

Project Procurement Management
By Quentin W. Fleming, FMC Press, CA, 2003
(A book review by R. Max Wideman)

Introduction

Every once in a while, it is nice to have a technical book that is easy to read with touches of humor, is effortless to follow, and you get the feeling that the author really knows what he or she is talking about. Such is Quentin Fleming's latest book: *Project Procurement Management*. From the title you might think that the book is dry and dull, full of arcane legal stuff that only experienced project managers can understand. After all, how often have you heard the cry: "We don't do procurement (contracting, purchasing, or whatever-you-want-to call-it) in our shop. If we do it at all, it is done by someone else."

Admittedly, Quentin lends some credence to this impression in the opening salvo in his introduction. He says that: "This is a new book on Project Procurement Management . . . well sort of." He goes on to explain that his previous book covered the subject but was targeted specifically to the aerospace and defense industry. Whereas: "this new book is intended to provide a more general treatment on the subject, with application to any project, in any industry which buys their project scope from another firm."¹ He also notes that in his own extensive library of books on project management, few if any, address this subject.

The reality is that there are very few projects that do not involve "procurement" in some degree or other, despite the protestations. After all, a contract is a commitment and if you are a project management practitioner of any substance, you'd better know the subject. And to know this subject, this no-nonsense book is a good place to start. But there is another compelling reason that is not always made very clear. That is that every project involves commitments, and even though these may be "internal", i.e. not "arms-length" and therefore not legally based, many of the principles still apply. The same is true even if those commitments are purely informal.

Come to think of it, the project itself is a commitment, a "contract", between the project manager and the project's sponsor – a commitment to deliver a product scope at the required quality on time and within budget. The bottom line is that this subject is an inescapable topic in project management.

Book Structure

Project Procurement Management contains fourteen chapters generally in the same natural progression as a procurement operation as follows:

1. What is Procurement Management
2. Procurement Categories
3. Planning for the Procurement of Project Scope
4. Corporate Teaming Arrangements
5. Procurement Risks
6. Selection of Contract Types
7. The "Project Procurement Management Plan"
8. Planning for the Solicitations
9. Legal Aspects of Project Procurements
10. Solicitation of Seller Proposals
11. Source Selection and Contract Award

12. The Management of Project Procurements:
a.k.a. Contract Administration
13. Closing – out Project Procurements
14. In Summary – Managing Project Procurements

Chapter 1 explains that: "This book is about project management. However, its primary focus is on that portion of the project which will be performed by another company."² And further: "[It] will focus exclusively on the Project Manager as the buyer of project scope."³ The rest of the chapter provides a good, brief overview of the project procurement management topic. It emphasizes in particular that the contract language of any legal agreement covering "buy" work has to be right since you are into a "non-forgiving" relationship.⁴

Chapters 3 through 7 all deal with aspects of procurement planning. Of these, Chapter 6 on the subject of contract types is the largest. Chapter 4 deals with teaming arrangements as a means for buying work outside the organization but is supplemented by four Appendices. These cover a *Model* and advice and "*Guidelines*" for *Establishing a Teaming Agreement*. Otherwise, the book's information is reasonably evenly distributed throughout. Chapter 14 closes the book by recommending ten steps to implement project procurement management successfully. Finally there is a *Glossary of Procurement Terms* as used in the book, and a brief note *About the Author*. The text is punctuated by 45 useful illustrations that add clarity to the content.

From the book's Introduction, you will learn that Quentin was responsible for reviewing Chapter 12 of PMI's PMBOK Guide 2000, so it comes as no surprise that in this book Quentin conforms to the terminology of that version of the Guide. Since then, of course, PMI has issued a new 2004 version of the PMBOK Guide in which they have made some further changes to the terminology. For example, "solicitation", amongst others, has now been replaced by "Request Seller Responses" because, in the words of the PMBOK Guide 2004: "to recognize the negative connotation of these words in various areas around the world."⁵ Thus, yet another perfectly respectable English word bites the dust in the name of political correctness!

