Project Procurement Management
Objective

- Project Procurement Management includes the processes necessary to purchase or acquire products, services or results needed from outside the Project team.
- The objective of this lesson is to understand the processes involved in the above.
- This chapter assumes that the buyer of items for the Project is assigned to the Project team and that the sellers are organizationally external to the Project team.
Key Terms

- **Buyer**
  - The acquirer of products, services or results of an organization.

- **Seller**
  - A provider or supplier of products, services or results to an organization.

- **Procurement**
  - Acquiring or purchasing of products, services or results of an organization.

- **Procurement documents**
  - The documents utilized in bid and proposal activities, which include the buyer’s invitation for bid, invitation for negotiations, requests for information, request for quotation, request for proposal and seller’s response.
Key Terms

- **Bidder Conferences**
  - A meeting organized by the buyer organization, to meet with all prospective vendors or sellers, who are requested or interested to respond provide product or services or results requested by the buyer.

- **Contract**
  - A contract is a mutually binding agreement that obligates the seller to provide the specified product or service or result and obligates the buyer to pay for it.
• Contract Contains:
  - Scope of work
  - Major Deliverables
  - Key Milestones
  - Terms and Conditions
  - Signing Authority

• Contract is
  - A legally binding document
  - Can be referred to Court
  - Can have a reference to other documents

• Other alternative names of Contract
  - Agreement
  - Understanding
  - Sub-Contract
  - Purchase Order
Key Terms

- **Sharing Ratio**
  - Describes how Cost overruns or savings will be shared

- **Ceiling Price**
  - The highest Price that the buyer will pay
  - Used by Buyer to encourage seller to control costs

- **Time and Material Contracts (T & M)**
  - A type of contract, which is a hybrid of both cost reimbursable and fixed price contract. Used when level of effort is undetermined. Seller has no incentive to control costs.

- **Fixed-price contracts.**
  - This category of contracts involves setting a fixed total price for a defined product or service to be provided.

- **Cost-reimbursable contracts:**
  - This category of contract involves payments to the sellers for all legitimate actual costs incurred for completed work, plus a fee representing seller profit.
Project Procurement Management

- Project Procurement Management includes the processes necessary to purchase or acquire products, services or results needed from outside the Project team.
- The Project Procurement Management processes involve contracts that are legal documents between a buyer and a seller.
- It is the Project Management team’s responsibility to make certain that all procurements meet the specific needs of the Project while adhering to organizational procurement policies.

Key Processes
- Plan Procurement Management
- Conduct Procurements
- Control Procurements
- Close Procurements
Project Procurement Management

- Project Procurement Management includes:
  - Planning
  - Choosing a Source
  - Acquiring the Product or Service
  - Administering the Contract
  - Closing the Contract

- It can be applied to
  - Internal Work Orders
  - Formal Agreements
  - Contract between Organization Units
## Organization Procurement Policies

### Contracts can be Centralized or Decentralized

<table>
<thead>
<tr>
<th>Centralized</th>
<th>Decentralized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing/Legal Department is responsible</td>
<td>Contract Manager is assigned to Project</td>
</tr>
<tr>
<td>Expertize and Centralized support</td>
<td>Less Overhead</td>
</tr>
<tr>
<td>Standard processes</td>
<td>Dedicated to Project</td>
</tr>
<tr>
<td>Volume Discounts</td>
<td>Procurement Manager has better understanding of Project</td>
</tr>
<tr>
<td>Procurement Manager with higher expertize level</td>
<td>PM has easier access to contracting expertise</td>
</tr>
<tr>
<td>Standardized procurement practices</td>
<td>Little standardization between Projects</td>
</tr>
<tr>
<td>Less Understanding of unique Project needs</td>
<td></td>
</tr>
<tr>
<td>PM may face difficulty in obtaining contracting help</td>
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</tbody>
</table>

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**National e-Governance Division**

**Energising Digital Governance**

**STEP**

**for e-Governance Programme**
PLAN PROCUREMENT MANAGEMENT

Planning Process Group

Plan Procurement Management

Conduct Procurements
Control Procurements
Close Procurements
Plan Procurement Management

