

What is Procurement Planning?

Procurement planning is the process of determining and documenting an approach to acquire a product or service that is consistent with the statutes, rules and policies that govern procurement actions in the state.

Procurement planning occurs throughout the Plan stage of the procurement lifecycle and encompasses several key processes. Beginning with identifying and defining a need, procurement planning informs decision-making throughout the procurement lifecycle.

Key outcomes of the Plan stage are creating a procurement team, determining a procurement method and developing a strategy.

When to Conduct Procurement Planning

Procurement planning typically begins when a procurement professional is made aware of a business requirement or user need for a product or service. Other circumstances that can prompt procurement planning include an expiring contract, an ongoing and budgeted project, or optimization of contract pricing and performance through a leveraged procurement initiative to drive economies of scale.

How to Conduct Procurement Planning

The scope of procurement planning will vary by the type and complexity of the procurement. This section presents a framework for planning that an agency can adapt to its procurement need. Within the Plan stage, an agency should use a process that includes many of the following 12 tasks and should tailor its planning effort and documentation to support the procurement need:

Identify the need:

A procurement need exists when an agency determines that it must purchase either a product or service to fulfill its mission. An agency's business unit or end user generally identifies a procurement need and contacts the agency's procurement professional to initiate the procurement process.

Depending on the type of procurement, the requesting business unit may need to perform an assessment of alternatives. For example, for personal services, the agency must develop a cost analysis or document a determination of feasibility (see step #9 below) of procurement.

If an agency's business unit or end user is able to identify the procurement need, priorities and objectives early in the process, then the procurement professional and procurement team can more fully address potential solutions that can satisfy the agency's need.

Establish and manage the procurement file:

A procurement file contains all information related to the procurement. Depending on the cost and type of procurement method, an agency must include certain planning documentation in its procurement file. Generally, for open market procurements, an agency should develop or initiate the following documentation during the Plan stage and include it in the procurement file:

Procurement plan.

Market research.

Product specifications.

Scope of work. Evaluation strategy (Competitive Sealed Proposals).

Document management begins early in the planning phase and extends through procurement, contract administration, closeout and beyond.

Determine Authority:

Once a procurement need is identified, a user agency must determine what statutes and rules apply to the procurement.

Build procurement team:

Early in the planning phase, the agency business unit and end users should work with their agency procurement professional to identify the stakeholders who will participate in the procurement, either on the procurement team or as resources to the procurement. A stakeholder is an individual who has an interest in the needed product or service. Stakeholders are important because they possess knowledge and experience that may assist in identifying critical business requirements within a procurement.

Stakeholders may be made up of management or executive-level personnel with extensive program knowledge. Stakeholders are familiar with the specific needs of a program and have a clear understanding of how to ensure that procurement activities support a program, and they may be heavily involved in developing and implementing policies, procedures and program priorities.

A procurement team typically needs both technical and end user expertise. A technical subject matter expert (SME) can guide the procurement team's effort in developing the specifications, scope of work and sample contract or agreement that comprise a solicitation document.

An end user SME should possess a deep understanding of the functional or business requirements of the product or service being procured. This role can be filled by a business analyst or by an end user or recipient of the product or service. The end user SME contributions should enable the procurement team to develop the functional or performance requirements of the product or service. An end user SME should understand how the product or service is ordered, invoiced and paid for, and should be familiar with any challenges associated with a previous procurement of the product or service.

The procurement professional relies on the procurement team to provide a vast amount of data that can include technical specifications, written procedures, executive summaries, background statements and infrastructure details. Additionally, the procurement team assists in developing evaluation criteria, scoring methodologies, contract terms and conditions and the contractor's insurance requirements. Tools used for contract administration are also developed by the procurement team. This can include report forms such as performance reports or volume sales reports.

The work of the team will persist throughout the procurement life cycle, from defining and documenting the requirements for the product or service, through activities that support the solicitation, evaluation, award, negotiation and eventually management of the contract. The procurement team should be diverse and its members should represent their stakeholder and end user communities.

