Course Name	**: Purchasing & Supplies Management**
Course Code	**: APBSS 405**
Course level	**: Level 4**
Credit Unit	**: 4 CU**
Contact Hours	**: 60 Hrs**

Course Description

The Course explores different dimensions of purchasing management, freight forwarding, models of supply chain, procurement outsourcing, supply chain optimization, safety stock, supply chain operations reference model (SCOR), value chain.

Course Objectives

- To help student get familiar with the basic principles of purchasing and supplies chain management.
- To enable them appreciate the role of purchasing &supply management in ensuring accurate, timely, and constant supply of goods & services.
- To further enable students to understand the emerging changes in purchasing in light of the new technology and business environment changes.

Course Content

Introduction to Purchasing Management

- Purchasing process
- Purchasing Management process
- Purchasing Panning
- Purchasing Tracking
- Purchasing Reporting

Freight Forwarding

- Definition of freight forwarding
- Who is a freight forwarder
- History of freight forwarding
- Freight forwarder roles in different countries

Supply Chain

- Definition of supply chain

- Over view of supply chain
- Supply chain modeling
- Discussion of supply chain management
- Supply chain risk Management
- Supply chain security
- Key initiatives

Procurement Outsourcing

- Meaning of procurement outsourcing
- Overview of procurement outsourcing
- Forms of procurement
- Supply and contract Management software

Supply Chain Optimization

- Meaning of supplying chain optimization
- What need is being addressed
- What approaches and solutions exist
- What are the claims for supply chain optimization

Safety Stock

- Meaning of safety stock
- Reasons for safety stock
- Reducing safety stock inventory policy
- Calculating safety stock

Supply-Chain operations Reference model (SCOR)

- Meaning of SCOR
- Major pillars of SCOR
- SCOR framework levels
- Examples on how to use SCOR

Value Chain

- Definition of value chain
- The concept of value chain
- Activities of value chain
- Significance of value chain
- Value reference model
- Business function of value chain
- Supply network
- Origin of the concept of supply chain network

Mode of delivery Face to face lectures

Assessment

Coursework 40%

Exams 60%

Total Mark 100%

PURCHASING AND SUPPLIES MANAGEMENT

Materials – Handling:

Materials handling is a fairly high cost element, while it makes no contribution whatsoever to the value of the product. Since it cannot be avoided, enterprises strive to keep it to a minimum. It involves the transfer of goods to various storage places in the store and from there to the point of use (production process) between the stages in the production process and from the production process to the warehouse. It can therefore be regarded as the movement of goods over short distances.

Objectives of Materials – handling:

- Cost: Minimizing costs as much as possible by acquiring handling equipment with more uses. This is because the more uses a specific piece of equipment have the lower the cost of material handling.
- Capacity utilization: The equipment used in materials handling should be able t o utilize space optimally i.e. length, width and height.
- Minimum handling: Limiting as far as possible the number of times goods have to be handled because this will reduce costs.
- Safety: eliminating repetitive and or manual handling of heavy goods and preventing damage to materials, ensuring safety of workers so as t ensure favorable working conditions.
- Service: Reacting or adopting quickly to changes in the production schedule and responding to the needs of customers as fast as possible.

Materials-handling equipments:

These include that which moves on the floor and that which moves overhead. Equipment that moves freely on the floor includes:

- Hand-driven equipment – which is used to transport small or light articles, e.g. trolleys.
- Tractors and trailers – which can transport heavier articles but require relatively large turning space.
- Forklifts – Can perform a variety of actions at a relatively low cost, one operator can work with a forklift to store or move around pallets where necessary.
- Conveyor belts – i.e. they are both gravity type where items are moved by mass and the power driven type.

Overhead materials – handling equipment include:

- Mobile crane – ideal for handling heavy materials in relatively high stores.
- Rails – designed to reach different areas. Containers normally hang from the rail which may be used for both incoming and outgoing movement.
- Lifts often electrically powered and may be planned for specific routes.

Removal of Waste Materials:

Scrap, waste or surplus materials are often seen in an extremely negative light because they are regarded as a sign of poor management. They are cost item for the enterprise because they increase the price of the final product which then places the enterprises competitiveness under threat. Waste or scrap or surplus materials cannot be avoided, however, although effort should be made to keep them to a minimum.

Sources of waste Materials:

In order to manage waste materials properly. It is essential to identify all possible sources thereof. The following general sources of waste materials can be identified.

(i) **Scrap in the production Process**:
This includes leftovers in the production process e.g. Small sizes or quantities of raw materials which are too little or small for any talk project or production process.

(ii) Unusable or damaged supplies :
These could be materials or components that are needed in the production process but do not meet the specifications or are below standard as far as quality is concerned. Breakages and obsolescence are additional source of unusable inventory.

(iii) Purchasing excess inventory:

This could be as a result of poor planning, incorrectly forecasting the demand for the products, economic reasons or because this is the company's policy. This may result in surpluses that have to be resold because of the danger of obsolescence, operating capital tied up in them.

iv) Obsolete equipment:
All equipment at a certain time becomes technologically obsolete or worn out and needs to be replaced.

(v) Packaging Material
Packaging material should be removed because it often takes up fairly large areas of storage space. However, suppliers are usually prepared to take back packaging material for remuneration.

Methods of removing Waste Materials:

Waste materials and equipment can be removed in different ways depending on the income or benefit that can be derived from the specific method. The following methods can be applied.

a. Use within the enterprise :
A list of surplus materials can be circulated in t he enterprise and among its subsidiaries. Computer equipment is an example of old equipment that can easily be used in another place in the enterprise where the latest technology is not all that important.

b. Processing within the enterprise:

If the enterprise can process by-products more profitably and generate another more saleable product profitably, this is another alternative to removing surplus materials.

c. **Returning Surplus materials to the supplier:**

Surplus materials can also be returned to the supplier although this is done at a fee for the inconvenience caused.

d. **Selling to other users**:

Selling surplus to other users is often more profitable than selling to scrap dealers. The prices obtained will depend on the conditions of the materials and the availability of other sources.

e. **Selling to employees of the organization:**

Surplus materials that are in a good condition can be sold to employees if the policy of the organization allows this. However this may cause unhappiness among other staff members and the processing of such transactions may be a major administrative burden.

f. **Donations to educational Institutions:**

This is common with equipment such as computers, sewing machines, typewriters, etc.