- Is the process of documenting Project purchasing decisions, specifying the approach, and identifying potential sellers
- It identifies those Project needs which can best be, or must be met by acquiring products, services, or results outside of the Project organization
- Is an element of Planning Process group
Plan Procurement Management

**Inputs**
- Project Management Plan
- Requirements documentation
- Risk register
- Activity resource requirements
- Project schedule
- Activity cost estimates
- Stakeholder register
- Enterprise environmental factors
- Organizational process assets

**Tools and Techniques**
- Make-or-buy analysis
- Expert judgment
- Market research
- Meetings

**Outputs**
- Procurement Management plan
- Procurement statements of work
- Procurement documents
- Source selection criteria
- Make-or-buy decisions
- Change requests
- Project Documents updates

Plan Procurement Management – Inputs, Tools and Techniques and Outputs
Plan Procurement Management

- **Project Management Plan**
  - Describes the need, justification, requirements and current boundaries for the Project.
    - Project Scope Statement
    - WBS
    - WBS Dictionary

- **Risk register**
  - Risk related information such as the identified risks, risk owners, and risk responses

- **Activity resource requirements**
  - Contain information on specific needs such as people, equipment, or location.

- **Project schedule**
  - Contains information on required timelines or mandated deliverable dates
Plan Procurement Management

Requirements documentation

- Important information about Project requirements that is considered during planning for procurements.
- Requirements with contractual and legal implications may include:
  - health,
  - safety,
  - security,
  - performance,
  - environmental,
  - Insurance,
  - intellectual property rights,
  - equal employment opportunity,
  - licenses, and permits – all of which are considered when planning for procurements.
Plan Procurement Management

Inputs

- Activity cost estimates
  - Used to evaluate the reasonableness of the bids or proposals received from potential sellers.
  - Compare cost estimate with Bids

- Stakeholder Register
  - Details on the Project participants and their interest in the Project
Enterprise Environmental Factors

- EEF that can influence the Plan Procurements process include:
  - Marketplace conditions;
  - Products, services, and results that are available in the marketplace;
  - Suppliers, including past performance or reputation;
  - Typical terms and conditions for products, services, and results or for the specific industry; and
  - Unique local requirements.
Plan Procurement Management Inputs

- Organizational Process Assets
  - OPA that influence the Plan Procurement process include,
    - Formal procurement policies, procedures and guidelines.
    - Management systems that are considered in developing the Procurement Management Plan and selecting the contract types to be used.
    - An established multi-tier supplier system of pre-qualified sellers based on prior experience.
Contract types

- The risk shared between the buyer and seller is determined by the contract type
- All legal contractual relationships generally fall into one of two broad families, either fixed price or cost reimbursable
Plan Procurement Management

Contract types
- Fixed-price contracts.
  - This category of contracts involves setting a fixed total price for a defined product or service to be provided.
  - Firm Fixed Price Contracts (FFP)
    - The most commonly used contract type is the FFP. The price for goods is set and not subject to change unless the Scope of work changes.
Plan Procurement Management

- **Contract types**
  - Fixed Price Incentive Fee Contracts (FPIF)
    - This fixed price arrangement gives the buyer and seller some flexibility in that it allows for deviation from performance with financial incentives tied to achieving agreed to metrics.
    - It is a fixed price contract, but with a special provision allowing for pre-defined final adjustments to the contract price due to changed conditions, such as inflation changes, or cost increases (or decreases) for specific commodities.
### Contract types

<table>
<thead>
<tr>
<th></th>
<th>FFP Contract</th>
<th>FPIF Contract</th>
<th>FP-EPA Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>A price that is not subject to any adjustments.</td>
<td>Specifies a target cost, a target profit, a price ceiling and a profit adjustment formula.</td>
<td>Economic price adjustment is revision of prices for specific contingencies.</td>
</tr>
<tr>
<td>2.</td>
<td>Places upon the contractor maximum risk and full responsibility for all costs and resulting profit.</td>
<td>The FPI contract provides a profit motive for the contractor to perform efficiently from a cost perspective. If the contractor completes the contract while incurring less cost than originally anticipated, the contractor will receive more profit.</td>
<td>Adjustments based upon increases or decreases from an agreed upon level in either published or established market prices for specific items.</td>
</tr>
<tr>
<td>3.</td>
<td>It provides maximum incentive for the contractor to control costs and perform effectively.</td>
<td>Used when a fixed-firm contract is not appropriate.</td>
<td>Adjustments based upon actual increases or decreases in the price of specific items of cost or specific labor that the contractor incurs.</td>
</tr>
</tbody>
</table>
## Plan Procurement Management