Confidentiality is critical to maintaining the integrity of the procurement process and even a perceived conflict of interest can harm the process. Individuals who serve on procurement teams are required to sign a conflict of interest certification form. This ensures that participants clearly understand their roles and responsibilities.

Define need:

The procurement professional will work with the procurement team and, as needed, additional stakeholders to identify and document the scope of the need. Consulting the correct stakeholders is essential to ensure the scope of the procurement need is understood, defined and matches the needs of the end user. The scope of a procurement need refers to the factors defining the range or span of the potential purchase. Examples of a procurement need's scope could include:

Quantity.

Frequency (one-time or recurring).

Span (single unit or multiple programs and agencies). Other factors that are identified and analyzed during the Plan stage.

The procurement team must define the scope of the procurement need to properly conduct a potential competitive procurement. By consulting with identified stakeholders, as well as conducting market research, the procurement professional can validate the priorities and objectives of the procurement.

To discover the critical business requirements, a procurement professional should establish an open dialogue with the procurement stakeholders. Critical business requirements are those essential functions that must be met by the needed product or service. The procurement team should encourage discussion and ask sufficient pertinent questions to ensure it fully understands the critical business requirements.

Examples of the types of questions the procurement team should consider:

Why is the product or service needed?

Who is impacted by this procurement?

What are the key functions the needed product or service must meet?

What factors will impact this procurement?

What is the budget?

When is the product or service needed?

Where will the product be delivered or the service performed?

How must the service be provided?

What key approvals are necessary and who must approve?

What specific quality or quantity needs must be considered?

Identifying the critical business requirements will strengthen the market research that the procurement professional will conduct.

Determine the procurement method:

Starting with the Buy Decision, an agency must determine if the needed product or service can be fulfilled using mandatory methods.

Small Procurement

Intermediate Procurement

Competitive Sealed Proposals or Competitive Sealed Bidding (RFP or ITB)

RFP: The RFP process typically used when seeking personal or professional services. Awards are based upon a variety of evaluation factors that are listed in each respective RFP document.

ITB: The basis for award in this process is a responsive bid at the best price.

Sole Source Procurement: an agency determines, based on written findings of fact, that the products and services, or class of products or services, are available from only one provider.

Emergency Procurement: Limited to circumstances that could not have been reasonably foreseen that create a substantial risk of loss, damage, interruption of services or threat to public health or safety.

Regardless of the contract amount, the agency must encourage competition that is reasonable and appropriate under the Emergency circumstance.

The agency must describe and document the needed products or services. The documentation must describe the contract scope that adequately addresses, and is limited to the risk - created or anticipated - by the Emergency circumstance.

Develop a procurement plan:

It is important for an agency to document the information that supports a procurement and the decisions that are made during the Plan stage that will frame the procurement strategy. This information should be included or referenced in a procurement plan.

The procurement plan will compile the results of analysis conducted on a procurement, including the procurement authority, procurement method, market research and requirements of the product or service. At this point in planning, if a procurement professional has determined the procurement need can be met by a Buy Decision source, and the procurement is advanced to the Procure stage, the procurement plan can be updated with this information and included in the procurement file (Procurement Plan Part A).

If the procurement professional determines the source selection will be open market or other procurement method, the procurement team should continue to define the procurement requirements and document decisions and planning information in Part B of the Procurement Plan. In strategy meetings the procurement team will analyze the procurement requirements and review the results of market research, develop an evaluation strategy, determine the procurement method, and develop a procurement schedule, among other items.

Through this process, the procurement team will make decisions that will drive the execution and management of the procurement through the remainder of the procurement lifecycle. Some of the key topics that should be discussed and documented at strategy meetings include:

Project scope and specifications.

Project deliverables.

Critical business requirements.
Method of procurement.
Contract type.
Estimated schedule.
Estimated cost and budget.
Anticipated benefits.
Performance measures (if applicable).
Alternatives.
Key considerations.
Constraints and risks.
Team assignments and procurement deadlines.

