

HOW TO
ACCOMPLISH
OUTSOURCING
PMI®'s WAY!!

Project Procurement Management

Finding another company to do your work, establishing the right kind of relationship and communication with them, & ensuring all the goals of your contract are met

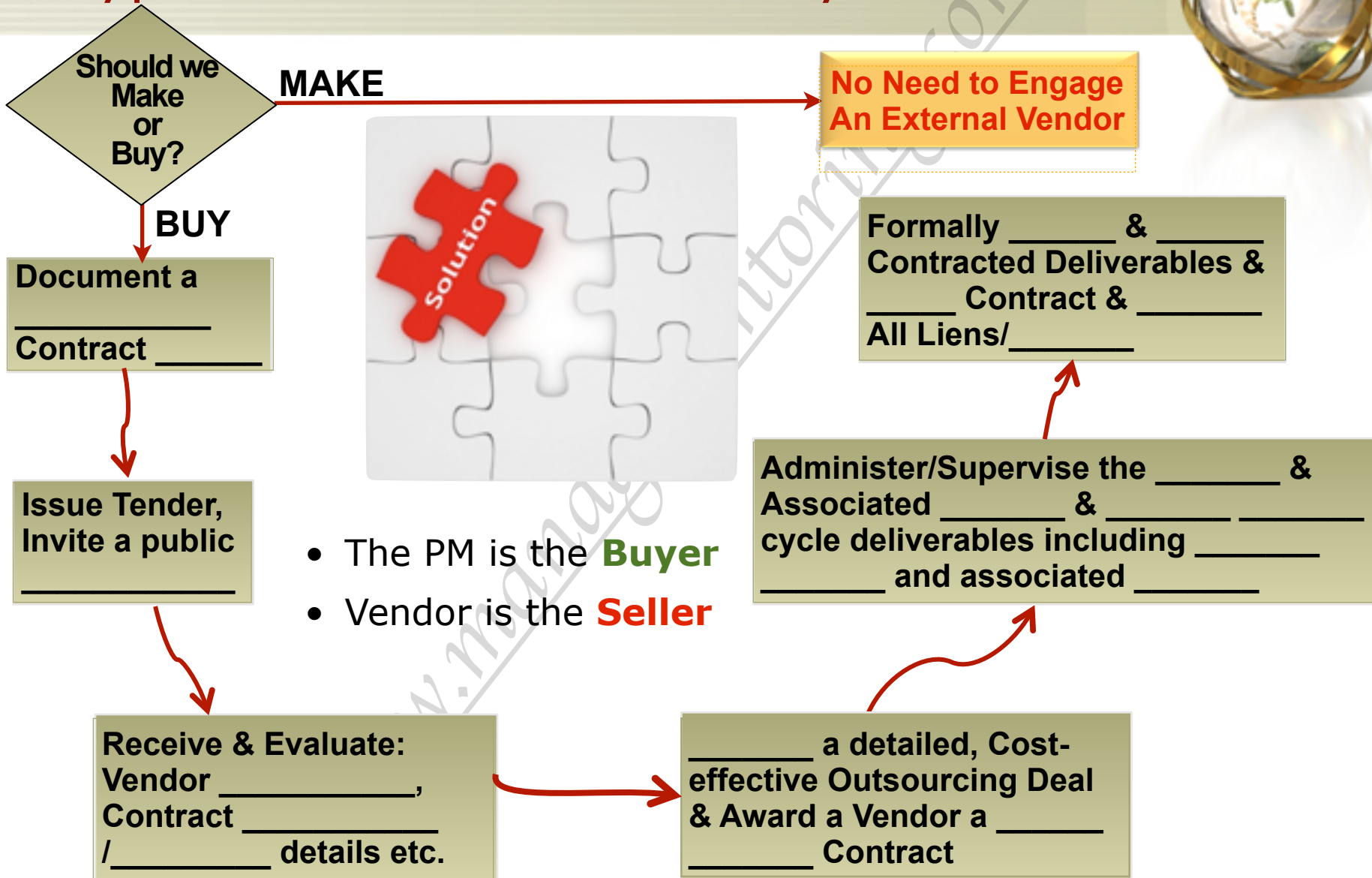
Chapter 12 in the *PMBOK® Guide*
5th Edition