### Contract types

<table>
<thead>
<tr>
<th>FFP Contract</th>
<th>FPIF Contract</th>
<th>FP-EPA Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Firm Fixed Price contracts are the preferred method when Scope is clear.</td>
<td>4. Supplies/services can be acquired at lowers costs, with improved delivery or improved technical performance.</td>
<td>4. Adjustments based upon increases or decreases in the specific labor or material cost standards or indexes, such as Bureau of Labor Standards indices.</td>
</tr>
<tr>
<td>5. Used when sealed bid is involved.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Used for acquiring supplies and services and/or for acquiring commercial items.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Contract types

- Cost-reimbursable contracts:
  - This category of contract involves payments to the sellers for all legitimate actual costs incurred for completed work, plus a fee representing seller profit.
  - Cost plus Fixed Fee Contracts (CPFF):
    - The seller is reimbursed for all allowable costs for performing the contract work, and receives a fixed fee payment calculated as a percentage of the initial estimated Project costs.
Plan Procurement Management

Contract types

- Cost-reimbursable contracts
  - Cost plus Incentive Fee Contracts (CPIF):
    - The seller is reimbursed for all allowable costs for performing the contract work, and receives a predetermined incentive fee based upon achieving certain performance objectives as set forth in the contract.
  - Cost plus Award Fee Contracts (CPAF)
    - The seller is reimbursed for all legitimate costs, but the majority of the fee is only earned based on the satisfaction of certain broad subjective performance criteria defined and incorporated into the contract.
Contract types

- **Time and Material Contracts (T and M)**
  - Time and material contracts are a hybrid type of contractual arrangement that contain aspects of both cost-reimbursable and fixed price contracts.
  - They are often used to staff augmentation, acquisition of experts, and any outside support when a precise statement of work cannot be quickly prescribed.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Term</th>
<th>Risk to</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP or FFP</td>
<td>Fixed Price or Firm Fixed Price</td>
<td>Seller</td>
</tr>
<tr>
<td>FP-IF</td>
<td>Fixed Price Incentive Fees Contract</td>
<td>Seller</td>
</tr>
<tr>
<td>FP-AF</td>
<td>Fixed Price Award Fee Contracts</td>
<td>Seller</td>
</tr>
<tr>
<td>FP-EPA</td>
<td>Fixed Price with Economic Price Adjustment</td>
<td>Seller</td>
</tr>
<tr>
<td>CP-FF</td>
<td>Cost Plus Fixed Fees Contracts</td>
<td>Buyer</td>
</tr>
<tr>
<td>CP-IF</td>
<td>Cost Plus Incentive Fees Contracts</td>
<td>Buyer</td>
</tr>
<tr>
<td>CP-AF</td>
<td>Cost Plus Award Fee Contracts</td>
<td>Buyer</td>
</tr>
<tr>
<td>T&amp;M</td>
<td>Time &amp; Material</td>
<td></td>
</tr>
</tbody>
</table>
## Choose a Correct Contract

<table>
<thead>
<tr>
<th>SI No.</th>
<th>Project Scenario</th>
<th>Contract Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PM needs to begin work immediately</td>
<td>TandM</td>
</tr>
<tr>
<td>2</td>
<td>You want to buy expertise to determine what needs to be done</td>
<td>Cost Reimbursable</td>
</tr>
<tr>
<td>3</td>
<td>PM has detailed Scope and knows exactly what needs to be done</td>
<td>FP</td>
</tr>
<tr>
<td>4</td>
<td>You are hiring resources to augment your team</td>
<td>TandM</td>
</tr>
<tr>
<td>5</td>
<td>PM wants work to be done but does not have the time to monitor and audit invoices of completed work</td>
<td>FP</td>
</tr>
<tr>
<td>6</td>
<td>Need to build a bridge ASAP after an earthquake</td>
<td>FP-IF</td>
</tr>
<tr>
<td>7</td>
<td>You have clear Scope but economy is unpredictable</td>
<td>FP-EPA</td>
</tr>
</tbody>
</table>
Negotiated Terms of Contract are as under:

