

How To Manage The Procurement Lifecycle



Most projects require you to purchase things. You may not have all of the physical resources, raw materials, equipment, or even the necessary skills required to deliver a project and that's where procurement makes all of the difference.

Let's take a closer look at the five important steps and the procurement life cycle to make it easier to build your procurement management plan and handle lifecycle management.

Understand Requirements

Before you can move forward, you have to know all of your business requirements. After you've determined everything you need, you may decide to source the requirements in-house or outsource to a supplier.

It's coming to buy software packages off the shelf for implementation when you do not have a software development team in house to build it yourself, for instance.

You want to conduct a market opportunity analysis to assess your market options.

Look at your spend and current positioning along with dynamics of the marketplace to help you identify potential suppliers and degree of competition. This also helps in the make or buy decision process.

Depending on your situation, you may need to hire the equipment that you don't have on-site.

Here is where you'll make the make or buy decisions as required by whatever that specific project needs.

Knowing what your project requires makes it easier for you to make an informed decision about using your in-house resources or bringing in outside help.

It's a good idea to involve cross-functional stakeholders so you have a wide range of expertise to develop a high-level and comprehensive specification.

By engaging stakeholders at this stage, you will find that they support the change process when stakeholder buy-in is required.

With the business needs and opportunities in line is time to develop a plan and a strategy that needs to consider the potential impact of the external environment. If there is competition and you are well-positioned to leverage the market, conduct a competitive tender.

Developing competition in the marketplace or bringing this in-house may be a better strategy if you are reliant on a single source of supply.

For instance, if your volume represents half of your supplier's total turnover, you have more procurement power. However, this also presents risks and you will need to consider them in your analysis before developing a plan.

Plan on spending time developing tender documents that include a detailed breakdown of the volume, service-level agreement, and terms and conditions. The detailed specification ensures pricing consistency, product quality, and study operational functionality.

This means the products you choose are fit for the purpose, reducing the financial impact of any wrong specifications. The specification forms part of the tender documentation for suppliers.

Make sure your specification distinguishes between product requirements and preferences and builds intolerance for suppliers to adhere to them. Also, consider including key stakeholders in this process.

Choose the Right Vendor

If you can't get what you need internally, then you have to purchase it from a supplier.

That means you have to choose a vendor which can be a complicated endeavor. You need to consider how quickly a vendor can meet your requirements and whether or not they can hit your project deadlines.

There are also a number of commercial factors to consider such as the viability of the company and whatever they offer credit terms that you can work with.

Your procurement team should review potential suppliers and narrow down the list.

Procurement professionals may have a list of the preferred suppliers to serve as a good starting point. In some instances, there may be restrictions on the companies that you can buy from.

There are several ways to choose the vendor. You can send a request for information or a request for proposal (RFP).

Vendors come in for the work at the pitch to you. Commonly, the shortlisted companies will visit your location and present their solution or describe how they would work with you during the project should you choose to work with them.

Conducting a request for information (RFI) helps you get insight into suppliers including their size, financials, capabilities, strengths, and weaknesses.

Assessing these criteria helps you determine if they should be included in the tendering process and receive a request for quote (RFQ).

Ranking the performance qualifiers against your business needs with key stakeholders is helpful at this stage as well.

After you have chosen the companies you want to hear from, send them formal

documentation such as an invitation to Tender and a request for quotation. Include detailed specification documentation that has been developed around your requirements along with a clear timeframe for response.

After the tenders are submitted, evaluate bids and validate them against predefined award criteria.

This helps to determine which vendor is offering the best value for the money. choose the preferred supplier.

Keep your tender evaluation structured, transparent, and disciplined. Most bid evaluations explore technical capability, capacity, financial health, and quality in addition to price comparison.

Negotiations and Contracts

After you select the vendor who will meet your needs, you have to negotiate the details of the contract and get it written. Generally, someone on your procurement team or theirs will have a template contract.

Together, you can go through it and work out the configurable clauses or the ones that you want to review, update, and change to reflect the deal you have agreed upon with the supplier.

There is always room for negotiation so if a supplier presents you with a contract and you don't feel that it 100% fits your needs, don't be afraid to say so.

It's helpful to have your procurement and legal teams available for support so you can adequately negotiate the contract to benefit your company and avoid getting into trouble later on.

Mini project managers won't be involved in this step at all.

During the negotiation, it's common to take references, conduct credit checks, supplier visits, sample or trial products, and possibly even perform a technical audit.

During this process, it's crucial to consider whole life costs, including removal, disposal, and decommissioning.

When creating the contract, include relevant stakeholder groups so that it is easier to handle contract implementation and management.

Project managers may opt to allow procurement professionals and stakeholders take care of negotiations since they have more knowledge of the company's overall procurement strategy.

Delivering and Monitoring

At this stage of the procurement process, you may use purchase requisitions and purchase orders to acquire the items or services you need per the contract details.

At this point, the vendor is doing the work and you as the project manager check that their work is to the required standard.

They deliver and work alongside your project team to complete their necessary tasks. They usually deliver the service or implement the tool, or whatever it is you have purchased from them.

The entire time the project has a dependency on their ability to deliver, you will continue to monitor performance.

Use the contract terms as a benchmark for assessing whether or not they're delivering accordingly.

Somewhere in the contract, there will be a write-up or a schedule that discusses quality measures, deadlines, and any other requirements the vendor has to follow.

Contract performance needs to be monitored and reviewed and agreed on periods against key performance indicators. The KPIs should be listed in the contract.

Contract review needs to include discussions on how the relationship is working and I aim to resolve any conflicts that may have surfaced. Discuss any plans for continuous Improvement and set another review date.

It's important to maintain a good supplier relationship as it is a crucial part of supply chain management.

Having a solid relationship with a vendor could be the difference between being

the first to market with a new concept or ensuring supply continuity.

Renewing or Exiting

Just as your project has a close, the procurement activity on the project also has to close. At this point, the contract may naturally close. If this is the case, all you have to do is pay the bills and everything in the procurement cycle is finished.

However, some contracts are for the long-term. For instance, if you purchase software, you may enter into a maintenance agreement that connects you to support the software for a certain amount of time.

The contract may need to be renewed or canceled outside of the project lifecycle. This happens when the project is already closed but the contract continues outside of the original project it was used for.

At this point, you will hand contract administration over to the operational team who will be responsible for the contract servicing moving forward. They will handle the contract and make a decision to renew or exit the agreement when the time comes.

Project managers may not have much to do with contract closeouts, but it's crucial to make an effort to pass along any and all relevant procurement information to the operational team.

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