

Procurement of Goods

Procurement

Suppliers

Vendors

Partners

LEARNING OBJECTIVES

1. Describe the role of suppliers.
2. Describe the role of vendors.
3. Describe the role of partners.

After the outsourcing versus self-performing decisions are made, the procurement team develops the purchasing plan.

The method of purchasing products or services depends on the uniqueness and importance of the product or service. One way to organize the procurement plan is by the type of relationship with the providers of the outsourced goods or services.

Suppliers

Some of the goods or services are commonly available with little variation in quality or availability. Such goods and services are called **commodities**. The providers of commodities are **suppliers** and there are usually several from which to choose. Purchasing commodities from suppliers focuses on achieving the lowest cost. Additional cost savings are often available if large quantities of a commodity are purchased from the same supplier.

On larger, more complex projects, a list of materials and supplies is developed from the project cost estimate. This list is provided to suppliers as a **request for quote (RFQ)**, and the suppliers respond with their lowest price. To avoid choosing a **bid**—a quote that lists the specific materials to be provided, the price for each, and a schedule for delivery—from a company that will make a promise it cannot keep, many organizations will maintain a list of suppliers that meet the organization's requirements. These requirements usually include the proven ability to meet the quality and schedule specifications.

The project management team develops a procedure for requesting a quote. On smaller projects, the parent purchasing organization may process all RFQs. On larger projects, a procurement organization is established with expertise in purchasing. The purchasing team will develop a list of all procurement requirements for the project and develop a procurement schedule that assures the materials will be available to the project when needed.

The project team develops an RFQ based on the quantity and schedule needs of the project and sends the RFQ to the identified qualified suppliers. The project team evaluates each quote from suppliers and determines that the supplier bid meets all the requirements, and in most cases, the supplier with the lowest price will be awarded the bid.

RFQ for Publishing Contractor

A publishing contractor who is drafting a series of ten math textbooks develops a materials list that includes all the supplies needed to publish all ten books. The contractor develops an RFQ for all these materials, including the writing schedule, and submits the RFQ to the four largest writing guild companies in the region. Each of the guild companies decides to bid on the project and provides a bid for the materials in the RFQ. One of the bidders has the lowest price but is unable to deliver the materials to the client site. The project team calculates the cost of transporting the materials to the client site. After the cost of transportation is added to the bid, it is no longer the lowest total cost. The bidder with the total lowest total cost is awarded the contract.

Some organizations that do a large number of projects will develop a relationship with one or two suppliers based on developing cost savings for both organizations. This relationship is commonly called a **key supplier** relationship.

Key Supplier for Publishing Supplies

The publishing contractor develops a key supplier relationship with one or two of the material supply companies. The material supply company would guarantee a 10% discount on all materials and the contractor would promise to purchase exclusively from the key supplier. Both organizations save the cost and time associated with preparing the bid. The publishing supply company plans on a consistent volume of business from the contractor and the contractor can expect priority treatment when supplies are scarce.

Vendors

Vendors often provide a unique product or service that cannot be readily purchased in the marketplace. The vendor typically provides a product or service that is designed for the project. The following are examples of products or services provided by vendors:

- Artwork
- Software developers and programs
- Publishers

Products and services from vendors need input and insight from the vendor. Instead of issuing a request for quote (RFQ) for a list of commodities, the project team issues a **request for proposal (RFP)**. Companies responding to an RFP are invited to provide creative approaches to adding value to the project. Bidders are encouraged to offer design alternatives, alternative uses of materials, and scheduling alternatives that meet all the project requirements and also reduce the total project cost. The bids are evaluated on the total value to the project, including the contribution to the project goals.

Because vendor performance is critical to the success of the project, the management of the vendor relationship is a project management priority. Project management will often implement processes that encourage the vendors to submit suggestions that will reduce total project cost, shorten the schedule, or improve the performance. The project management team will often assign someone from the team to monitor the relationship and provide support from project resources to help assure vendor success.

Partners

If the parent organization lacks key skills or relationships, it might work with other organizations as partners—especially on international projects.

A **partnership** is a formal arrangement to execute the project with each party contributing resources. In most partnerships, both parties benefit from the success of the project and share the costs associated with a less successful project. Critical to the success of a partnership is the clear definition of roles and responsibilities on the project, a common understanding of the project goals, and a scope of work for each partner.

Building the relationship between major partners on the project is similar to building relationships with clients. On a large, complex project, a partnership alignment session is often required to build the trust required for open communication channels. Maintaining the relationship permits more effective problem solving and coordinated action on the project. A well-managed partnering relationship can contribute to the achievement of project goals, reduce overall costs, and shorten the project schedule. In most cases, the parent organization is aware of weaknesses in the project resources or skills and searches for a potential partner that has the needed resources or skills.

PR Partnership

On a project in Puerto Rico, an instructional design company wanted a Puerto Rican public relations firm to market their product because of their expertise with the locale. Both companies researched the capability of the other company to assure that the partnership was appropriate for each of them. This was a situation where a partnering relationship would benefit the project—both companies would mutually support each other to achieve project goals and both would benefit from project success.

In this situation, the project procurement plan specified the development of a subcontract for the PR services, and a contract was developed with a clear scope of work and a cost based on completing the work in the contract on time and according to specification. Because the project schedule required the PR firm to begin work before all the needed information was available, change orders were required when new information became available. The contract allowed several days to evaluate the impact of the change on cost and schedule, and the time evaluation process began to cause delays in the project.

Eventually, a new contract was developed to make the Puerto Rican company a partner. These new partnering arrangements allowed PR to get early information and contribute ideas that would shorten the schedule. This case is an example of the need to evaluate the project goals and environment and develop a procurement strategy that matches the conditions of the project.

KEY TAKEAWAYS

- Commodities are purchased through suppliers using a request for quote (RFQ) and selected on the basis of price. An exception is the key supplier relationship where the supplier-organization relationship is long term and the supplier passes along some of the savings of avoiding the bidding process.
- Vendors provide products and services that are designed for the project based on a request for proposal (RFP) that invites the vendors to meet the goals of the request using their products and skills.
- If the organization lacks key skills or relationships, it might form a partnership arrangement with another company to share the benefits and risks of the project.



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