /produce

- o Use efficiently the expertise

  available in other departments

  from external consultants

  from professional associations

  of your team

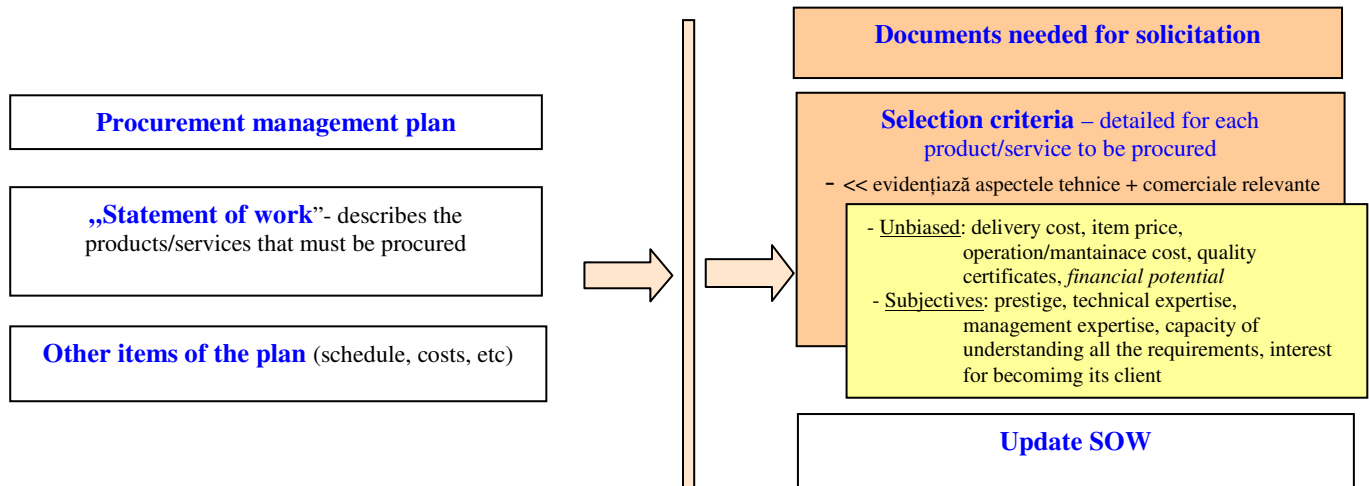**Pay attention to the type of agreement demanded by the provider:**

- Fix value

  >> the risks are assumed by the provider (some clauses can indicate agreed modifications, etc)

- With imposed percentile (applied to real obtained costs)

  Total value = (direct costs + indirect_costs)* (1+ 0.xxx)

  indirect_costs = direct costs * 0.xx

- Combined : fixed amount + variable amount (usually set in relation to a unitary cost – per working hour or per product unit)

9. 1. 2. Solicitation Planning

= indicate the documents needed for offer solicitation
+ set the selection criteria
+ fill the list of potential providers

HOW TO ASK FOR OFFERS AND HOW TO THE BEST ONE?

Procurement management plan

„Statement of work"- describes the products/services that must be procured

Other items of the plan (schedule, costs, etc)

Documents needed for solicitation

Selection criteria – detailed for each product/service to be procured

- << evidenţiază aspectele tehnice + comerciale relevante

- Unbiased: delivery cost, item price, operation/mantainace cost, quality certificates, *financial potential*
- Subjectives: prestige, technical expertise, management expertise, capacity of understanding all the requirements, interest for becomimg its client

Update SOW

Documents useful for solicitation:

- with emphasis on technical details (request of „Proposal") and price (request for „Bid" or „Quotation")

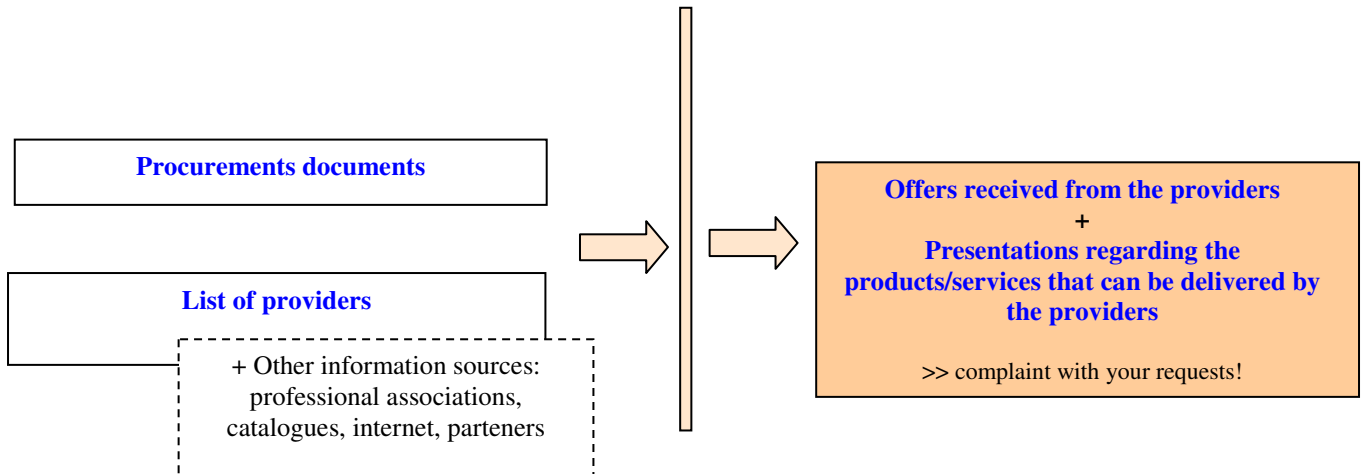- they include: SOW, desired template response, agreement proposal, deadlines, etc.