Costs involved in removing waste materials:

- Transport costs
- Internal handling e.g. sorting apart and loading scrap.
- **Processing costs:** if the best alternative is to process the waste oneself.
- Direct labor e.g. operators for cranes and other equipment.
- Managers and supervisors involved in the removal of waste.

These cost elements should be weighed up against the possible revenue that can be generated from the scrap. If it can not be removed 'profitably', then alternative methods should be sought or an effort should be made to reduce the amount of future waste.

Reducing surplus materials:

Even surplus materials and waste appear to have been removed at a profit. It is better to keep them t o a minimum because there will always be indirect costs that ate not always take n into consideration e.g. the effect on the price of the product. There are a number of methods that can be used to reduce waste or surplus materials.

- Buy other or substitute materials9including packaging0 that are easier to remove e.g. less dangerous substances or materials for which there is a market in recycling.
- Other methods of materials –handling, maintenance and collection of waste can reduce surplus and waste or the cost of removal.
- Instead of removing technologically obsolete processes and equipment, modifications could possibly be made to satisfy new requirements and expectations.

SUPPLY CHAIN MANAGEMENT

Introduction:

The supply chain is not a chain of businesses with one to one business –to –business relationships, but a network of multiple businesses and relationships. Supply chain Management offers the opportunity to capture the synergy of intra-and inter- company integration and management. This is in a sense that SCM deal with total business process excellence and with other members of the supply chain. However, successful SCM requires cross functional integration and all management functions must play a critical role.

Supply chain (SC):

This refers to the network of activities required to get an item from raw material state where it is ready for consumption – in the hands of the final customers/consumers. Different items have different supply chains depending on the nature of operations of the firms where they pass.

Supply Chain Management (SCM):

This refers to the integration of the activities involved in the supply chain. It emphasizes a change from the traditional transactional management of organizations to a modern way of working together with suppliers the suppliers of suppliers, customers as well as the customers of customers.

Supply Chain Management requires organizations to work together through sharing benefits as well as risks. This can only optimize combined value for all the firms rather than some gaining at the expense of others.

a) The Through flow warehouse

In the through flow warehouse, goods inwards and outwards are on opposite sides of he building. All items must therefore travel the full length of the store. The layout also requires separate goods in and dispatch management with dual yard access and doubles the internal bay areas. The layout is useful where the goods in and out vehicle requirement is different such as in their platform height or the nature of the unit load warrants the separation of the two facilities.

However, this type of layout limits future extensions of the building.

From the above.

- The focus of traditional procurement /purchasing was between the focal company and the first tier suppliers (materials management).

- The interface between the focal company and the first tier customers is referred to as physical distribution.
- Materials management focuses on the focal company and all related functions that interact with materials. In other words materials management focuses on the internal supply chain (purchasing, stores, production, marketing and distribution).

As the chain continues further away from the focal company towards the end customers (one who buys for non commercial use). It is said to be moving down stream.

And as the chain continues further away from the focal company towards initial suppliers. It is said to be moving down stream.

The interface that covers the whole chain from initial suppliers to the final consumer is the focus o supply chain management.

Note: The ultimate source of revenue for every firm in the supply is the end/final consumer.

Of all 1st tier customers, 1 is the most important because he supplies to more 2nd tier customers. The implication is that he may require more attention than for example the first tier customer 2.

It is not advisable for 1st tier customer 1 to supply t the end customers because it creates competition between him and his customers. It is like a wholesaler selling to consumers yet he sells to retailers. Retailers would not be comfortable competing with the wholesaler, e.g. a company delivering its products directly to final consumers making it to compete with retailers.

All firms across the chain must release information to the chain for effective decision making.

Get the supply chain management processes and include them here.

SUPPLIER RELATIONSHIPS:

Relationships between buyer and seller are of significant importance that attention now focuses on achieving and monitoring the right relationship rather than simple performance measures.

Strategic Importance of supplier relationship:

The strategic importance of suppliers' relationships has got benefits such as:

- Cost reduction
- Access to technological development.
- Joint innovations
- Reduction in duplications
- Reduction in duplication of efforts (i.e. administration, quality checks).
- Waste reduction.
- Short lead times and a more focused supply chain.

- Partnership cooperation in which mutually profitable long term relationships between suppliers and their customers are sought based on openness and trust.

Different types of buyer – supplier relationship models.

Value	Importance	Category of relationship
Low	low	commodity purchasing
High	low preferred	preferred supplier
Low	High	preferred
High	High	partnership

The type of relationship with suppliers depends on the degree to which the competences of the suppliers and purchasers are complementary. Where they are complementary, the type of relationship is described as quest or vertical integration and it will be exercised by joint ventures or single sourcing or using a number of suppliers on a preferred basis.

Methods of improving buyer – supplier relationship:

There are several mechanisms for increasing supplier's relationships. These include:

- Suppliers cooperative Association
- Cross transfer of staff
- One to one development
- Parallel sourcing

Suppliers cooperative Association:

It is based on trust, and sharing of business strategies. E.g. in engineering and cost information. They also require organizational change. A general definition is:

A mutually benefiting group of a company's most important suppliers brought together on a regular basis, for the purpose of coordination and cooperation as well to assist the members to benefit. Or a group of companies linked together on a regular basis to share knowledge and experience in an open and cooperative manner.

Cross transfer of staff:

This can be permanent or temporary for cementing relationship between the buyers' ad suppliers' organizations e.g. to understand what exactly the buyer wants – system and relationship.

One to one development:

This involves working together to strengthen relationship with the emphasis on joint problem solving and mutual gain. This can be in the form of onsite training of suppliers, employees, individual suggestion directly to the sup[pliers and technical assistance.

Parallel sourcing

This is where two suppliers are selected to manufacture a part, and although the relationship of both is close, the threat of competition is ever resulting into good quality and better service delivery.

How to start improving suppliers/buyer relationship

- Examine your own motivation orientation
- Focus heavily on relationship issue.
- Conduct a carefully negotiations analysis before interacting with suppliers.
- Design procedure for pe-post negotiation interaction.

Supply chain management is not about minimizing the effectiveness and profitability of the individual units, whether factories/warehouses or transport flight, but optimizing the whole to achieve better service at lower cost with less industry. This can be done through commercial relationship. Until the early 1980's, the focus of purchasing/ procurement tended to be very much on the transaction aspect of the deal.

Suppliers were generally seen as adversaries. But more recently, organizations have began to think of suppliers not as above but as potential partners and the supplier base as a source of competitive advantage advantages from which benefits could be harvested if the right relationships were established.

