How To Create and Implement a Successful Procurement Plan



The procurement manager’s responsibilities go far beyond approving purchases. To manage a project effectively, you’ll need a well-planned strategy based on comprehensive information.

In simplest terms, a procurement management plan outlines and documents the purchasing requirements to meet the needs of the project. The plan should include plan objectives and specific protocols for method of procurement.

Requirements for Successful Procurement Planning

To achieve successful procurement planning, it is important to meet certain requirements, here they are:

Procurement Team

List everyone authorized to participate in the procurement planning and decision-making process, with their contact information.

Item Requirements

Plan requirements include several levels of information about every item that needs to be purchased.

Gather information about all materials required by the project. Depending on the type of project, this list might include tangible assets, like building materials or equipment, and intangible assets, like software licenses.

Include all pertinent information about each item: size, quantity, technical requirements and specs, any information that ensures purchase of the correct tool or material for the job.

Along with the item specifics, include the reason or justification for the purchase. To define the purpose, answer these questions:

- What is the item used for?
- Who needs this item?
- Why is this item necessary to complete the project?

Set a purchasing timeline. Purchasing items before they are needed can put a strain on storage space. Your purchasing plan should include a “need by” date for each item.

An efficient purchasing plan may leverage bulk purchases across different departments, take advantage of seasonal discounts, negotiate minimal order quantities over the length of the contract, and reduce storage and processing costs with just-in-time delivery.

Finally, list the people authorized to request each item.

Supplier Selection

If bids are required, outline the specifics of the bidding process, including the minimum number of bids, the terms that must be met before a bid is considered and whether bidding is open or drawn from a list of preferred vendors.

Bids and Acceptance

In a typical process, the procurement department will issue a request for proposal

(RFP) detailing the project needs. Suppliers respond to the RFP with proposals or bids, providing information such as cost, delivery time, and scheduling considerations.

In this section, include the criteria by which vendors will be selected and contracts awarded, and who will make the final determination (usually a selection committee).

While each project is different, here is a typical selection criteria breakdown:

- Supplier capability to deliver materials on time
- Quality
- Cost
- Delivery schedule
- Cost comparison of outsourcing vs in-sourcing
- Vendor history with company
- RFPs will be reviewed by the selection board.

List the names of all decision makers and order of review to establish a workflow process.

> *To manage the procurement for a project effectively, you'll need a well-planned strategy based on comprehensive information.*

Types of Contracts

Since a project may require tangible goods, like manufactured parts with a fixed cost, and also require contractor work, the procurement plan may include different types of contracts.

Detail the types of contracts that will be used in the procurement process for each category of item. Some (but not all) types of contracts:

- **Purchase Order (PO)** – Used to purchase goods and materials.
- **Firm-fixed price** – Negotiated prices for goods or contracted services.
- **Fixed price plus incentive** – Negotiated price with built-in performance based incentives for faster delivery or completion.
- **Fixed-Price with Economic Price Adjustment Contracts** – For long term contracts where the price of materials can be adjusted for inflation.

- **Time and materials (T&M)** – Includes subcontractor rates for installation and materials cost.
- **Cost-reimbursable contract** – Fixed cost plus reimbursement for unpredictable expenses or contract changes.

Identifying Risks and Risk Management

Dealing with suppliers always incurs related risks. In this section, list examples of potential procurement risks and outline strategies to manage and mitigate risks while maintaining established company relationships with preferred suppliers.

Potential risks are anything that causes a breakdown in the supply chain, and in turn, project delays and cost overruns. This may include circumstances like shipping delays due to unforeseen events, substandard product delivery, or vendor conflicts.

Risk can also come from inside the company. In-house risks include unrealistic budget constraints or schedule expectations.

Outline strategies for mitigating risks that include who will address issues, who will approve the mitigation plan, and specific solutions like alternate subcontractors in case one fails to deliver.

Purchase Order Process

List the steps for purchase orders and procurement policy. For example, using three-way matching authentication:

1. The purchasing department sends a purchase order (PO) to authorize a purchase.
2. An invoice is returned the vendor to the purchaser, referencing the PO.
3. The goods arrive with a packing slip, which is verified against the PO and the invoice to make sure everything arrived as ordered.

All three documents are reconciled and logged. Digital purchase ordering systems compare the data and flag any anomalies.

Project Constraints

Every project has a budget limit and time considerations. To mitigate scope creep while meeting procurement requirements, carefully define the project constraints in detail, including timeline, costs, and technical specifications.

Project constraints should be considered at every step of the decision-making process and verified against procurement activities.

Vendor Management and Accountability

The purchasing department serves as liaison between the project manager, department heads, and suppliers. Schedule regular meetings, define how the meetings will be accomplished, and define what information should be exchanged during each meeting.

Verify that deliveries are on schedule and will continue to arrive as contracted.

Vendor Metrics

Track delivery data and assign a quality rating to assess each vendor's performance. Note quality and quantity of goods and services, delivery time, and track invoice costs. Use metrics to address any issues, identify problem patterns, and evaluate suppliers for future consideration.

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