- **Cost Plus Incentive Contract:**
  - Target Cost (TC): ₹100L  Target Profit: ₹20L
  - Target Price: ₹120L  Ceiling Price: ₹140L (140% of TC)
  - Share Ratios: Under run (50%/50%), Over run (90%/10%)
  - Actual Cost @ Completion for Under run is ₹90L and Over run is ₹120L

- Calculate Final Profit and Payment to contractor
### Scenarios

<table>
<thead>
<tr>
<th></th>
<th>Under run</th>
<th>Over run</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actual Cost @ Completion</strong></td>
<td>₹90L</td>
<td>₹120L</td>
</tr>
<tr>
<td><strong>Calculation of Profit/Loss</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Target Cost</strong></td>
<td>₹100L</td>
<td>₹100L</td>
</tr>
<tr>
<td><strong>(-)Actual cost</strong></td>
<td>₹90L</td>
<td>₹120L</td>
</tr>
<tr>
<td><strong>Variance (-/+)</strong></td>
<td>₹10L</td>
<td>₹20L</td>
</tr>
<tr>
<td><strong>Contractor share (50%)</strong></td>
<td>₹5L</td>
<td>(10%)-₹2L</td>
</tr>
<tr>
<td><strong>Add Target profit</strong></td>
<td>₹20L</td>
<td>₹20L</td>
</tr>
<tr>
<td><strong>Final Profit</strong></td>
<td>₹25L</td>
<td>₹18L</td>
</tr>
<tr>
<td><strong>Final Payment</strong></td>
<td>₹115L</td>
<td>₹138L</td>
</tr>
</tbody>
</table>

(10%)-₹2L

If the final payment exceeds ₹140L, the contractor would get only ₹140L due to the ceiling price negotiated.
Plan Procurement Management
Tools and Techniques

- **Make-or-buy analysis**
  - A make-or-buy analysis is used to determine whether particular work can best be accomplished by the Project team or must be purchased from outside sources.

<table>
<thead>
<tr>
<th>Reasons to Buy</th>
<th>Reasons to Make</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capability and/or Capacity</td>
<td>Idle Resources</td>
</tr>
<tr>
<td>Exploit Opportunity</td>
<td>Want of Control</td>
</tr>
<tr>
<td>Shift Risk(Cost, Time, Scope)</td>
<td>Confidential Information</td>
</tr>
</tbody>
</table>

- Budget constraints may influence make-or-buy decisions.
Plan Procurement Management
Tools and Techniques

Make/Buy/Lease

• Problem 1:
  • Well Point Inc. will rent you a computer for ₹100 per day. Best buy will lease it to you for a ₹750 down payment and ₹25 per day. When do the cost of renting and leasing become the same?
  • Answer: If it takes “N” days, then, 100*N = 750 + 25*N. On solving for N, it is 10 days

• Problem 2:
  • However, Dell will sell you a computer for ₹1,250 and a maintenance cost of ₹5 per day. When do the cost of purchasing and leasing become the same?
  • Answer: If it takes “X” days, then 750 + 25*X = 1250 + 5*X
  • On solving for X, it is 25 days
Plan Procurement Management
Tools and Techniques

• Expert judgment
  – Can be used to develop or modify the criteria that will be used to evaluate seller proposals, verifying contract terms, conditions and Legal obligations

• Market Research
  – Includes examination of industry and specific vendor capabilities
  – Information gained at conference, online reviews and variety of source to identify market capabilities.