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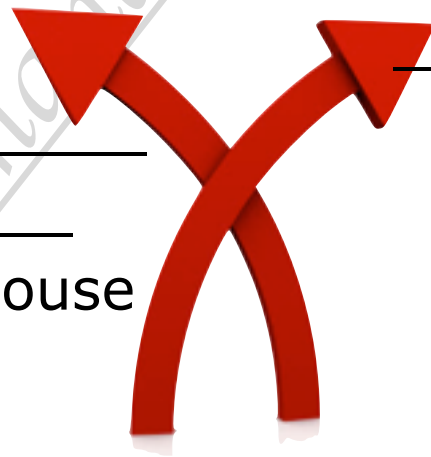
A Typical Procurement Life Cycle



Objectives for Buyers & Sellers



- Capacity Constraints
- get necessary work completed somehow!
- _____ permits outsourcing
- Scope - _____ vendor (specialist)
- Time Constraint - _____, avoid _____
- Cost _____
- _____ Quality
- Leverage vendor's _____
- Transfer Risk to _____
- _____ on other in-house _____
- Make \$\$\$\$\$\$\$\$\$\$
- Stay alive in the Market
- _____
- Reduce _____ and Legal _____
- Make a good _____ for _____ business
- Learn a _____ line-of- _____



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Background to Project Procurement Management



- This area of project management assumes the existence a formal contract between buyer & seller
- External resources including, _____ will be acquired for the project _____ in order to meet the organization's business needs
- This knowledge area includes _____ management & the _____ processes required to administer contracts or purchase orders issued by authorized project members
 - ❖ *The project management team may _____*
 - ❖ *_____ an organization's policies*
- By actively managing the agreement life cycle and _____ the terms and conditions of a procurement, some _____ risks may be shared or transferred to _____
 - ❖ *Entering into an agreement _____ risks*
- The organization or project manager thus becomes the buyer and the external supplier the seller!!



The Make or Buy Decision (or Lease/Share/Hire)



- Less costly (but not always)
- Ensure _____
- Utilize _____
- Easy control/integration of _____ & _____
- Learn _____
- Maintain _____
- Stabilize existing workforce
- Make capital investment
- Avoid _____
- Focus on _____
- Union agreements



- Less costly (but not always)
- Utilize supplier's _____
- _____ focus on internal core _____
- In-house _____ not available
- Indirect _____
- Risk _____
- Too _____ requirement (not cost effective to produce)
- Having _____/no _____ or capability
- Augment existing _____
- Maintain _____ (qualified vendor list)



Buying domestic or international is also of critical importance, especially to the United Auto Workers Union!



More Fundamentals about "Contracts"

- A contract is a legally binding exchange of promises or agreement between parties that the law will enforce - hence _____
Contract Law is based on the Latin phrase "pacta sunt servanda" (i.e., pacts must be kept)
- Breach of contract (failure to perform a contractual obligation) is recognized by the law and _____
 - ❖ *The measure of the damages _____
No one should suffer loss because the other party failed to perform a contract properly*
- Almost everyone makes contracts every day
 - ❖ *Sometimes written contracts are required, such as _____*
 - ❖ *However, most contracts can be and are made orally, like _____*