When the procurement is advanced to the Procure stage, the documentation (Procurement Plan Part A/B) should be updated with this information and included in the procurement file. The procurement professional should update the procurement plan throughout the planning process and include it in the procurement file.

Throughout its procurement planning, an agency must document and file all research that it conducts, collects and analyzes to support the procurement requirements and plan. These written documents will guide and support the agency's procurement method, supplier selection, contract execution and management processes. Together, or by reference, this information comprises the procurement plan and must be included in the procurement file.

Conduct market research:

A procurement professional will conduct market research to identify a variety of potential supply sources that is capable of meeting an agency's business requirements. Among other factors analyzed, market research will assess the level of competition available in the market.

Through its market research, an agency can determine the level of competition and other factors that will influence and should be incorporated in the procurement strategy. An agency generally conducts market research when the product or service has a high level of expenditure, is subject to fluctuations in availability or cost due to market volatility, requires a complex procurement, involves inherent risks or is critical to the performance of the organization. Refer to the full section on Conduct Market Research for more information on this planning activity.

Develop cost analysis and feasibility determination:

Cost analysis

This analysis should be conducted during the Plan stage and must be documented in the procurement file.

An agency must conduct and document an analysis of the direct costs for its own personnel and resources to perform the service, including:

Salary or wage and benefit costs for employees who directly perform the service or who inspect, supervise or monitor the performance of the service.

Material costs, including costs for space, energy, transportation, storage, raw and finished materials, equipment and supplies.

Planning, training, start up, implementation, transportation and delivery costs associated with the service, including decommissioning and dismantling costs. Miscellaneous costs related to performing the service.

To analyze the cost to procure a contractor to perform the service, an agency should estimate:

Contractor costs, including average or actual salary or wage and benefit costs for contractors and employees who work in the industry or business most closely involved in performing the service the agency seeks and who are directly involved in performing the service or who would inspect, supervise or monitor the performance of the service. Material costs, including costs for space, energy, transportation, storage, raw and finished materials, equipment and supplies.

Miscellaneous costs related to performing the service.

The agency must compare the difference between the cost estimated to perform the service and the cost estimated to procure the service. It may proceed with the procurement only if the agency would incur more cost in performing the service with the agency's own personnel and resources than it would incur in procuring the service from a contractor.

Feasibility determination

An agency may proceed with the procurement of a contract for service without conducting a cost analysis if the agency determines and documents that it is not feasible for its own personnel or resources to perform the service that the agency intends to procure. The written determination should document that:

The agency lacks the specialized capabilities and experience (technical or other expertise) necessary to perform the service.

Special circumstances require the agency to procure the service by contract. These circumstances, among others, may include:

The terms under which the agency receives a grant or other.

Other state or federal law.

The needed service is incidental to a contract for purchasing or leasing real or personal property.

The agency cannot accomplish policy, administrative or legal goals when using the agency's existing personnel.

Provisions of an Emergency procurement apply to the service.

The needed service is urgent, temporary or occasional, and attempting to perform the service with the agency's own personnel or resources would delay and frustrate the purpose for obtaining the service.

The needed service will be completed within six months after the date on which the contract for the service is executed.

Determine contract type:

Another key decision that must be made during the planning phase is what contract type to use. Unlike the method of procurement, which determines how a procuring agency will solicit bids or proposals for a project, the contract type determines how potential bidders or proposers will price the products or services. The contract type also defines the contracting environment that will govern the contractual relationship between the agency and the supplier.

Based on its market research the procurement professional should have a good idea how the supplier industry gauges various pricing models to the requirements of the needed product or service. This market research will be critical in helping a procurement professional to determine the contract type to solicit.

A key factor that drives the contract type is the level of project risk and how to fairly allocate that risk between the agency and the supplier. A risk that is high for the buyer (agency) will be low for the seller (supplier).

Fixed price contract

A fixed price contract places responsibility on the supplier for the delivery of the products, or the performance of services, according to the contract terms at a price that may be firm or subject to contractually specified adjustments. This contract type is appropriate to use when the agency's requirements for the extent and type of work can be reasonably specified, and the cost can be reasonably estimated, as is the case for standard commercial products or certain services.