▪ Meetings
  - Meetings with potential bidders
  - Collaborating with potential bidders
  - Mutually beneficial approach or product
Plan Procurement Management

Procurement Management plan
- Describes how the procurement processes will be managed from developing procurement documents through contract closure
- include guidance for:
  - Types of contracts to be used;
  - Risk Management issues;
  - Whether independent estimates will be used
  - Standardized procurement documents
  - Managing multiple suppliers;
  - Coordinating procurement with other Project aspects, such as scheduling and performance reporting;
Plan Procurement Management

Outputs

- Procurement Management plan
  - Any constraints and assumptions that could affect planned procurements
  - Setting the scheduled dates in each contract for the contract deliverables and coordinating with the schedule development and control processes;
  - Identifying requirement for performance bonds or insurance contracts to mitigate some forms of Project risk;
  - Establishing the form and format to be used for the procurement/contract statements of work
  - Identifying prequalified sellers
  - Procurement metrics to be used to manage contracts and evaluate sellers
Plan Procurement Management

Outputs

- Procurement statements of work
  - The procurement SOW describes the procurement item in sufficient detail to allow prospective sellers to determine if they are capable of providing the products, services, or results.
Plan Procurement Management

Outputs

- **Procurement documents**
  - These are the documents the Project team requires to solicit responses from prospective sellers
  - Request for information (RFI), request for quotation (RFQ), invitation for bid (IFB), tender notice, invitation for negotiation are some of the examples of procurement documents.
  - The procurement document will include information such as
    - The procurement statement of work (SOW)
    - The desired form of the response from the seller
    - Any applicable regulations
Plan Procurement Management

Outputs

• Source selection criteria
  – Selection criteria are often included as part of the procurement documents
  – Criteria are developed and used to rate the seller and their proposals
  – The criteria can be objective or subjective and can include
    • Purchase price
    • Seller ability in understanding the need
    • Overall life cycle cost and Warranty
    • Technical capability and Production Capability of the seller
    • IPR
    • Past Performance and References
    • Risk
    • Management approach
    • Financial capacity of the seller
    • Business type and size
Make-or-buy decisions

- Make-or-buy decisions are the documented conclusions with regard to what Project product or services or results will be acquired from outside the Project organization or will be performed internally by the Project team.

Change requests

- May lead to changes to the Project Management plan and any of the other subsidiary plans
- Will be in the form of change requests,
- Which shall be processed through the Perform Integrated Change Control process.
Plan Procurement Management

 Outputs

- Project Documents Updates
  - Requirement documents
  - Requirement traceability matrix
  - Risk Register
  - Communication Management Plan
  - Procurement Management Plan
CONDUCT PROCUREMENTS
Conduct Procurements

- Is the process of obtaining responses from sellers, selecting a seller and awarding a contract
- Is an element of Executing Process group
Conduct Procurements

INPUTS
- Procurement Management plan
- Procurement documents
- Source selection criteria
- Seller proposals
- Project documents
- Make-or-buy decisions
- Procurement Statement work
- Organizational process assets

TOOLS and TECHNIQUES
- Bidder conferences
- Proposal evaluation techniques
- Independent estimates
- Expert judgment
- Advertising
- Analytical techniques
- Procurement negotiations

OUTPUTS
- Selected sellers
- Agreements
- Resource calendars
- Change requests
- Project Management plan updates
- Project document updates

Conduct Procurements – Inputs, Tools and Techniques and Outputs
Conduct Procurements

Inputs

- **Procurement Management Plan**
  - Provides the required input in how the procurement process will be managed, how procurement documentation through contract closure.

- **Procurement documents**

- **Source selection criteria**
  - Criteria can include information on the supplier's required capabilities, capacity, delivery dates, product cost, life-cycle cost, technical expertise, and the approach to the contract.

- **Seller proposals**
  - Proposals received in response to a procurement document.
Conduct Procurements

- **Project documents**
  - Project documents that are often considered include:
    - Risk register and
    - Risk-related contract decisions.

- **Make-or-buy decisions**

- **Procurement Statement of Work**
  - Specifications
  - Quantity desired
  - Quality levels
  - Performance data
  - Period of performance
  - Work location and other requirements
Organizational process assets
- Listings of prospective and previously qualified sellers, and
- Information on relevant past experience with sellers, both good and bad.
Conduct Procurements
Tools and techniques

- **Bidder conferences**
  - Meeting with interested sellers
  - To answer sellers queries and to document their responses
  - Ensures clear and common understanding of requirements
  - Shall be incorporated in procurement documents as amendments.