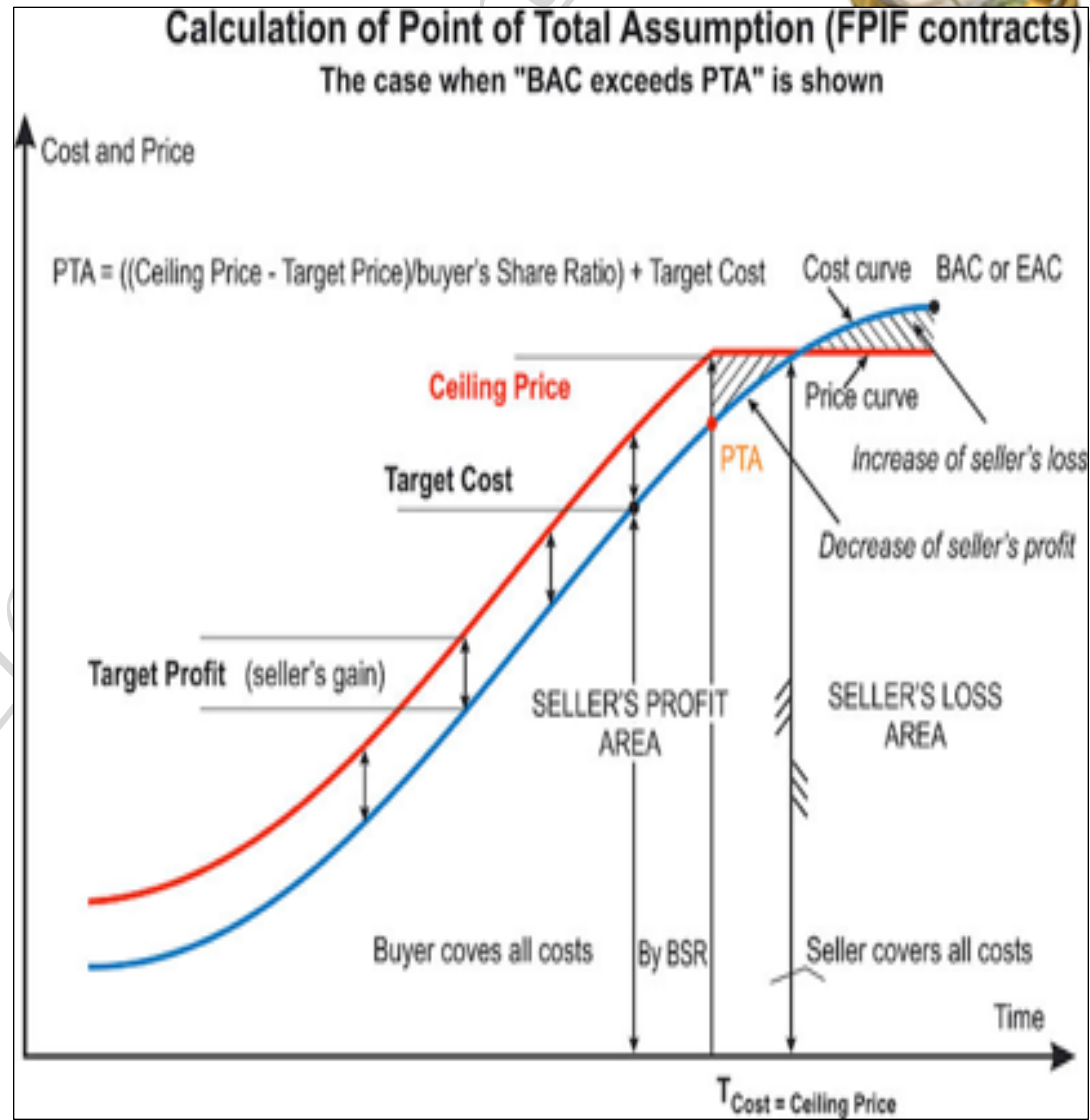
The project work, the market, & the nature of the purchase governs the selection of the type of the contract

- ❖ A contract is not fulfilled until all the contract requirements are met
- ❖ Contracts should specify all requirements for product acceptance
- ❖ Any changes to the contract must be formally agreed, i.e., documented, approved, and controlled



Point of Total Assumption

- The Point of Total Assumption (PTA) is the cost at which the contractor assumes total responsibility for each additional dollar of contract cost
- Contractors do not want to reach the point of total assumption because it hurts them financially, so they have an incentive to prevent cost overruns



