



Certified Procurement Management Professional Sample Material

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1. PROCUREMENT MANAGEMENT

Procurement management includes the processes required to acquire goods or services from outside the project team. It includes contract management and change control processes and includes controlling contract issues by an outside organization.

1.1. What is Procurement Management

A Procurement Management Process, or Procurement Process, is a method by which items are purchased from external suppliers. The procurement management process involves managing the ordering, receipt, review and approval of items from suppliers.

The procurement management process will enable you to:

- ✓ Identify supplier contract milestones
- ✓ Review supplier performance against contract
- ✓ Identify and resolve supplier performance issues
- ✓ Communicate the status to management

Procuring goods and services from external suppliers can be a critical path for many projects. Often, the performance of the supplier will reflect on the performance of the overall project team. It's therefore crucial that you manage your suppliers performance carefully, to ensure that they produce deliverables which meet your expectations.

This procurement management process will help you do this to get the most out of your external supplier relationships.

Factors Affecting Procurement

When setting procurement objectives, consideration should be given to the following:

- ✓ ensuring the supply of raw materials and other supplies- Procurement management can adopt several policies to ensure that supplies are always in the right place at the right time
- ✓ Vendor-managed inventory (VMI) - Where VMI is used, the vendor takes responsibility for the inventory held in the client's premises. The vendor monitors inventory levels and organizes replenishment.
- ✓ the quality of supplies
- ✓ product specifications - procurement of sub-standard supplies can be avoided by developing the product specification
- ✓ the price - It involves various factors like negotiating skills of the purchasing team, quality of the goods, knowledge of the product being purchased and product availability
- ✓ the origin of the supplies - whether sourcing is domestic or international
- ✓ the method of supply, eg JIT-style deliveries
- ✓ the mode of transport used
- ✓ a hierarchy of importance, like routine purchase, critical or strategic items. eg key raw materials would have precedence over office stationery
- ✓ whether to make yourself or buy from a supplier

1.2. The Procurement Process

Procurement management follows a logical order. First, you plan what you need to contract; then you plan how you'll do it. Next, you send out your contract requirements to sellers. They bid for the chance to work with you. You pick the best one, and then you sign the contract with them. Once the work begins, you monitor it to make sure that the contract is being followed. When the work is done, you close out the contract and fill out all the paperwork.

You need to start with a plan for the whole project. Before doing anything else, you need to think about all of the work that you will contract out for your project. You will want to plan for any purchases and acquisitions. Here's where you take a close look at your needs to be sure that contracting is necessary. You figure out what kinds of contracts make sense for your project, and you try to define all of the parts of the project that will be contracted out.

Contract planning is where you plan out each individual contract for the project work. You work out how you'll manage the contract, what metrics it will need to meet to be considered successful, how you'll pick a seller, and how you'll administer the contract once the work is happening.

The procurement management plan details how the procurement process will be managed. It includes the following information:

- ✓ The types of contracts you plan to use and any metrics that will be used to measure the contractors' performance
- ✓ The planned delivery dates for the work or products you are contracting
- ✓ The company's standard documents you will use
- ✓ The number of vendors or contractors involved and how they will be managed
- ✓ How purchasing may impact the constraints and assumptions of the project plan
- ✓ The coordination of purchasing lead times with the development of the project schedule
- ✓ The identification of prequalified sellers (if known)

The procurement management plan, like all other management plans, becomes a subsidiary of the project management plan. Some tools and techniques you may use during the procurement planning stage include make-or-buy analysis and definition of the contract type.

The Procurement Process

The procurement process includes five major steps, as follows:

- ✓ **Specification.** This step involves the purchasing department in communicating with the project manager to develop and approve a list of procurement items necessary for project implementation. The department must specify the approved items to external vendors.
- ✓ **Selection.** This step of the project procurement process requires the department to find potential suppliers which can procure the necessary items, according to the specifications. For this purpose the department needs to set vendor selection criteria, which may include such measures as Delivery, Service Quality, Cost, and Part Performance.
- ✓ **Contracting.** The department must communicate with the suppliers on delivery dates and payment conditions in order to ensure "on-time" delivery of the ordered items within the stated project budget. All the conditions should be listed in a procurement contract. Also a

detailed delivery schedule should be negotiated with the procurers and approved by the purchasing department.