Recommendations:

- chose a god structure in order to facilitate precise, clear complete answers >> for a consistent further comparison of offers

- allow the provider to come with suggestions, etc.

!! use standard forms (contract, SOW, invitations)

9. 1. 3. Solicitation (E)

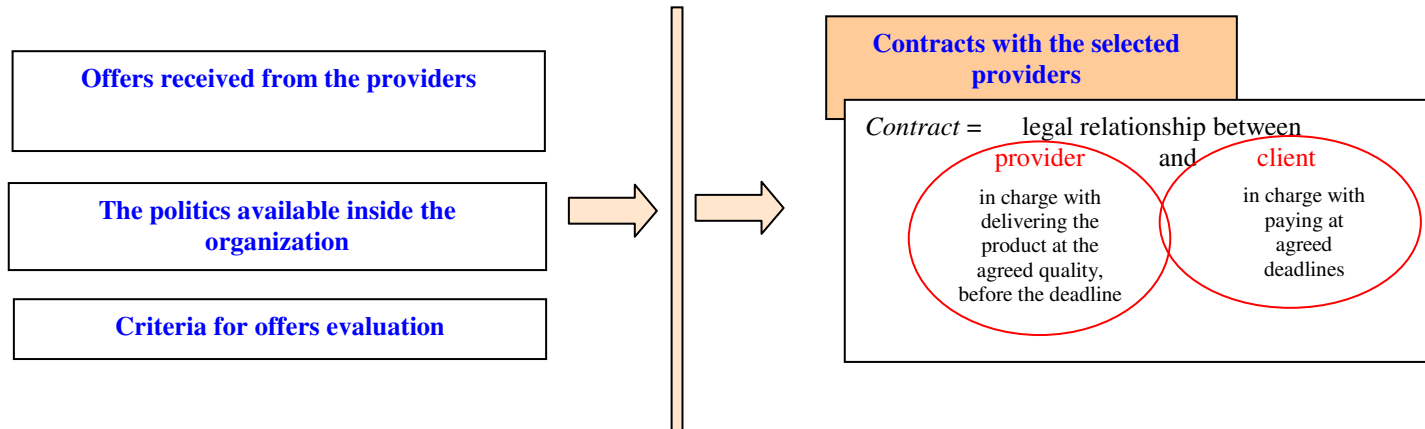= obtain the answers from the providers

CONTACT THE PROVIDERS!

Procurements documents

List of providers

+ Other information sources: professional associations, catalogues, internet, parteners

Offers received from the providers
+
Presentations regarding the products/services that can be delivered by the providers

>> complaint with your requests!

Methods that can be used for contacting the providers:

- o Conferences for presenting your procurement intention
    - invite potential providers (same treatment for all!!)
    - goal: to clarify all technical and contractual requirements – as basis for preparing compliant offers

- o Promo in media, internet, specific organizations
    - goal: extend the list of providers
        - for some organizations this method could be compulsory (e.g. public finances are involved)

- o Separate contacting: fax, email, phone, meetings

9. 1. 4. Offer Selection (E)

= gather the offers + select the winner offer using the selection criteria + set the procurement agreement

SELECT THE PROVIDER AND SET THE AGREEMENT!

Offers received from the providers

The politics available inside the organization

Criteria for offers evaluation

Contracts with the selected providers

Contract = legal relationship between **provider** and **client**

provider
in charge with delivering the product at the agreed quality, before the deadline

client
in charge with paying at agreed deadlines

Recommended steps:

- Use the agreed selection criteria and their agreed associated weights: $\sum_i weight\_criterion_i \cdot score\_criterion_i$.