Please see: Handout - Point of Total Assumption (PTA)

Drivers for Contract Type Selection



- Imposing a specific type of Contract on a seller, depends on several conditions:

- ❖ Overall degree of cost & schedule _____
- ❖ Urgency of _____
- ❖ Performance _____
- ❖ Type and complexity of _____
 - ▶ Associated technical risk
- ❖ Extent of price _____
- ❖ Cost/price _____
- ❖ Contractor's _____ and _____
- ❖ Contractor's _____ system
 - ▶ _____
- ❖ Number of concurrent contracts
 - ▶ Will our contract take a back seat to existing work
- ❖ Extent of subcontracting
 - ▶ How much of this work will the contractor outsource subsequently



Planning Procurement Documentation

(Helps dealing with logistics and communication with external vendors)



- Prepares the documents needed to support the invitation of response from suitable sellers to buyer's solicitations, until final selection of sellers
 - ❖ *a.k.a. "preparing a solicitation package"*
- This solicitation package is intended to ensure potential bidders receive exactly the same information, hence start off at the same level in the playing field
- Tasks involved here are:
 - ❖ *Evaluating/confirming _____ at the buyer's end*
 - ❖ *Confirming sources _____ can supply project _____*
 - ❖ *Reviewing _____ performance of sources (if possible)*
 - ❖ *Producing the _____ package*

- ▶ _____
- ▶ _____
- ▶ _____
- ▶ _____
- ▶ _____
- ▶ _____
- ▶ _____



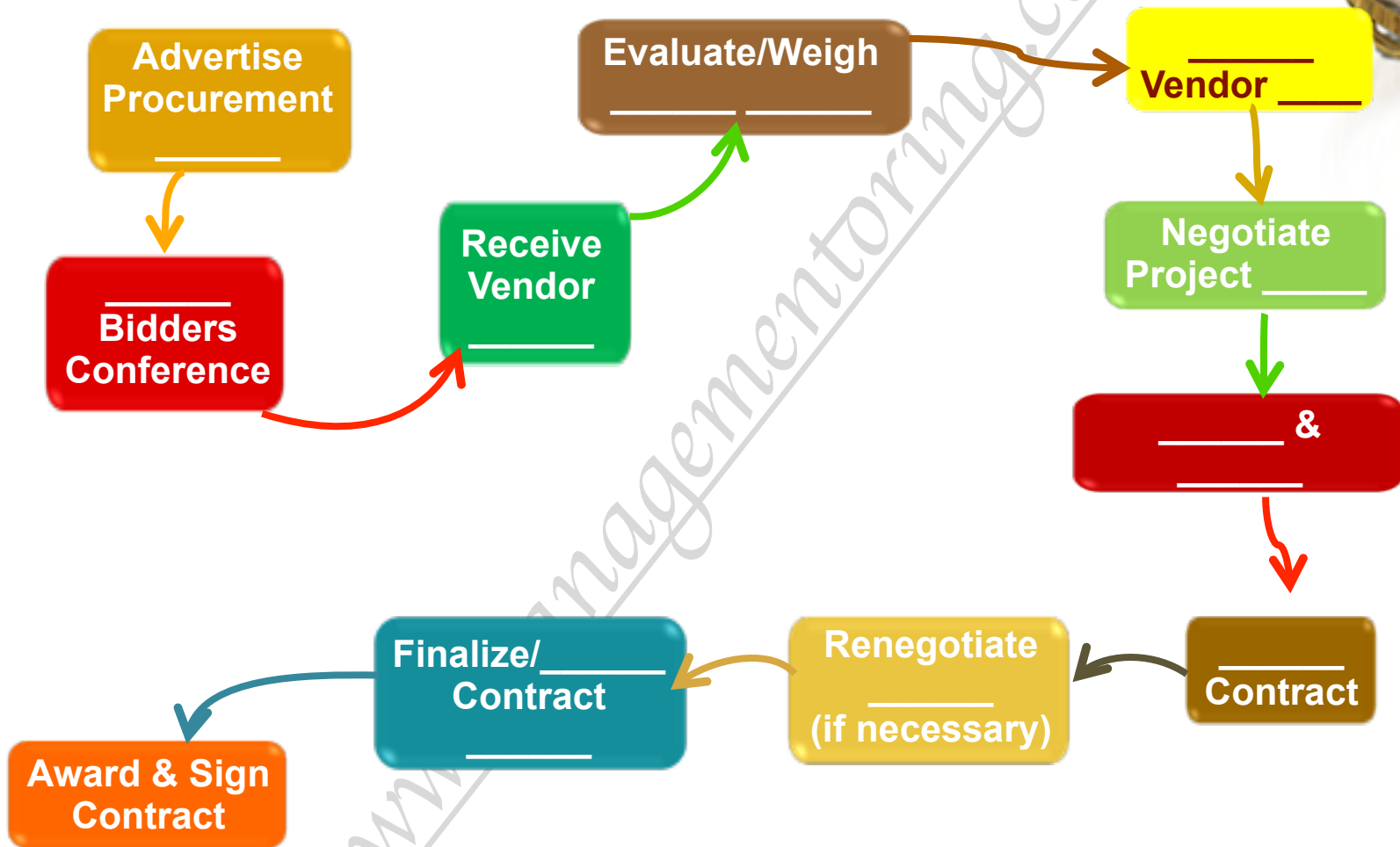
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Source/Vendor Selection Criteria