As organizations continue to downsize and concentrate on their core business or mission, external supplier inevitably has become more important and central to the achievement of corporative objectives.

Increased interest in suppliers' relationship:

The reasons for increased interest by organizations in suppliers' relationship include the following:

- Efforts to integrate supply chain to reduce costs.
- Realization of hidden costs as a result of poor relationship
- Growth of outsourcing practices.
- New types of relationship models in the commercial market.
- E-commerce and ICT changes in the relationship landscape.
- Higher value of trust in relationship
- Environment (green) issues and ethical relation.
- Government procurement changes.

a. Realization of hidden costs associated with poor relationship:

This arises in the absence of a trusting relationship. Both supplier and buyer try to hide information after long and arduous negotiations. Both parties will need to check order invoices and indeed the quality of goods received. This means extra costs for both parties in the relationship.

b. Efforts to integrate supply chain to reduce cost:

The supply chain management concept emphasizes that all organizations in the supply chain network stand to gain from cooperating or reducing costs and improving quality so that the final consumer is satisfied. In order to reduce waste in the supply chain, it is necessary for supply chain members to work more closely together to identify areas where there is duplication, excess inventory or supply bottlenecks. Closer integration i.e. often facilitated by information Communication Technology (ICT) solution and in order for ICT solutions too work effectively, all members of the supply chain must agree on some common standard for the benefit of all e.g.

- Reducing waste and non-value adding activities such as handling or excess inventory.
- Improving supply chain communication especially with regard to forecasting.
- Reducing the tie for new product development
- Coordinating better the efforts of all components, links in the supply chain.

c. Growth of out-sourcing Practices:

As organizations in both public and private sector continue to outsource more and more activities, managers will see their role change from being functional or departmental to being a contract or external resource manager.

d. New types of relationships in the commercial world:

The world over, competitors are forming alliances e.g. airline businesses are cooperating with the farmer competitors to have information, cut marketing and traceting costs and offer their customers a better and integrated service.

e. E-commerce and ICT changes:

New ICT tools and in particular the establishment of online industry, market places, trading exchanges means that closer cooperation is possible with suppliers contractors and even competitors.

f. Higher value of trust in relationship:

In the knowledge economy where intellectual and not physical property is the source of most wealth, trust becomes even more important between commercial parties.

g. Environmental (green) issues and ethical pressure:

It is impossible to make a chain for your organization to be green if your suppliers are not green. And ethical sourcing motives require cooperation with suppliers' partners.

More suppliers but fewer good ones:

Good suppliers are becoming hard to find in many sectors and smart buyers are seeking longer term relationships with those that are regarded /perceived to be world class.

h. Government procurement changes:
This is intended to ensure that public sector buyers concentrate more on developing close and mutual, beneficial relationships with suppliers.

Note: Good relationship requires among other things:

- Commitment – doing what you said will do
- Empathy
- Honesty
- Communication

Building such relationship takes time and effort.

Factors that determine the nature of relationship with suppliers:

(i) ABC Analysis: One simple way of determining which type of relationship to establish with a supplier is by looking at the ABC – analysis. This analysis is a technique whereby products/services (items) are divided into A, B and C categories. This technique differentiates between supplies on the basis of cost (money) and forms the input for supply strategy differentiation (how to deal with the different products/services purchased).

In other words, more attention should be given to a-category items than to those in the C-category. Each purchaser should be familiar with this model and use it as a starting point for any purchasing action and even for purchasing strategy.

(iii) The Kraljic purchasing portfolio approach (matrix).

An organization has certain needs with regard t o external supply. Different products, services and items are purchased from the external market. Not one singe product or service is the same, not one supplier is the same as another. It implies that we need to differentiate and this calls for product positioning depending n two factors. Spend and criticality of an item.

Relationship with suppliers is likely to differ depending upon which box the supplier or commodity purchase is placed. This is presented in a 2 by 2 matrix by Kraljic. Kraljic (1983), introduced the first comprehensive portfolio approach for the determination of a set of differentiated purchasing strategies.

The Kraljic purchasing portfolio matrix is a purchasing approach to manage supplier relationships. Its general idea is to minimize supply risk and make the most buying power. From this, the purchaser can consider how best to develop the relationship with the supplier.

Kralijic’s approach includes the construction of a portfolio matrix that classifies products on the basis of two dimensions profit impact and supply risk (“low” and “high”).

The Kraljic Matrix/Supply positioning model

High

Leverage products -High impact of profits -No supply market constraints -Standard specifications	**Strategic Products** Your key purchases High volume Cost is vital Quality and availability is critical
Routine Products Low value items Many alternatives Routine purchases Majority of items are non essential products.	**Bottleneck products** Vulnerability high Delivery is fragile Need risk management Good planning is required Highly specialized.

Expenditure /Relative cost

Low Supply risk High

The strength of the instrument is that it enables the purchaser to differentiate between the various supplier relations and strategies that are appropriate for each category. These are:

- Leverage items: hard bargaining, induce services
- Routine items: Reduce handling/overheads costs, try to cluster into leverage contracts.
- Strategic items: go for partnerships
- Bottleneck items: ensure supply.

Kraljic's matrix categorizes the outcomes under four headings.

a. Strategic products:

These account for a high monetary value and also suffer supply risk, perhaps because of the small numbers of potential suppliers. These products are seen as being important over the long term to the organization and will require long-term solutions and analysis such as a closer and more collaborative approach between organizations. Strategic products are core to the organization.

Strategic products are likely to be fundamental to differentiating the company's products or to achieve a cost advantage and can therefore be key contributors to profitability.

Examples can include components on which an end product depends, a key equipment based on new technology and designed on individual basis. Any deviation from required performance could affect the efficiency and effectiveness of the whole process.

b. Bottleneck products:

These are products identified as being crucial to maintain operations. These purchases may represent a relatively small proportion of total purchasing spend however, their non-availability can result into a very high risk. For example a spare part of a machine operations in the manufacturing plant. The role of purchasing is to secure continuity of supply and develop the business relationship accordingly. These products should be handled by volume insurance, vendor control and security of inventories and back up plans.

c. Routine /Non-critical products:

Such as lubricants, stationery can increasingly be handled by contracting out management of the day-to-day supply activates to specialist organization (outsourcing). After the initial contract is drawn up, the role of purchasing becomes one of monitoring and managing the contract. These products require efficient processing, product standardization, order volume and inventory optimization.

d. Leverage products:

These are also valuable in monetary terms but their supply risk is low reason being there are many suppliers in the market. They are similar to routine products only that they involve high expenditure compared to routine products.