- ✓ **Control.** Success of the procurement management process depends on how the purchasing department controls the delivery and payment processes. Through arranging regular meetings with the vendors, tracking delivery progress, reviewing the ordered items against the approved product specifications, and making necessary changes to the procurement contract, the department can control the process and ensure successful accomplishment.
- ✓ **Measurement.** The final step of the project procurement management process refers to using a system of performance indicators and measures for assessing the effectiveness and success of the entire process. The project manager needs to set up such a system and the purchasing department needs to use it in measuring the process. Special meetings and workshops can be conducted to view KPIs, intermediate results of staged delivery, performance of procurers, adherence to product specifications, communications with suppliers, and the like. In case any deviations or gaps are revealed the department should notify the project manager and make necessary changes to the procurement plan.

1.3. Make or Buy Analysis

The make-or-buy decision is the act of making a strategic choice between producing an item internally (in-house) or buying it externally (from an outside supplier). The buy side of the decision also is referred to as outsourcing. Make-or-buy decisions usually arise when a firm that has developed a product or part—or significantly modified a product or part—is having trouble with current suppliers, or has diminishing capacity or changing demand.

Make-or-buy analysis is conducted at the strategic and operational level. Obviously, the strategic level is the more long-range of the two. Variables considered at the strategic level include analysis of the future, as well as the current environment. Issues like government regulation, competing firms, and market trends all have a strategic impact on the make-or-buy decision. Of course, firms should make items that reinforce or are in-line with their core competencies. These are areas in which the firm is strongest and which give the firm a competitive advantage.

Make or buy is a valid consideration in any cost reduction or product improvement program. Advantages and disadvantages of possible alternatives should be evaluated and the choice that identifies the minimum cost makes for the final decision.

Make

It requires appropriate production equipment, suitable personnel, material, adequate space, supervision, design standards and involves overheads, maintenance, taxes, insurances, management attention and other indirect and hidden costs.

It provides work for idle equipment and personnel utilise scrap material, shorten delivery period, permits strict adherence to the raw material specification and quality of final product. It ensures continuity of supply, may cost less than purchase and keep design and research information secret.

Buy

Permits lower investment in facilities, smaller labour force, less handling, lower plant cost for building and upkeep, less overhead or taxes, insurance and supervision and less problems of management relations.

Buy permits specialisation, allows manufacture by most efficient equipment, lowers inventories, change of design without loss of investment in equipment or inventory, obtaining best price of product, and supplying more varied experience and encourages growth of ancillaries.

Whether to make or buy is sometimes referred as a purchasing function, though the decision whether to make components in one's own factory or to buy them from market is a top management policy matter.

Theoretically, a company has choice of three alternatives before starting for a new product:

- ✓ Purchase the product complete from a contracted manufacturer.
- ✓ Purchase some components and materials, and manufacture and assemble the balance in its own plants.
- ✓ Manufacture the product completely, starting with the extraction of basic raw materials.

In practice, almost no company considers the third alternative. Some companies choose the first alternative and obtain a new product completely from another company. These companies usually have no manufacturing units, but sell the product under their trade marks.

But in general, most of the companies make certain components of a product and buy others. The companies may buy a component from outside in semi-finished or complete state or buy the raw material only.

Factors for Make or Buy Decision

Factors Considered for Buying

- ✓ What quantities are involved?
- ✓ Will drawings need modification?
- ✓ Whether jigs, tools, gauges are loaned?
- ✓ Will demand be temporary or permanent?
- ✓ Will demand fluctuate?
- ✓ Are special manufacturing techniques involved?
- ✓ Is there any question of secrecy?
- ✓ Is there a likely market elsewhere?
- ✓ Are frequent design changes likely?
- ✓ Arrangement for inspection, sampling etc.
- ✓ Retention of own production personnel.
- ✓ What notice of termination is required?

Factors Considered for Making

- ✓ Are patents or copy rights involved?
- ✓ If so, what are the royalties?

- ✓ Have the best prices been obtained?
- ✓ Are the quantities optimized?
- ✓ Is the previously contracted firm already making something similar which could be added to the new item, thus reducing production cost?
- ✓ Techniques of production may be special.
- ✓ Is raw material readily available?
- ✓ If free material to be provided?
- ✓ Will any tax be involved?

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