There are two types of fixed price contracts: firm fixed price, and fixed price with price adjustment. The firm fixed price provides a price that is not subject to adjustment due to variations in the supplier's cost of performing the work specified in the contract. It should be used whenever fair and reasonable prices can be established at the outset.

The fixed price contract with price adjustment provides for variation in the contract price under special conditions defined in the contract, other than customary provisions authorizing price adjustments due to modifications to the work. The formula, pricing index or other basis by which the adjustment in contract price can be made, must be specified in the solicitation and the resulting contract. Adjustment allowed may be upward or downward, only or both, depending on the requirement.

The indefinite quantity contract, is a type of fixed price contract in which the unit price is set but the total number of units may not be.

Time and materials/labor hour contract

A time and materials contract provides an agreed basis for payment for materials supplied and labor performed. It is important, to the extent possible, that a time and materials contract contain a stated ceiling or an estimate that must not be exceeded without prior agency approval.

A labor hour contract provides only for the payment of labor performed. A labor hour contract must contain the same not to exceed pricing ceiling as the time and materials contract. A labor hour contract also requires the same determination as required for a time and materials contract.

Cost reimbursement contract

The cost-reimbursement contract provides for payment to a supplier of allowable costs, as specified in the contract and incurred in the performance of the contract. This contract type establishes at the outset an estimated cost for performance, and a dollar ceiling which the supplier may not exceed, except at its own expense, without prior approval or subsequent approval by the agency. A contract reimbursement contract provides that the supplier agrees to perform as specified in the contract until the contract is completed, or until the costs reach the specified ceiling, whichever occurs first.

This contract type is appropriate when the uncertainties involved in performance are significant enough that the cost of contract performance cannot be estimated with sufficient certainty to realize economy by use of any type of fixed price contract. It is particularly suitable for research, development and study contract types. This contract type requires appropriate monitoring by agency personnel during performance to provide reasonable assurance that the objectives of the contract are being met.

Develop Specifications:

Throughout the Plan stage the procurement team defines the procurement need, and develops and refines the strategy, objectives, and requirements to frame comprehensive specifications for the procurement.

Through a discovery – or information gathering – process, the procurement team works with an agency business unit and end users to fully define the business problem and establish the conditions that must be met for a solution to be determined successful. These requirements are the basis of the specifications of a procurement.

Specifications determine and control the:

Minimum quality level of the product or service.

Extent to which competition can be leveraged.

Suitability or fit of the product or service for its intended purpose. Evaluation factors that support a best value determination or award.

Develop evaluation strategy:

An evaluation strategy is the documentation of the process that the procuring agency will use to evaluate proposals received in response to an RFP or similar procurement method where factors other than acquisition cost are considered. The procurement team should develop an evaluation strategy in conjunction with the procurement plan.

An evaluation strategy ensures that the evaluation committee conducts an evaluation and selection of a product or service in an impartial, fair, efficient, transparent and non-discriminatory manner. To facilitate this, the procurement team must establish and include objective criteria for evaluation in the solicitation:

Determine whether a particular proposal is responsive, that is, whether it materially meets the requirements of the solicitation.

Assign scores or ratings to each of the evaluation factors established in the solicitation and responded to by a proposer.

Record all determinations of the evaluation process in writing along with the justification for determination.

In a competitive sealed proposal procurement method, a procuring agency must consider life cycle costing which calculates the cost to acquire, operate, support and dispose of a product over its useful life. This consideration should be included in the evaluation strategy. A procuring agency may use this method to include any

additional costs that relate to adverse impacts of a product, for example, impacts to the environment or public health.

Aside from cost as a determination for award, a best value analysis considers multiple elements that may include service delivery factors, such as service areas, service provider's availability, past performance and service rates. A best value analysis process should serve as documentation of a procuring agency's selection method and should be included in an agency's evaluation strategy.

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