These items allow the buying company to fully exploit its full purchasing power through tendering, target pricing, product substitution etc.

This category is a natural target for a competitive bidding approach and the main deciding factor is likely to be purchase price.

Leverage products (where the purchaser has 'leverage' over the supplier) will often lead to an adversarial approach where the purchaser is looking for the best possible price while considering delivery quality and other issues as secondary. This approach does not lead to long-term thinking but is designed to secure the required product that meets the specification at the most competitive price.

Organizations will use a matrix of relationships applicable to those identified in the Kraljic matrix. These different approaches allow the purchasing team to maximize their effectiveness by having the right approach to suppliers in the circumstances. However, the matrix requires regular monitoring and updating to ensure that the correct approach continues to be used.

Summary of supply Strategies:

Kraljic's strategies recommendations for the four portfolio categories are usually summarized into simple concepts like "efficient processing", "exploit power", "strategic partnership ", and "volume insurance".

a. Strategic Commodities (strategic partnership)
Achieving total value through strategic sourcing/supply chain management can be possible through:

- Being supplied from one supplier
- Getting access to supplier's technology and expertise.
- Joint development: unique specifications
- Product differentiation (competitive edge).
- Multi-disciplinary competence teams
- Medium/long term detailed contracts (3-5 years)

Leverage commodities (exploit power):

Accruing returns through analysis can be possible through:

-Optimizing purchasing power – drive profit

Managing supply market capacity – drive profit

Purchasing for price reductions

Standardizing specification – limited differentiation

Stock holding at suppliers – use VMI (Vendor Managed inventory technique)

Short/medium term contracts

Maintain flexibility – consider multiple sourcing.

b. Bottleneck commodities (secure supply)
Strategic sourcing can be done by:

- Having a second source do not depend/rely on one supplier
- Ensuring supply so as to remove/minimize risks
- Using buyer's specification- seek substitutes
- Standardizing – reduce number of products
- Considering keeping stocks
- Carrying out normal negotiations – price is a lower priority
- Seeking alternative sources- encourage competition
- Preparing a contingency plan

c. Routine commodities (Efficient processing)

- ensure lean supply – minimize acquisition costs
- use industry standard specifications (catalogues)
- reduce supplier base –volume consolidation
- minimize attention – supplier does everything for the buyer
- automation – E-procurement
- negotiate discounts (on price lists)
- Consider outsourcing provision of these products.

How to start improving buyer /supplier relationship

Setting up of the buyer/supplier relationship on the first place is the first obstacle on the road towards sustainable relationship. This can be especially difficult if t he purchasing and suppliers staff have been used to adversarial methods of negotiation.

The four key considerations for successful negotiations

1. **Examine your own motivation orientation**

Neither a cooperative nor a competitive orientation is appropriate for complex negotiation. Enlightened self interest is the orientation that develops quality agreement through its focus on interests, merits and results- know what you want from the negotiation.

2. **Focus heavily on relationship issues**

The traditional focus on substance and right based market must be complimented with – focus relationship issues when negotiating cooperative relationship. Many buyers focus on short-term financial /gain and thereby miss the opportunity to exploit long-term mutual gain through collaboration with suppliers.

3. **Conduct a careful negotiation analysis before interacting with the supplier:**

Establishing a cooperative relation tailored to the exchange needed and to the characteristics of partners requires the following analysis:

(i) Examination of interests and issues

(ii) The generation of options – what to give and what to take

- Examine interests and issues
- Coming up with options
- Explore means of turning options into specific agreements
- Evacuate alternatives to the agreement

(iii) Design procedures for pre-negotiation and interaction. Given the potential complexity and predictability of cooperative supplier relationship, a buyer should:

- Carefully consider the timing of interaction with potential suppliers.
- Use well established negotiation procedure
- Design procedures for handling future conflicts

Partnering:

A partnership is the most advanced form of relationship in management. Broersma (1991) defined it as: "the building of long-term relationships with a limited number of suppliers based on mutual trust". Here the purchaser, supplier and other organizations involved in the supply chain work together to reduce total cost and improve the quality of the product or service. The aim is to adhere world-class standards so as to achieve both short and long-term goals.

Hendrick et al (1993), defined a 'partner' as a firm with whom your company has an ongoing buyer – seller relationship, involving a commitment over an extended time-period, a mutual sharing of information, risks and rewards resulting from the relationship.

"Partnership is the result of the buyers' continuous effort to improve results in the relationship with suppliers, rather than a technique which can be adapted and applied in a short time.

The objective of this type of co-operation is to achieve improvements in:

- Cost
- Logistics
- Quality
- Product development

Critical success factors or variables required to sustain partnerships.

Critical success factors or variables that when properly sustained, maintained or managed will have a direct impact on one's partnership and hence one's shared vision. They affect the overall partnership and they include:

- Commitment - which is determined by the buying and sellers' organization top management.
- Communication – what exactly is needed in the relationship by looking at the service level agreement?
- Coordination of all transactions
- Motivation e.g. through sharing benefits and rewards
- Conflict management – how to resolve conflicts when they arise.
- Culture change – being adaptive to each other's culture.
- Participation among buyers and suppliers.

Why partnerships fail:

- Poor communication
- Low level of top management commitment
- Lack of TQ commitment by suppliers
- Lack of shared goals – these are derived from objectives of the relationship.
- Lack of benefit – risk sharing
- Ineffective mechanism of conflict resolution.

Conclusion:

Supplier – buyer relationship can be compared to a marriage relationship which involves long-term relationship.

- Developing a partnership with suppliers takes time. The road is long and difficult, there are no easy ways or short cuts to success.
- Cooperation with suppliers requires internal team work between all disciplines and yet companies still operate in a functional manner.

