



Chapter XII

Procurement and Outsourcing

A pessimist sees difficulty in every opportunity; an optimist sees the opportunity in every difficulty.

(Winston Churchill)

Many IT projects involve the purchasing of goods and/or services, and some IT projects are mostly procurement activities, at least from a cost perspective. Between one quarter and one third of all U.S. software projects involve contractors or subcontractors (Jones, 1994). With the increase in IT outsourcing and of outsourcing offshore, there is an increasing need for very formal procurement management.

Procurement

PMI defines *procurement* as the processes required to acquire goods and services from outside the performing organization; it breaks procurement down into the following procurement management processes (PMI, 2000):

- Procurement planning
- Solicitation planning
- Solicitation
- Source selection

- Contract administration
- Contract closeout

The Software Engineering Institute (SEI) addresses software acquisition, and there is a separate capability maturity model for software acquisition (SA-CMM); however, in discussing procurement herein, I will follow the PMI process outline. Project management in a contracted situation is more involved and more difficult:

- The PM must deal with another company's procedures and systems
- Problems (in scope, cost, schedule, quality) are not as visible
- Solutions to problems take longer to implement
- The PM must rely on the accuracy and timeliness of vendor reports
- The PM must have a very good relationship with vendor
- Risks are more and greater, thus sound risk management is vital

Risk management in general was discussed earlier in this book, and subcontracting risks were identified and discussed in that chapter. Outsourcing magnifies procurement risks and other corporate risks and this is discussed separately later in this chapter.

Procurement typically involves contracts, and most contracts are formal agreements that contain the relevant requirements/specifications for the goods and/or services to be exchanged. Contracts are enforceable within courts of the specified jurisdiction and, legally, a contract must:

- Contain an offer to provide something specific by one party
- Contain an acceptance of that offer by the other party
- Specify consideration—payment in the form of money or something else
- Involve parties with “legal capacity” (separate competent legal parties)
- Be for a “legal purpose” (that which is to be provided must not be illegal)

The contract also typically includes business terms and conditions and things referred to in the bid documents, such as marketing literature, specifications, drawings, request for proposal (RFP) information, scope statements, and the like. A contract supercedes any memos or conversations, either before or after the contract is signed. Most IT contracts are atrocious, poorly written, and short on details. The faults lie largely with technology buyers (Hoffman, 2004), so project managers (PMs) need to be fully involved in the procurement process and work with their buyers and/or procurement offices to ensure a successful procurement and contract.

A PM should be named before the procurement process begins. Procurement is actually one form of risk mitigation and the PM should be in control of what is to be procured and how it may affect schedule, cost, quality, and other project issues. Depending upon the

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