What we liked

As we said earlier, this book on a subject that otherwise might be dry and forbidding is easy to read and periodically punctuated with little bits of humor to lighten the way. For example: "Fact: project managers rarely have a delegated authority to buy on behalf of their companies. This revelation sometimes comes as a shock and a disappointment to project managers."⁶

Actually, if you are a construction manager working for a contractor on a construction site, you do usually have authority to purchase temporary materials up to the line item limits of your construction budget. The way it works is this. You do the source selection and price negotiations and, when you've reached a deal with a supplier, you issue a purchase order. That's as good as a personal check without actually handling any money. Head office will pay upon your approval of the supplier's invoice.

Or consider this humor: "The top person in most organizations will go by various titles . . . Without being told, we instinctively know who they are, because they have the best office and the best parking spot in the organization."⁷

Or this jibe: "In the game of American football there's a play that is called the 'Hail Mary Pass'. This

pass is used whenever a team is in desperate straights, and they have no other course of action . . . Some times it works. Most of the time it does not . . . There are two conditions calling for the use of the Hail Mary Pass: (1) sheer desperation, and (2) no definitive plan of action."⁸ Of course, that would never occur on any of our reader's projects, right?

We liked this one about evaluating seller's proposals: "Once the proposals are received everyone, virtually everyone, wants to be a part of the source selection process. It is prestigious to be on the proposal selection committee. And besides, they typically are served free cookies and coffee."⁹ Quentin might have added that being on the committee also confers an impression of some authority that might be used to future advantage – without being used unethically, of course.

And this one on negotiation: "Most large companies have professional negotiators on their staff. Typically they are housed in organizations called contracts, proposals, supply management, sometimes legal. These individuals all share a common trait: they can talk for hours . . . and commit themselves to doing nothing."¹⁰ Now there's the voice of experience speaking!

Turning back to the presentation of Quentin's book, the layout of the text is excellent – short concise paragraphs and sentences throughout. This is what the academics would describe as Grade 11-12 reading level or "Reader's Digest" equivalent. Maybe it's odd to be harping on this, but clarity and simplicity in project communications is an essential, and an under-played requirement, in effective and successful project management. And nowhere is it more important than in contract language, if the parties are to clearly understand their respective obligations under the agreement, so that they accomplished the work smoothly and without rancor. Oh that more lawyers and bureaucrats could understand this, instead of expecting everyone to hire more lawyers to interpret what the parties think they have to do!

Some gems worthy of note

On the subject of "buying" work through another company division, Quentin thinks that it is "amazing" that "interdivisional arrangements turn out to be the most painful for any project to manage . . . Far too often, projects do not get the 'respect' they deserve within their own company . . . However, at other times, the project manager may have little say in the matter and senior executives insist on the project work being kept within the company, even when a better price or better product might be available from an outside supplier."¹¹ Or we suggest what is even worse, is that the project is little more than "make-work" to keep the troops busy and there is little enthusiasm for it anyway.

And Quentin adds: "Controlling interdivisional work can be a nightmare . . . because the internal procedures covering interdivisional cost transfers are typically created by the company accountants who are primarily concerned with the orderly allocation and the recovery of all incurred costs . . . Project managers often have difficulty shutting off interdivisional costs"¹² It does not appear to be within the book's mandate to explain what a project manager should do about that one!

On project risk management: "The very worst strategy for any project to follow would be to proceed with their plans under the assumption that risks will be addressed at the time they surface. Such a strategy could prove fatal to any project."¹³ Very true!

On deciding what the project will procure: "You do not procure a complex new item without having a precise technical definition, and that job will be assigned to the technical staff, not to the buying staff.

There is perhaps no single issue more critical to successful project procurements than the early assignment of technical responsibilities."¹⁴ "And there is another emotional issue that needs to be considered: most engineers didn't go to school and take perhaps the most difficult curriculum to write a 'dammed' procurement spec! That is why the critical job of writing the technical procurement definition often falls on the junior staff members. Resentment sets in. The delicate relationship between engineer and buyer often becomes strained."¹⁵

Downside

As we have with the PMBOK Guide 2004, we quarrel with the definition of the word "scope".¹⁶ According to Quentin: "Scope [is] A definition of the work to be accomplished on a project or procurement."¹⁷ According to the PMBOK Guide 2004: "Scope [is] The sum of the products, services, and results to be provided as a project."¹⁸ So which is it? Is it the product, i.e. the deliverable, or the work required to create the deliverable? We think both are wrong! The generic meaning of "scope" in this sense is simply the "extent (of)" and, without a qualifier is meaningless. We really do need to sort out the difference between project scope, which PMI describes as the work involved (i.e. the work scope or scope of work) and product scope (i.e. the extent of the deliverables).