SOURCES OF POTENTIAL SUPPLIERS:

a. The Internet:

This has become a huge important source of information on suppliers giving all the details on the supplier including the address, the type of goods, terms and conditions and other details that may be required by the buyer. Useful sites, include Yahoo, Google, etc. Caution is needed while using the internet to locate suppliers because information on the site may be stale or incorrect or untrue.

b. Trade directories:

These are publications that list and classify suppliers according to the products they make. This gives additional information such as names of the company, the personnel, financial status and location of their sales offices. Some of the best known general directories include: Thomas register of American manufacturers, MacRac's blue book, and the Yellow Pages of the telephone directory also provide a complete source of local suppliers. Directories can also be prepared by Chambers of Commerce (Uganda National Chamber of Commerce).

c. Trade Shows, exhibitions and conventions:

Trade shows are one of the effective ways of gaining exposure to a large number of suppliers at a time. Buyers attending such shows can gather information about potential suppliers while also evaluating latest technological developments. Many contacts between industrial buyers and sellers occur at shows. Exhibitions catalogues and other literature usually provide details of the main supplier in a particular field and so they are always retained for reference purposes by the buyers who attend such exhibitions so as to enable them locate these suppliers if need arises. While at conventions in additions to displaying products t stimulate buyers' interest, ideas are exchanged between suppliers and potential buyers learn about new products and their supplier at the end of it all.

d. Trade journals:

These provide buyers not only with information regarding new products, substitute materials but also trade gossip which makes buyers informed about changes in the suppliers policies and personnel. Most industries have a group or a council that publishes a trade journal or magazine which routinely presents articles about different companies. These articles often focus on a company's technical or innovative developments of a material, component, product, process or services. Suppliers also use trade journals to advertise their products. These magazines and their adverts compel buyers to give audience and welcome to appropriate sales people. Procurement personnel always rely on these journals and their advertisements to obtain information about new products' suppliers in order to locate them.

e. Information data bases:

Some companies maintain databases of suppliers that are capable of supporting an industry or product line. The use of an automated database or data warehouse can identify suppliers potentially qualified to support a requirement. The database may contain information on current products, the suppliers' future technology, road map, process capability ratios and past performance. Databases of potential supply sources can be obtained from external parties at a cost and these can be especially valuable when searching for foreign supply sources.

f. Sales Representatives:

The usefulness of sales people is dependant on their knowledge of the product or service they are seeking to promote. They are often able to provide useful information regarding suppliers such as details of other items other than those manufactured by their own undertaking. The contacts between sales representatives and buyers can prove to be a valuable source of information to help locate potential suppliers and even when immediate need does not exist, for a supplier's services or products, the buyer can use the information for future reference when the need for such a supplier's services or product arises.

SUPPLIER EVALUATION/APPRAISAL:

When you source you take the risk. This risk can be minimal by careful selection and ongoing monitoring of performance. The evaluation of a supplier's performance is a technique that aims at providing important facts regarding a potential supplier rating or assessment will be required in order to monitor and record objectively the ongoing relationship.

Modern progress in procurement methods has seen increasing emphasis placed upon the meaningful evaluation of seller/supplier performance. An adequate and effective system for measuring the merits of a supplier can thus become an available proof of a purchasing operation's honesty and efficiency.

THE PROCESS OF SUPPLIER APRAISAL:

(i) Technical / Quality appraisal:

Common methods used in the appraisal of a potential supplier's quality include:

a. References/Reports from other customers:

Buyers should seek customer lists from prospective suppliers. In this way the likelihood of being given only positively based references is reduced significantly.

b. Evaluation of Sample products:

In a manufacturing and retail sector, buyers can examine samples of suppliers' goods/products. Buyers must ensure that the sample provided does infact represent a true view of the typical supplier products.

c. Third Party Certification:

If the buyer's needs are highly specific or unique, then third party appraisal may not be sufficient. Buyers should remember that ultimately a quality certificate is just a paper. How it was achieved is the important issue. However, having ISO 9000 and other third party quality accreditation is a good signal that the supplier is interested in delivering quality.

c. Supplier visits:

This is possibly the best means of really understanding the suppliers' business. Many important factors can only be appraised by a supplier visit. However, supplier visits should be unannounced or made at a very short notice in order to reduce the chance of a 'show' being put up specially for the buyer.

(ii). Financial Appraisal:

When anticipating a long term relationship with a supplier or when purchasing capital equipment, the financial stability of the supplier is critical. A basic appraisal of a suppliers' financial health would include:

a. Profitability:

In general, the professional buyer would prefer suppliers whose profits are growing in line with industry norms. This is because very high profits may give cause for concern that the supplier charges high prices while very low profits suggest little funds for investment.

b. Turnover:

In general a professional buyer would prefer suppliers whose sales show health increase year after year. This is because too rapid increase may suggest overtrading and less attention to customers' needs. Whole small growth may suggest that the company has trouble in convincing customers to buy its products.

c. Net Assets:

Ample reserves allow a supplier not to make losses and a professional buyer would prefer a supplier with ample reserves. This is because too many assets particularly those unrelated to operations e.g. large opulent office buildings in city centers might suggest wastefulness while too few assets might mean that in recessionary times, these companies may have problems paying their debts.

d. Cash Flow:

Lack of cash is more likely to cause bankruptcy. In some industries such as construction, cash is more of a problem than profitability. A company may only get paid at the end of a long project while incurring major costs along the way. However, buyers may assist the supplier wit cash flow by negotiating stage payments and pay invoices on time.

(iii). Environmental/Ethical Appraisal:

A new appraisal area getting a lot of attention today is that of ethical and environmental sourcing. Many organizations particularly in developed countries are now coming under pressure from consumers, government, religious groups and pressure groups to tale more care when placing contracts with suppliers to ensure that these suppliers have certain minimum standards with respect to employee welfare and ecological environment.

The following headings represent some areas where the buyers will seek assurances from suppliers particularly when sourcing from countries with poor regulatory systems or developing countries

Environmental Standards.

- Does the supplier hold or is seeking ISO14000?
- Does the supplier have a policy on recycling?
- Does the supplier have a policy on reducing packaging?
- Does the supplier have a policy on energy conservation?
- Does the supplier seek evidence of environmental based practice from his suppliers?
- Does the supplier have a policy on sustainability of resources?

Ethical Standards:

- No use of child labor.
- No forced labor or compulsory overtime.
- No physical punishment of workers
- No discrimination against employees seeking to protect their rights.
- Basic health and safety protection for workers.

Evaluation Criteria of Suppliers:

The Evaluation Process:

This is a process whereby the procuring entity does an assessment based on the criteria stipulated in the solicitation documents, Terms of Reference (TOR) as to whether the bidder is in conformance with the requirements. This is usually done by a committee or team as per the laws and regulations governing the PDE.

The following criteria are followed:

a. Quality/Cost based evaluation (Preliminary evaluation).