- **Proposal evaluation techniques**
  - Formal evaluation and review process defined by the buyer's procurement policies
  - Evaluation will be done by previously defined weighted criteria

- **Independent estimates**
  - Using independent professional estimator to prepare cost estimates
  - Serve as a benchmark on proposed responses
Conduct Procurements
Tools and techniques

- Expert judgment
  - Can be used in evaluating the proposals
  - May be accomplished by a multi-discipline review team

- Advertising
  - Placing advertisements in general circulation publications or popular media to request seller responses
  - Most Government jurisdictions require public advertising of certain types of procurement items
Conduct Procurements
Tools and techniques

- **Analytical Techniques**
  - Determine the cost expected to support budgeting
  - Avoid cost overruns due to changes
  - Examining past performance information

- **Procurement negotiations**
  - To arrive at mutual agreement prior to signing the contract, to clarify the structure, requirements and other terms of the purchases
  - Obtain fair and reasonable price and develop good relationship with the seller
  - Project Manager and other members of the Project team may be present during negotiations to provide assistance.
Selected sellers

- Sellers, who have been judged to be in a competitive range upon the outcome of the proposal or evaluation
- Selected sellers and who have negotiated a draft contract that will become the actual contract when an award is made.
Conduct Procurements

Agreements

- A procurement contract is awarded to selected seller
- Contract is a mutually binding legal agreement
- Obligates the seller to provide the specified products, services or results
- Obligates the buyer to compensate the seller
- shall contain
  - Statement of work or deliverables
  - Schedule baseline
  - Performance reporting
  - Period of performance
Conduct Procurements

• Agreements shall contain

  • Roles and responsibilities,
  • Seller’s place of performance
  • Pricing
  • Payment terms
  • Place of delivery
  • Inspection and acceptance criteria
  • Warranty
  • Product support
  • Fees and retaining
  • Penalties
  • Incentives

• Limitation of liability
• Insurance and performance bonds
• Subordinate subcontractor approvals
• Change request handling and
• Termination and alternative dispute resolution (ADR) mechanisms.
Conduct Procurements

Outputs

- Resource calendars
  - The quantity and availability of contracted resources along with dates

- Change requests
  - Change requests to the PM plan, its subsidiary plans, and other components
Conduct Procurements

Outputs

- Project Management plan updates
  - Cost, Scope and Schedule baseline and
  - Procurement Management plan.
- Project document updates
  - Requirements documentation,
  - Requirements traceability matrices
  - Risk register and Stakeholder register
CONTROL PROCUREMENTS

Monitoring and Control Process Group

Plan Procurement Management
Conduct Procurements
Control Procurements
Close Procurements
Control Procurements

- Is the process of managing the procurement relationships, monitoring contract performance, and making changes and corrections as needed

- Both the buyer and the seller will administer the procurement contract for similar purposes

- The Project Management team shall be aware of the legal implications of actions taken when administering any procurement

- Is an element of Monitoring and Controlling Process group
Control Procurements

**INPUTS**
- Project Management plan
- Procurement documents
- Agreements
- Approved change requests
- Work performance reports
- Work performance data

**TOOLS and TECHNIQUES**
- Contract change control system
- Procurement performance reviews
- Inspections and audits
- Performance reporting
- Payment systems
- Claims administration
- Records Management system

**OUTPUTS**
- Work performance information
- Change requests
- Project Management plan updates
- Project documents updates
- Organizational process assets updates

Control Procurements – Inputs, Tools and Techniques and Outputs
Control Procurements

Inputs

• Project Management plan
  – The procurement Management plan, part of the Project Management plan, is an input to Conduct Procurements
  – Describes how the procurement processes will be managed from developing procurement documentation through contract closure.

• Procurement documents
  – Includes procurement contract awards and the statement of work

• Agreements
Control Procurements

- **Approved change requests**
  - Can include modifications to the terms and conditions of the contract including the procurement statement of work, pricing, and description of the products, services, or results to be provided.

- **Work performance Reports**
  - Seller performance related documentation include
    - Technical documentation
    - Work performance information

- **Work Performance Data**
  - Extent to which quality standards are being satisfied
  - Costs that have been incurred or committed
  - Identification of the seller invoices that have been paid
Control Procurements

Tools and Techniques

- Contract Change Control System
  - Defines the process by which the procurement can be modified
  - It includes the paperwork, tracking systems, dispute resolution procedures, and approval levels necessary for authorizing changes.