So in this connection we note that Quentin says: "In the management of projects there is likely nothing more critical to the success of a project than to begin with an adequate definition of the scope of work . . ." ¹⁹ That's clear enough but before that we suggest there should be a statement of the deliverable – even if it is only described in "mission" terms. Perhaps the most critical thing at this time is to get our definitions sorted out!

Chapter 6 discusses a variety of contract types at some length from which one might gain the impression that these, and only these, are the different types available. Perhaps this is true insofar as US government contracting is concerned but the reality is that contracting is very flexible, limited only by the imagination of project managers and their legal advisors. Nevertheless, contracts can be divided into several broad groups based on how much is known about what is to be delivered and how that delivery is to be paid for.

In this connection we note that Quentin draws a distinction between a so-called Time and Materials (T&M) contract and a Cost-Plus-a-Percentage-of-Costs-Fee (CPPCF) contract. The T&M contract he defines as follows:

"A time-and-materials contract provides for acquiring supplies or services on the basis (1) Direct labor hours at specified hourly rates that includes wages, overhead, general and administrative expenses, and profit; and (2) materials at cost, including if appropriate, material handling costs, as a part of material costs."²⁰

The CPPCF contract is not defined, but by its title it sounds exactly like the T&M contract except that overhead and profit is applied to both labor and materials consumed. Depending on the mix of labor and "materials", which must also include plant, it is more a matter of accounting and rate setting than a real difference in structure.

We made the same point in critiquing the PMBOK Guide.²¹ Quentin picked up on this and observed on another web site:

"Our friend Max Wideman's comments on the PMBOK Chapter 12, Procurement Management, are highly questionable. He states as follows:

The discussion of 'Contract Types' could be improved. For example:

'Cost-reimbursable contracts' and 'Time and Material contracts' are often deemed to be synonymous and do not warrant separate paragraphs.'

"Max, I'm sorry, this is wrong. There are important differences between 'Cost Contracts' and 'Time and Material Contracts.' Among them: 'Cost Contracts' have a statement of work to satisfy in order to earn the fee. 'Time and Material Contracts' have no statement of work, only a listing of labor categories and materials to deliver. A big difference! The PMBOK Chapter 12 is correct as written.

Best Regards,
Quentin Fleming"

In his book, Quentin goes further. He states categorically that CPPCF type contracts are not allowed under United States and most governmental contracting, and that CPPCF contracts should never be used by anyone.²² That may well be true and obviously this is a sensitive issue in the world of US procurement. However, neither Quentin's book nor the PMBOK Guide notes the distinction of which type of contract has a statement of work (assuming that we are clear on what that term means) so we failed to see the difference.

Advice from an expert

Since we live in Canada, we sought the advice of a Canadian expert on the distinction between T&M and CPPCF contracts. We turned to Al Morgan of Revay Associates, a company that specializes in contracts and construction claims analysis. We asked him what's the difference, to which he replied:

"Max

"Good to hear from you.

"Getting to your question. First, it depends on the understanding of the contract wording and the importance of recognizing that there is a lot of negotiating that takes place between the owner and contractor that blurs the differences somewhat. From my years on various construction jobs this is a bit of what I've picked up working as a contractor.

"Time and materials does not necessarily include the cost of supervision because this is most often considered as part of the contractor's markup. Over the years as a contractor, I have often engaged in differences with the owner on T&M contracts for the cost of a superintendent. With a small crew a superintendent will perform some of the direct work but owners seem prone to seeing this, as an opportunity to exploit the contractor by refusing to pay for a superintendent doing work because he is considered overhead and therefore his cost is to be included in the markup. If I called the superintendent a foreman there would not seem to be a problem. It is the person's job title that causes the problem and this would seem to stem from the fact that most contracts stipulate that a superintendent is to be designated.

"During the planned course of the contract term, the contractor should have allowed for the cost of a superintendent but if the contract time limit is extended, then the cost of the superintendent gets lumped into the fixed markup allowed on time and material. For a small amount of extra work this is a loss to a contractor. In one case I had to become a foreman because if we hired another boilermaker welder I would then have to hire a non-working boilermaker welding foreman. At that time the collective agreement required

that we must hire a welding foreman after the fifth or sixth welder was hired. The additional welder was only required because we had to undertake extra work on T&M and in this case, the owner refused to pay for the welding foreman.