This verifies the suppliers' legality in operation. It looks at:

- Trading license
- Memorandum and articles of association
- Income tax clearance
- VAT clearance
- Certificate of incorporation

The preliminary evaluation is done on pass/fail basis and it is a ticket to the next stage.

b. Technical Evaluation:

This is with reference to compliance with specifications (goods), Scope of Works (SOW) or Bill of Quantity (BOQ) for works and Terms of Reference (TOR) for services.

Technical evaluation considers all the statement of requirements for the particular goods and services including the experience of the staff, output/report submission, experience of the firm, bid security, performance guarantee, warranty, insurance etc. Marks are awarded for terms of references (services), for works comparison is made and for specifications compliance assessment is conducted. However, no credit is given for exceeding the specification.

C Financial evaluation:

Only bids that have passed the technical evaluation stage qualify for financial evaluation. The purpose of financial evaluation is to determine the lowest price responsive, qualified, technically compliant quotation.

At this stage: arithmetic errors are corrected.
All bids are converted to a common currency.
Bids are ranked according to the total price from the lowest to the highest.

PRE-QUALIFICATION

Introduction:

The successful performance pf large contracts, particularly those that are complex or specialized with strict quality or registration requirements or that have to be designed or custom manufactured specially for the procuring and disposing entity requires that contracts are awarded only to firms that are:

- Suitably experienced in designing, manufacturing or distributing the type of works, services or supplies required.
- Have sufficient production and financial capacity to provide the required quantity within the required delivery period.
- Have adequate quality assurance systems and are financially and managerially sound.

The assessment by a procuring and disposing entity of the suitability of firms to carry out a particular contract prior to being invited to submit a bid is a process called pre-qualification.

Pre-qualification can also be used where the same type of contracts is needed to be procured a number of times i.e. where there is a group of contracts. Conducting a pre-qualification enables the PDE to obtain a list of firms the are qualified for that type of procurement and that list can then be used for preparing shortlists over a certain period of time.

For example, a hospital could pre-qualify providers for its major pharmaceutical requirements for a period of a year. The existence of the pre-qualified list saves time and effort for both the PDE and Bidders, as a single pre-qualification process.

The PDE will also have a list of suitable firms to choose from in the event that it needs to select a single bidder under the Direct Procurement method.

The Use of Pre-qualification:

The PPDA Act of 2003 and Regulations allow the pre-qualification of firms for the provision of highly complex or specialized procurement followed by a limited/restrictive bidding procedure in which only those firms meeting specified criteria are invited to submit a bid.

Where a prequalification is conducted for a group of contracts and the subsequent contracts fall within the thresholds for Restricted Bidding or Quotations Procurements, the PDE should follow the normal rules applicable to those procurement methods in developing a shortlist e.g. a minimum of three bidders for Quotations Procurement.

Considerations before deciding on carrying out pre-qualification:

- The size of the procurement.
- Number of procurements
- Complexity of the procurement
- Limitations on completion time.
- The critical nature of the procurement
- Quality or registration requirements
- Special design or manufacturing requirements.

Considerations regarding the process of pre-qualification should weigh the potential benefits against the potential disadvantages.

Benefits of Pre-qualification:

The pre-qualification process may be of benefit to both Bidders and PDEs alike, in that:

- It reduces the risk of late delivery and consequent stock-outs, associated with Bidders who lack the production or financial capacity to meet the required production levels.
- It reduces the risk of sub-standard supplies, associated with bidders who lack appropriate quality assurance procedures and systems.
- After pre-qualification, well-qualified firms will price their bids with the realistic minimum competence criteria; the assurance that inadequately qualified competitors will be excluded from submitting unrealistically low bids thus encourages loading providers to bid.
- Pre-qualification enables procuring and disposing entities to assess the interest from qualified firms generated by the contract and in the event that only a limited number of applications are received to make any necessary adjustments in the procurement process (including in particular the special conditions of the contract, specification payment terms, liquidated damages or delivery times, which may be perceived as onerous by potential bidders.
- It helps to expose potential conflicts of interest by identifying providers who may have a business association with consultants responsible for preparing the specifications.

- It reduces the amount of work and tie involved by procuring and disposing entities in evaluating bids form unqualified providers.
- It enables the procuring and disposing entity to assess the likelihood of providers' eligibility for a margin of preference under any applicable preference scheme.
- It reduces significantly if not eliminates problems of rejection associated with low-priced bids submitted by bidders of doubtful capacity.
- It facilitates the preparation of shortlists and ensures that all qualified Bidders are given opportunities to bid where there are a number of similar requirements.
- It reduces the cost of advertising and conducting the pre-qualification process for the PDE where a single pre-qualification can be used for a group of contracts.

Disadvantages of Pre-qualification:

On the negative side, pre-qualification has some potential disadvantages

- It may increase procurement lead time, although this can be minimized by good procurement scheduling e.g. undertaking the pre-qualification process while bid documents are being prepared.
- The PDE is required to review all pre-qualification applications, whereas post-qualification requires the review of the qualifications of normally only one (the best evaluated) Bidder.
- Collusion (and the possibility of price-rigging) is easier among a limited number of identified Bidders particularly if they are of the same nationality.
- The element of subjective judgment required by evaluators when applying the pre-qualification criteria to a number of applicants and the discretionary rights reserved to the PDE, provide opportunities for externally influenced deviations from the expected high standards of ethics and impartiality in pre-qualifying applicants.
- Pre-qualification information has to be verified prior to contract award as the best evaluated Bidders' situation, particularly in terms of available capacity, may have changed such as where they have been awarded other large contracts since the pre-qualification process.

On balance, the benefits of pre-qualification under transparent conditions for large or complex procurements or groups of similar contracts normally outweigh the potential disadvantages for both PDEs and bidders alike.

PROCUREMENT METHODS:

The Procurement Act spells out a number of methods that may be employed in securing goods or the provision of services. The choice of a particular method is normally guided under part IV of the procurement Act. However, the guiding factor is usually the need to obtain value for money. Every method chosen by an entity must be approved first by the contracts committee to see whether it provides value for money The Act outlines the following methods:

- **Open Domestic Bidding**

Under Section 80 of the Act, a PDE may employ the open domestic bidding method. This is a procuring or disposing method which is open to participants on equal terms through advertisement of the procurement or disposal opportunities.
The media for advertisement is national; it is used to obtain the minimum possible competition and value for money. This means that foreign or international bidders are not

barred from participating in the bidding process. It is domestic because the advertisements are normally placed in the local media.