- The buyer needs to state specifically the salient features that will be used to select a vendor in the Solicitation Documents proffered by the buyer
 - ❖ *The rating or scoring of sellers proposals can be based on _____ criteria*
 - ❖ *Can be limited to _____ if the item is readily available with _____ sellers*
 - ▶ Favoring factors will then consider _____, _____, _____, _____, etc.
 - ❖ *For complex project requirements _____ factors may _____ the decision to _____ more than one choice is available*
 - ▶ See next slide

The Conduct Procurement Process



The Qualified Sellers List



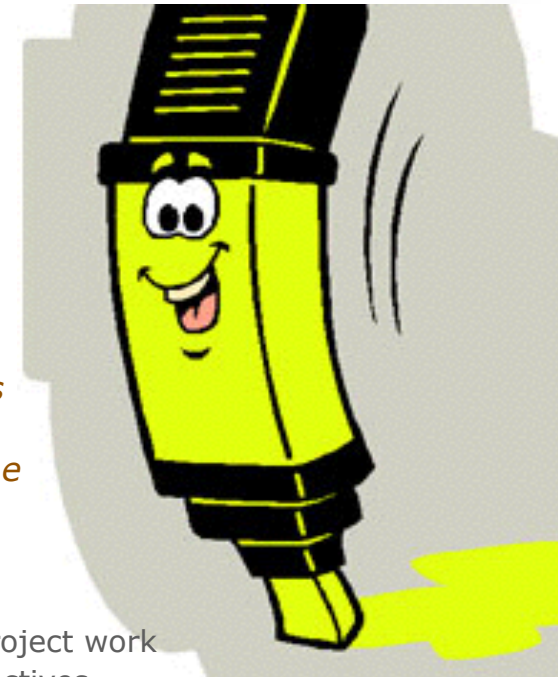
- Quite often, some bidders will not even bid on a tender knowing that they cannot bid lower than another vendor
The cost of bidding on a job is an expensive process for them!
- A listing of qualified vendors or **minimal vendor qualification** sometimes helps to drive down this cost
- These lists of qualified sellers (**also called preferred sellers or approved sellers**) generally have contact information, history of past experience with the seller, and other pertinent information
- In addition to the internal qualified seller list, there are many other resources to determine which sellers may qualify for proposed work:
 - ❖ *Internet resources*
 - ❖ *Industrial directories specific to the industry*
 - ❖ *Chambers of commerce*
 - ❖ *Trade associations, Guilds, Consultants, and so on*