- Procurement Performance Reviews
  - Structured review of the seller's progress to deliver Project Scope and quality, within cost and on schedule, as compared to the contract
Control Procurements
Tools and Techniques

- Inspections and audits
  - Inspections and audits required by the buyer and supported by the seller as specified in the procurement contract

- Performance reporting
  - Provides Management with information about how effectively the seller is achieving the contractual objectives.

- Payment systems
  - Typically processed by the accounts payable system after certification of satisfactory work by an authorized person on the Project team
Control Procurements
Tools and Techniques

- **Claims administration**
  - Contested changes are variously called claims, disputes, or appeals
  - Contested changes and potential contested changes are those requested changes where the buyer and seller cannot reach an agreement
  - Need to resolve such claims and disputes.

- **Records Management system**
  - System is used by the Project Manager to manage contract and procurement documentation and records
  - It consists of a specific set of processes, related control functions
Control Procurements

- Work Performance Information
  - Provides a basis for identification of current of potential problems to support later claims or new procurement.
  - Which support
    - Forecasting
    - Risk Management
    - Decision making
    - Dispute with vendor
    - Improve communication with vendors

- Change requests
  - Change requests to the Project Management plan, its subsidiary plans and other components such as the cost baseline, schedule baseline etc…
  - To be Processed through the Integrated Change Control process
Control Procurements

Outputs

- Project Management plan updates
  - Updates to
    - Procurement Management plan
    - Baseline schedule /Cost

- Procurement documentation update
  - Includes the procurement contract with all supporting schedules, requested unapproved contract changes, and approved change requests.

- Organisational process assets updates
  - OPA updates may include
    - Correspondance
    - Payment schedules and requests
    - Seller performance evaluation documentation
CLOSE PROCUREMENTS

Closing Process Group

Plan Procurement Management
Conduct Procurements
Control Procurements
Close Procurements
Close Procurements

- Is the process of verifying that all work and deliverables were acceptable
- Close Procurements process involves administrative activities such as
  - Finalizing open claims
  - Updating records to reflect final results
  - Archiving such information for future use.
- It supports the Close Project or Phase.
- Is an element of Closing Process group
Close Procurements

**INPUTS**
- Project Management plan
- Procurement documentation

**TOOLS and TECHNIQUES**
- Procurement audits
- Procurement negotiations
- Records Management system

**OUTPUTS**
- Closed procurements
- Organizational process assets updates

Close Procurements – Inputs, Tools and Techniques and Outputs
Close Procurements

Inputs

- Project Management plan
- Procurement documentation
  - To close the contract, all procurement documentation is collected, indexed and filed
Close Procurements

Tools and Techniques

• Procurement audits
  – Structured review of the whole procurement process from Plan Procurement through Administer Procurements to identify the successes and failures
  – The Input from the Procurement audits are used in improving the preparation and administration of other procurement contracts

• Records Management system
  – System is used by the Project Manager to manage the contract and procurement documentation and records.
Procurement Negotiations

- Final settlement of all outstanding issues, claims, and disputes by negotiations
- In case of disagreements, not resolved through direct negotiation, Alternative Dispute Resolution (ADR) can be considered

ADRs are
- Mediation
- Arbitration
- Litigations in courts
  (least desired option)
Close Procurements

- **Closed Procurements**
  - Closed contracts once the contract is completed and the deliverables accepted
  - In case of an early termination of the contract, the buyer provides the seller with formal written notice.
  - The Requirements for formal procurement closure are usually defined in the terms and conditions of the contract

- **Organizational Process Assets Updates**
  - OPA that may be updated are
    - Procurement file
    - Deliverable acceptance
    - Lessons learned documentation
The Project Manager’s role in Procurement

• Make sure the contract contains all the Scope of work and all Project Management requirements, meetings, reports, actions, communication etc

• Help tailor the contract to the unique needs of the Project

• Include the time and cost to complete the procurement process into your Project schedule

• Identify Risks and Incorporate Risk Mitigation plan in contract

• Help make sure that all the work in the contract is done, such as reporting, inspections, ownership of materials.

• Do not ask for something which is not in the contract without an appropriate change control process.
Summary

- Discussion topics
- Q and A