- **Restricted Domestic bidding:**

The process of acquiring products or services under the restricted domestic bidding method is guided by regulation (225) to the extent that invitations to bid are addressed to a limited number of potential bidders without advertising the opportunity in a bid notice for the whole public to participate.

This method may be used where:

- The supplies, works or services are available only from a limited number of providers within the country.
- There is insufficient time for an open bidding procedure. This is especially in emergency situations.
- The estimated value of the procurement does not exceed a threshold given in the guidelines. Under this method, the selection of the bidder is done by the contracts committee.
- The display of the best evaluated bidder is done before the bid is confirmed by the Accounting Officer as not subject to administrative review.
- The bid is approved by all relevant agencies including the Attorney general since he is the legal advisor to the government in the law of contract.

Open international bidding method:

This is a mode of procurement of procurement which is open for participation on equal terms by all providers through advertisement of the opportunity which specifically seeks to attract foreign providers. It may be employed instead of open domestic bidding where competition would increase the value for money.

This method does not, however, prohibit the domestic bidders from participating and under regulation 114; it shall be open to all bidders and shall be by public advertisement of a bid notice in a publication of wide international circulation.
The bids are submitted to the contracts committee and bid opening is in accordance with the procedures set out in the regulations.

Restricted International bidding:
‘
Under Section 83 of the Act; This is a procurement or disposal procedure where bids are obtained by direct invitation without open advertisements and the invited bidders include foreign bidders. It is used where circumstances do not justify or permit an open bidding method. Under regulation 166, the selection of bidders is done through developing a short list which is sufficient to ensure effective and real completion.

The PDE uses information available in the authority’s register for providers or in the entity’s own list of pre-qualified providers and where a shortlist is developed, a fair and equal opportunity with out barriers to competition is afforded to all bidders.

Quotations/Proposal Procurement:

Under Section 84 of the Act, These are simplified procurement and disposal methods which compare with price quotations obtained from a number of providers. These methods are employed where the value or circumstances do not justify or permit open or restricted bidding procedures.
While quotations are employed in procuring works and supplies proposals are employed in procuring services. The two methods are appropriate
–Where there is insufficient time and where there is an emergency.
-Where the estimated value of he procurement does not exceed what is stated in the procurement guidelines.

The process comprises the solicitation documents addressed to a limited number of potential bidders without advertising the opportunity. According to regulation 117, the PDE should as far as possible obtain at least three bids.

Direct/Single sourcing:

This is provided for under section 85 and is used where exceptional circumstances exist that prevent the use of competition e.g. security reasons,

- Where the buying organization has sourced from a particular supplier for a relatively longer period, cases of emergency among others.
- Competition may not be necessary or possible where there is insufficient time for other procedures to be employed and so this method becomes appropriate.
- Also where works, services or supplies are available from only one provider, then this method is appropriate.
- Similarly where there is an existing contract which requires to be extended for additional works, services or supplies of a similar nature and no advantage could be obtained by further competition then this method can be used.
- It is also preferable where there is a need to purchase additional works, services or supplies from the original supplier to ensure continuity in technical approach, use of experience acquired or continued professional liability.

Conditions appropriate for the use of tendering and competitive bidding:

- The value of purchase mist justify expense I.e. the dollar value of the specific purchase mist be large enough to justify the expense to both the buyer and the seller that accompanies this method of source selection and pricing – there must be sufficient value in the purchase so as to warrant the expense of tenders.
- The specifications of the item or description of the service to be purchased must be clear to both the buyer and the seller. In addition, the seller must know from actual previous experience the cost of producing the item or rendering the service.
- The market must consist of an adequate number of sellers. If not, there is a risk that and inefficient bid will be received.
- The sellers that make up the market must be technically qualified and actively want the contract and therefore be willing to price competitively to get it.
- The buyer must have a good idea of a “ball park” (rough estimate) price, then the suppliers are likely to exploit him.
- The time available must e sufficient for using this method. Suppliers competing for large contracts mist be allowed time to obtain and evaluate bids form their sub-contractors before they can calculate their best price. Bidders must also have enough

time to perform the necessary cost analysis required within their own organization and to assure themselves of reliable sources of materials. The time required for preparing, mailing, opening and evaluating bids is usually considerably longer than those unfamiliar with this system would expect. The procurement Act allows 22 days for open domestic bidding while international open bidding takes 33 days.

Conditions when competitive bidding should not be used:

- In addition to satisfying the above conditions, the following situations should not be present when employing competitive bidding as a method of procurement.
- Situations in which it is impossible to estimate costs with a high degree of certainty.
- Situations in which price is not the only important variable for example quality, schedule and service may well be negotiable variables of equal importance.
- Situations in which the purchasing firm anticipate a need to make changes in the spacifications or some other aspect of the purchase contract.
- Situations in which special tooling or setup costs are major factors. The allocation of such costs and title to the special tooling are issues best resolved through negotiation.

OUT SOURCING

Introduction:

Organizations are increasingly operating in increasingly changing and competitive environments and because of this, each organization are required to perform its functions extremely well. In particular, organizations are required to show excellence in five key areas namely:

- Quality
- Cost
- Flexibility
- Dependability and
- Speed.

In other words, to achieve competitive advantage, organizations are judged by the cost they charge for their services, the quality of their products, how flexible and dependable they are and the speed it takes to offer their services. Each organization is required to do more with less.

Because of the above dynamics, organizations have been forced to do two things namely:

- Identify the functions where they have a core competence i.e. those functions which they can do better than others.
- Secondly those functions where they do not have a core competence.

The general trend therefore has been to adopt the principle of out sourcing non-core activities. This derives from the concept of focused activities where the rule is to out source anything where the organization has no distinctive competence.

Distinctive competence is the basis of competitive advantage put in general terms; distinctive competence is something one can do better than others. In other words, it is what sets organizations apart. The cardinal sin however is to out source something where an organization has a distinctive competence.

Definition of Out sourcing:

Out sourcing is sometimes referred to as sub-contracting or contracting out.

White and James (1993) defined outsourcing as "a contractual relationship between an external vendor and an enterprise in which the vendor assumes responsibility for one or more business functions of the enterprise.

