

## Procurement Process

Procurement

Contracts

Bids

### LEARNING OBJECTIVES

1. Describe the components of the procurement plan.
2. Identify the decisions made when selecting the type of contract.
3. Describe how bidders are qualified, solicited, and chosen.
4. Identify the methods used to manage the contracts.

The project procurement cycle reflects the procurement activities from the decision to purchase the material or service through to the payment of bills and closing of procurement contracts.



Image by Jeremy Lim

# Procurement Plan

After the decision has been made to purchase goods or outsource services, the procurement team develops a plan that includes the following:

- Selecting the appropriate relationships and contract approaches for each type of purchased goods or outsourced service
- Preparing RFQs and RFPs and evaluating partnership opportunities
- Evaluating RFQs, RFPs, and partnerships
- Awarding and signing contracts
- Managing quality, timely performance
- Managing contract changes
- Closing contracts

Depending on the complexity level of the project, each of these steps can take either hours or sometimes weeks of work to complete. Each of these steps is also included in the project master schedule. The time involved in the procurement cycle can influence the scheduling of critical activities, including the decision to self-perform the work or contract the work to others. The equipment and materials delivery dates and completion of contracted work dates are placed on the project schedule and any procurement activities that create a project delay or fall on the project critical path may require special attention.

## Selecting the Contract Approach

The technical teams typically develop a description of the work that will be outsourced. From this information, the project management team answers the following questions:

- Is the required work or materials a commodity, customized product or service, or unique skill or relationship?
- What type of relationship is needed: supplier, vendor, or partnership?
- How should the supplier, vendor, or potential partner be approached: RFQ, RFP, or personal contact?
- How well known is the scope of work?
- What are the risks and which party should assume which types of risk?
- Does the procurement of the service or goods affect activities on the project schedule's critical path and how much float is there on those activities?
- How important is it to be sure of the cost in advance?

The procurement team uses the answers to the first three questions listed above to determine the approach to obtaining the goods or services and the remaining questions to determine what type of contract is most appropriate.

A key factor in selecting the contract approach is determining which party will take the most risk. The team determines the level of risk that will be managed by the project and what risks will be transferred to the contractor. Typically, the project management team wants to manage the project risk, but in some cases, contractors have more expertise or control that enable them to better manage the risk associated with the contracted work.

## Soliciting Bids

A **solicitation** is the process of requesting a price and supporting information from bidders. The solicitation usually takes the form of either an RFQ or an RFP. Partnerships are pursued and established on a case-by-case basis by senior management.

## Qualifying Bidders

Potential bidders are people or organizations capable of providing the materials or performing the work required for the project. On smaller, less complex projects, the parent company typically has a list of suppliers and vendors that have successfully provided goods and services in the past, and the project has access to the performance record of

companies on that list. On unique projects, where no supplier lists exist, the project team develops a list of potential suppliers and then qualifies them to become eligible to bid on project work. Eligible bidders are placed on the bidders list and provided with a schedule of when work on the project will be bid.

The eligibility of a supplier is determined by the ability to perform the work in a way that meets project requirements and demonstrates financial stability. Ability to perform the work includes the ability to meet quality specifications and meet the project schedule. During times when economic activity is high in a region, many suppliers become busy and stretch their resources. The project team investigates the potential suppliers to assure they have the capacity and the track record of meeting deadlines before they are included on the bidder's list.

The potential supplier must also be financially stable to be included on the bidders list. A credit check or a financial report from **Dun and Bradstreet (D&B)**—a well-known provider of financial information about individual companies—will provide the project with information about the potential bidder's financial status. D&B services include the following:

- D&B proprietary rankings and predictive creditworthiness scores
- Public filings, including suits, liens, judgments, and **UCC filings**—standardized financial disclosure documents that conform to the uniform commercial code
- Comprehensive payment history, including D&B's Paydex Scores
- Company financial statements and history

## Request for Quote

An RFQ focuses on price. The type of materials or service is well defined and can be obtained from several sources. The bidder that can meet the project quality and schedule requirements usually wins the contract by quoting the lowest price.

## Request for Proposal

An RFP accounts for price but focuses on meeting the project quality or schedule requirements. The process of developing a proposal in response to an RFP can be very expensive for the bidder, and the project team should not issue an RFP to a company that is not eligible to win the bid.

## Evaluating Bids

Evaluation of bids in response to RFQs for commodity items and services is heavily graded for price. In most cases, the lowest total price will win the contract. The total price will include the costs of the goods or services, any shipping or delivery costs, the value of any warranties, and any additional service that adds value to the project.