Evaluating Proposals



- The proposals, bids, and quotations provided by the sellers are key documents the performing organization will evaluate to determine which seller is the best provider for the project
- The following are typical scoring criteria used to rate proposals received
 - ❖ _____
 - ❖ _____
 - ❖ _____
 - ❖ _____
 - ❖ _____
 - ❖ *Proposals received from contractors need to be evaluated to ensure*
 - ✓ That all _____ requirements are _____
 - ✓ Evaluation of _____ (if any)
 - ✓ The presence of _____ bonuses if any
 - ✓ _____ of the offer - _____
- Two kinds of selection methodologies exist
 - ❖ *Selection based on _____ - overall rating of weighted factors decides the winner (a.k.a.) _____*
 - ❖ *Selection based on _____ - a bidder will be _____ out of the bid if they are unable to satisfy _____*
- Proposals can be evaluated on two separate categories:
 1. _____
 - ▶ This category describes the _____ and methodology to complete the project work
 - ▶ May address _____ matters if the project involves _____ objectives
 2. _____
 - ▶ This category scrutinizes the _____ to complete the project work
- An evaluation takes into consideration both categories in order to determine the best choice for the project



Evaluation Process



- Potential Vendor Evaluation Criteria

- ❖ Will include _____
- ❖ Are evidence of the _____ &, hopefully, is capable of performing on the current project
- ❖ Are developed in the _____ phase and applied during the _____ phase

- ▶ _____
- ▶ _____
- ▶ _____
- ▶ _____
- ▶ _____



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Conduct Procurements - Outputs



- A **Selected Seller** of course
- A Contract/Documented (mutually binding) **Agreements** serves 3 purposes:
 1. Defines _____
 2. Makes _____ binding
 3. Mitigates _____ Risk!
- Recall that a signed contract:
 - ❖ Obligates the seller to _____
 - ❖ Obligates the buyer to _____
 - ❖ Should include t_____ to protect both _____
- The agreement may be simple or complex, usually (but not always) reflecting the simplicity or complexity of the product
 - ❖ It is the _____'s responsibility to make certain that all _____ meet the specific _____ of the project while _____ to organizational _____ policies
- Contracts may be called, among other names:

- ❖ _____
- ❖ _____
- ❖ _____
- ❖ _____
- ❖ _____
- ❖ _____

This is not an exhaustive list

The 2 most common contract forms are:

1. Completion Contract
 - deliver a definitive end product
2. Term Contract
 - deliver a specific "level of effort" not an end-product

Typical Sections in a Project Contract

- Definitions
- Form of Agreement
- _____
- Ownership of intellectual property rights – patents
- Environment
- Customer _____
- _____ procedure
- _____ to be _____ with
- _____ & _____ Management
- Timetable
- _____ and payment method
- Miscellaneous _____ requirements
- _____ & Penalties
- **Contract _____**

*This is merely an outline of major areas of concern in a project
Also see PMBOK® Guide pages 377-378*



*More information on US-Style Contracting
is available at <http://www.acquisition.gov/>*

Close Procurements (a.k.a. Contract Closure)



- Contract closeout activities assure that the contractor has fulfilled all contractual obligations and has released all claims and liens in connection with work performed
 - ❖ Also involves _____
 - ❖ Addresses each contract _____ a project phase
 - ❖ _____ claims may be subject to _____ after closure
- Contract closeout is similar to the Close Project or Phase process, & involves:
 1. _____
 2. _____
 - ▶ _____
- Premature contract termination is a special case of contract closure
 - ❖ Can result from _____ or
 - ❖ From the default of _____ in this deal
 - ❖ A buyer can also terminate _____ (termination for convenience)
 - ▶ _____
 - ❖ A Seller may also terminate a contract _____ not normal
 - ❖ Termination obviously necessitates the _____ to "_____ the _____"
 - ▶ _____ a.k.a. DAMAGES
 - ▶ Helps if detailed project _____ were made during the Planning, Execution, & Monitoring phases of the project