- Sort the offers

- For the top offers: negotiate, obtain details: clarify technical request, discussion about the price and the responsibilities

- Re-evaluate

- Select the winner offer

- Set the agreement: delegate responsibilities // who can sign on the agreement (!!organization procedures)

               << set the minimum acceptable performance for each request („screening system")
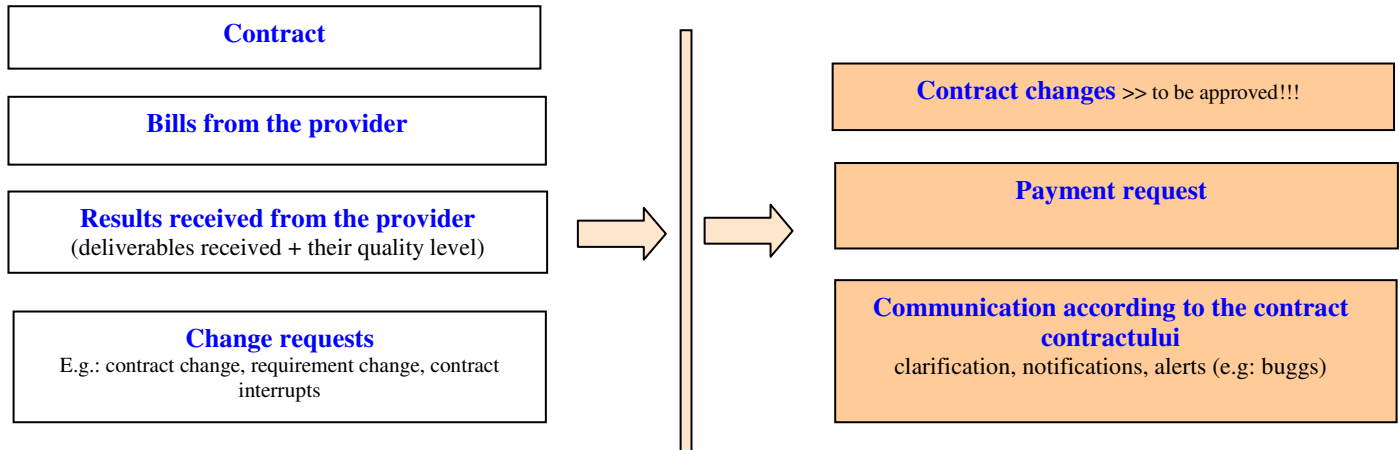
Remarks:

- Big differences between the price estimated by the client and the price indicated by the provider can indicate a misunderstanding of requirements.

- Big differences between the prices indicated in distinct offers can indicate a misunderstanding of requirements.

9. 1. 5. Contract Administration (E)

= ensure that the provider fulfill the contract
+
ensure that the buyer fulfill its obligations (e.g. in time payment)

THE CONTRACT IS FULFILLED BY THE PROVIDER AND THE CLIENT !

Contract

Bills from the provider

Results received from the provider (deliverables received + their quality level)

Change requests E.g.: contract change, requirement change, contract interrupts

Contract changes >> to be approved!!!

Payment request

Communication according to the contract **contractului** clarification, notifications, alerts (e.g: buggs)

Recommendations:

- give attention to the payment system
- show all the problems in the performances reports
- monitor how procurement synchronizes with the other activities of the project
- give attention to the system of controlling contractual changes:
    - o who is enabled to modify the contract
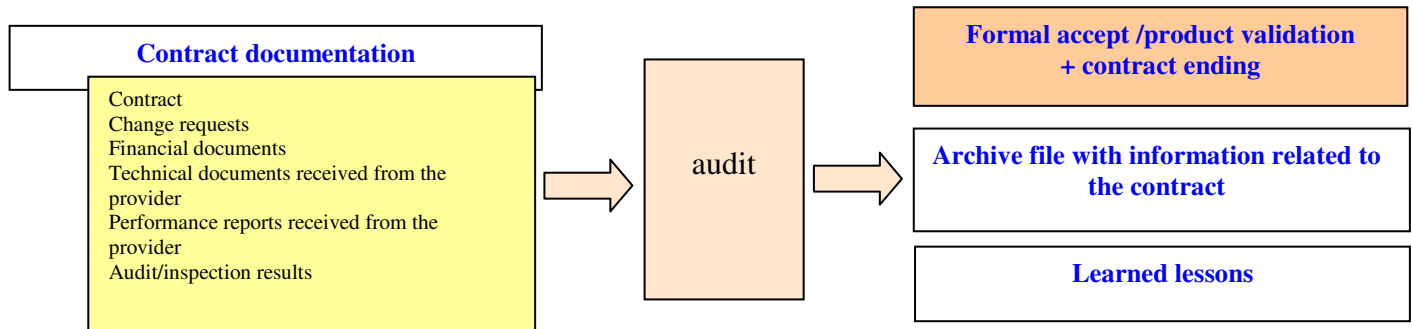   - o requested documents + their track + requested approvals

9. 1. 6. Contract Closure (F)

= validate the procured product/services (completely delivered, desired quality)

+

end the agreement at administrative level (update the documents in order to reveal recent status/results, archive related information)

VALIDATE, ARCHIVE !

Contract documentation		
Contract Change requests Financial documents Technical documents received from the provider Performance reports received from the provider Audit/inspection results	**audit**	**Formal accept /product validation + contract ending** **Archive file with information related to the contract** **Learned lessons**

Revision

Definitions, terminology:

    externalization, solicitation, contract

Procurement management processes: procurement planning (PA), solicitation planning (PA), solicitation (E), provider selection (E), contract administration (E), contract finalization (F)

Documents

    Procurement management plan

    SOW, Documents for solicitation, Selection criteria

    Contract, contract documentation

    Payment request, forms for communicating with providers