The evaluation of bids based on RFPs is more complex. The evaluation of proposals includes the price and also an evaluation of the technical approach chosen by the bidder. The project team evaluating the proposal must include people with the expertise to understand the technical aspects of the various proposal options and the value of each proposal to the project. On more complex projects, the administrative part of the proposal is evaluated and scored by one team, and the technical aspect of the proposal is evaluated by another team. The project team combines the two scores to determine the best proposal for the project.

## Awarding the Contract

After the project team has selected the bidder that provides the best value to the project, a project representative validates all conditions of the bid and the contract with the potential contractor. Less complex awards, like contracts for printed materials, require a reading and signing of the contract to assure the printed materials supplier understands the contract terms and requirements of the project schedule. More complex projects require a detailed discussion of the goals, the potential barriers to accomplishing those goals, the project schedule and critical dates, and the processes for resolving conflicts and improving work processes.

## Planning Session Follows Contract Award

On a design project to create a major training for a world-wide company, the project manager invited two critical partners to a three-day planning session after the project contracts were awarded.

The project manager began the session by stating that the project leadership intended to create an environment that enabled each of the partners to exceed profit expectations on the project and that the only way to accomplish this goal was through a mutually supportive team where everyone contributed to improve project performance and everyone benefited from better performance. The session then focused on developing ways to resolve problems and increase performance. Although this may appear to be a simple process of focusing contractors on project success, the process took several days of lengthy discussion and conflict resolution. The effort invested in developing alignment between the project team and contractors can significantly improve project performance.

## Managing the Contracts

The contract type determines the level of effort and the skills needed to manage the contract. The manager of supplier contracts develops detailed specifications and assures compliance to these specifications. The manager of vendor contracts assures the contractors that bid the work have the skills and capacity to accomplish the work according to the project schedule and tracks the vendor's performance against the project needs, supplying support and direction when needed. The manager of partnering arrangements develops alignment around common goals and work processes. Each of these approaches requires different skills and various degrees of effort.

Items that take a long time to acquire—**long lead items**—receive early attention by the project leadership. Examples of long lead items are equipment that is designed and built specifically for the project, curriculum that is created for training a new workforce, and a customized bioreactor for a biotech project. These items might require weeks, months, and sometimes years to develop and complete. The project team identifies long lead items early to begin the procurement activities as soon as possible because those procured through the normal procurement cycle may cause delays in the project.

After the contract is awarded, the project team tracks the performance of the contractor against performance criteria in the contract and his or her contribution to the performance of the project. Typically, the contractors deliver the product or service that meets the quality expectations and supports the project schedule. Typically, there are also one or two contractors that do not perform to project expectations. Some project managers will then pull out the contract and attempt to persuade the contractor to improve performance or be penalized. Other project managers will explore with the contractor creative ways to improve performance and meet project requirements. The contract management allows for both approaches to deal with nonperforming contractors and the project team must assess what method is most likely to work in each situation.

Managing contractor performance on a project is as important to the overall project outcomes as the work performed by the project team.

## Logistics and Expediting

Equipment and materials that are purchased for use on the project must be transported, inventoried, warehoused, and often secured. This area of expertise is called logistics. The logistics for the project can be managed by the project team or can be included in the RFP or RFQ. On international projects, materials may be imported, and the procurement team manages the customs process. On smaller projects, the logistical function is often provided by the parent company. On larger projects, these activities are typically contracted to companies that specialize in logistical services. On larger, more complex projects, that procurement team will include logistical expertise.

The project work often depends on materials procured for the project. The delivery of these materials influences the scheduling of the project, and often some materials are needed earlier than normal procurement practices would

deliver. On long lead items, the project schedule is included in the contracting plans and contractors must explain how they will support the project schedule.

On large, complex projects, critical items might be scheduled for delivery after they are needed on the project. The procurement team then explores ideas with the contractor to expedite the manufacturing or transportation of the equipment or materials. The contract can often place a priority on the fabrication of the equipment and delivery of the equipment to meet the project schedule. The project logistics team can also explore ways of shortening the transportation time. For example, a project in Argentina flew some critical equipment from Sweden rather than transport the equipment by ship to save several weeks in transit. The logistics costs were higher, but the overall value to the project was greater.

## KEY TAKEAWAYS

- The procurement plan includes determining the category of materials or services, choosing the type of contractual relationship, soliciting bids, selecting bidders, managing the work, and closing the contracts.
- The decisions made when selecting the type of contract are based on whether the materials can be provided by suppliers, vendors, or partners; how well defined the work is; how the risk will be shared; the importance of the task to the schedule; and the need for certainty of the cost.
- Companies that bid on contracts are evaluated on past performance and current financial status. RFQs and RFPs are sent to those companies. RFQs are evaluated on price and RFPs are evaluated on price and method.
- Long lead time items are identified and monitored. Items that are critical to the schedule or delayed are assigned to an expeditor. The logistics of handling delivery, storage, and transportation are determined. Work and materials are inspected for quality.



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