"With cost reimbursable contracts there is usually one major factor that distinguishes reimbursable costs from T&M. This basic factor arises from within the contract where the actual costs that are reimbursable are all stipulated in the contract document. This is important because site overheads can cover a lot of items that would not necessarily be considered as part of the markup on a T&M contract. One such major difference can arise on the payment for the cost of equipment. With a reimbursable contract it would cover the invoice cost of equipment but with T&M it would only cover the working time and rate as agreed to and signed by the owner.

"Cost reimbursable is like a hybrid between Construction Management and T&M with some differences in risk arising from limits on the fee and markup.

"Another difference I have noticed is one of an attitude difference. On reimbursable contracts the owner seems to give more consideration in requesting staff for planning, scheduling and purchasing. With T&M, the owner seems to manage (and I use the word loosely) more by whim and by golly and expects the contractor to carry out all construction functions instantaneously as part of its indenture into T&M slavery.

"I'm not sure I've given you any further insight into what might be considered as some of the differences. I think some of the differences are picked up by experience where you learn what the owner expects from the contractor rather than what the contract actually says.

"Regards, Al"

Well, there's a nice bit of experience for you! For the record, it is T&M that is used regularly to pay for "on-site" changes in construction work, especially if they are of an urgent nature.

Summary

Quentin says that:

"Project procurement management begins at the point when the new project is initiated and detailed decisions are starting to be made as to what portion of the project will be performed with one's own staff, and what portion will be sent to another company for performance."²³

In our view, that is long before anyone starts doing detailed design. It is a part of developing the concept for the project because, on it, will depend the project's financial viability and the necessary organizational structure.

Understandably, Quentin Fleming's book is about the way things should be when it comes to planning and executing a project that will inevitably involve some "buying of project scope" (as Quentin puts it) from outside of the organization. But Quentin is a realist no doubt born of years of sometimes-painful experience. For example, he says:

"Issue: will there be political pressures on the award of major procurements? Answer,

likely. Should there be: no. But politicians will be politicians. And elected officials typically have little inhibition calling a company urging serious consideration to award a certain contract to a certain supplier, who happens to be in the politician's own district."

You have been warned!

To conclude his book, Quentin reminds us that he recommends placing all procured work into one of three generic categories,²⁴ namely those of:

1. Major, high-risk complexity
2. Minor, low risk complexity, and
3. Routine buys, off-the-shelf

He then offers Ten Steps to implement successful Project Procurement Management, but you'll have to buy the book to find out what those are.

This book is thoroughly recommended to all aspiring project managers if they are serious about project management. And that is whether or not they happen to be studying for the Project Management Institute's Project Management Professional certification exam, or any other project management qualification for that matter.

R. Max Wideman
Fellow, PMI

¹ Fleming, W. Q., *Project Procurement Management*, FMC Press, CA, 2003, p v

² Ibid, p2

³ Ibid, p6

⁴ Ibid, p5

⁵ A Guide to the Project Management Body of Knowledge, 3rd Edition, Project Management Institute, PA, 2004, p307

⁶ Fleming, W. Q., *Project Procurement Management*, p7

⁷ Ibid, p7

⁸ Ibid, p47-8

⁹ Ibid, p164

¹⁰ Ibid, p198

¹¹ Ibid, p19

¹² Ibid, p20

¹³ Ibid, p63

¹⁴ Ibid, p118

¹⁵ Ibid, p123

¹⁶ See <http://www.maxwideman.com/papers/pmbok3/s3-downside2.htm>

¹⁷ Fleming, W. Q., *Project Procurement Management*, p268-9

¹⁸ A Guide to the Project Management Body of Knowledge, 3rd Edition, p375

¹⁹ Fleming, W. Q., *Project Procurement Management*, p24

²⁰ Ibid, p108 – quoted from the US Federal Acquisition procurement regulation 16.601

²¹ See <http://www.maxwideman.com/papers/pmbok3/s3-downside3.htm>

²² Fleming, W. Q., *Project Procurement Management*, p107-8

²³ Ibid, p207

²⁴ Ibid, p327