Zena (1994), looks at two concepts namely: sub-contracting and out sourcing where he defines each as follows:

1. Sub-contracting is a business practice in which a producer hires another firm to perform part of the manufacturing process or to furnish sub-assemblies that will be incorporated into the end product.
2. Outsourcing on the other hand does not form part of the production process such as caferia services, clearing, and transport services among others.

Weele (2005), defines outsourcing in general terms as the transfers of activities that were previously conducted in-house to a third party.

Nevi (2000), offers a wider definition of outsourcing as follows "outsourcing" means that a company diverts itself of resources to fulfill a particular activity to another company to focus more effectively on its own competence. The difference in sub-contracting is the divestment of assets, infrastructure, people and competencies.

A distinction however, has to be made between outsourcing and make or buy decisions.

Burt and Dobler (1996) and later on in (2003), in their classic document "World class supply Management " suggest that the distinction between the two is that the decision to outsource may be strategic but in its everyday operational outsource may be strategic but in its everyday operational management, it is similar to a make or buy decision, although at the margin there may be little between the two terms.

Characteristics of Outsourcing:

There are four major characteristics of outsourcing that have been identified namely:

(i) Activities that were initially performed in-house are transferred to an external party or vendor through a contractual relationship.
(ii) Assets and in some cases people go to that external vendor party although this involves a lot of legal implications.
(iii) There will be an extended relationship between parties involved over a long period of time.
(iv) In transferring the activity to the external party, the buyer is exposed to both a cost and risk profile both to which are new to the companies involved.

Candidate functions for outsourcing:

In the outsourcing exercises, there are common functions that have been sighted as being the major focus of outsourcing. Most of these functions fall within the service sector. It is almost evident from the literature that most organizations that have outsourced have at least included such functions. That is why they are regarded as major candidate functions for outsourcing. The following are some of such functions:

- Catering services
- Security services
- Cleaning services
- Transport and logistics services
- Insurance services
- Health care services
- Human resource/recruitment services
- Estates management services
- Information technology management services
- Revenue collection services.

Reasons for outsourcing:

For a firm to benefit from outsourcing, it should clearly define the reasons as to why it is outsourcing and the benefits expected. This makes it easy to undertake control and performance measurement.

Cost reduction:

This is because its suppliers have the needed skills knowledge and expertise that come form having done the work overtime. It is assumed that the firm can do it at a lower cost. This cost reduction can be passed to the customer in terms of competitive prices, making the firm more competitive than others.

Need to focus on core competences:

A firm can outsource non-core activities to enable them devote the time, resources and effort that would otherwise have been spent on these to doing other activities that are core to the survival of the company.

Business simplification:

This involves management focusing on those activities that deliver shareholders and customers' value. Thus it retains the activities these activities and outsourcers the rest.

Reduction of Capitalization of fixed assets:

In order to flex business volumes and product mix in a business dealing with heavily fluctuating demand, the asset base needs to be kept low. And outsourcing some of the entire asset intensive activities may be a good way of achieving that.

Access to Specialist Resources:'

Service level can be increased by appreciation that a company is likely no to be good at everything and that specialists and suppliers can add significant value by applying their specialist skills and possibly economies of scale-on behalf of their customers.

Business process changes.

If a company realizes the need to change a business process dramatically and yet it is unable to manage the change process internally, either due to lack of skills or the inability to get internal staff to accept changes that are seen as detrimental to their quality of life, security, etc., or when the internal culture and altitude of the employees makes it hard to gain, buy in and support. This can lead to outsourcing where business needs candidate access to specialist services. Out sourcing can provide experience and expertise within a number of days to fill the gaps while recruitment and mobilization for internal resources takes time.

Insufficient Competitive position:

The firm may have a sufficient position on key drives like cost, quality, speed and technology compared to its competitors in performing the activities that have been outsourced.

Lack of resources:

These resources may be costly to acquire and will also take time. If resources are not available, an external provider would do better without the company having to invest a lot of money to acquire the resources.

Risk avoidance/Reduction in liability:

In this case firms want to reduce or avoid the risks that are associated with undertaking a particular activity. They would rather pass those risks onto a professional who can do it better.

Flexibility:

Outsourcing can provide an organization with greater flexibility especially in the sourcing of rapidly developing new technologies and fashion goods. By outsourcing to specialist suppliers, who are more responsive through new technologies than large vertically integrated organizations, with a network of specialist suppliers, t he customer organization can rapidly increase or reduce production in response to changing market conditions at a lower cost. Such flexibility can enable an organization control and excel at activities that create competitive advantage.

Performance Improvements:

Outsourcing can enable an organization improve its performance in activity. This is because many specialist suppliers can achieve much higher levels of performance in certain activities than can be achieved internally by the outsourcing company. This performance can be in terms of level of service quality, customer care, etc. However, there is need for the outsourcing organization to ensure that it has an effective measurement system in place to assess the performance level of suppliers on a continuous basis.

Patents:

In some countries, if a company wants to under take an activity for which another company has patent rights, trying to acquire that right may take a lot of time and money so they prefer to pass on the activity to a firm that already has the rights to undertake such activity.

Forms of Outsourcing:

	Labor outsourcing	Mixed outsourcing	Complete outsourcing
Contractor provides	Some employees	Some or all of the following: - employees - materials - process and systems - technology and equipment facilities.	-Employees Materials Technology and equipment facilities management and supervision
Host firm provides	Some employees Materials Process and systems Technology and equipment Management and supervision	Some or all of the above	Programme management.

THE OUTSOURCING PROCESS:

Outsourcing is not a one time event; it is a cycle or a process that involves certain stages or phases. The tree major phases of the outsourcing process include:

1. **The Strategic Phase:**

This is concerned with tree major questions of who, why and sometimes what. Te first question of who relates to the objectives of the firm in other words the reasons as to why the firm is established.

Related to the first question, the issue of why relates to the reasons for conducting the outsourcing and these reasons are normally considered after looking at the core functions of the organization and comparing them with the non-core functions. This subsequently leads to the other question of what should be outsourced.

2. **The transitional phase:**

This is concerned with the question of how and this can only take place after the strategic phase has been successfully completed. It should be remembered that much of the reasons for outsourcing may be clear, the success of the entire outsourcing exercise is dependent on how will the exercise is procedurally carried out.

In general terms, the transitional phase includes two fundamental stages i.e. contract negotiation and project execution and transfer.

3. The operational phase:

After successfully accomplishing the transitional phase, that is, negotiating the contract successfully, executing and transferring the project, then the operational phase begins. This stage/phase consists of two broad processes:

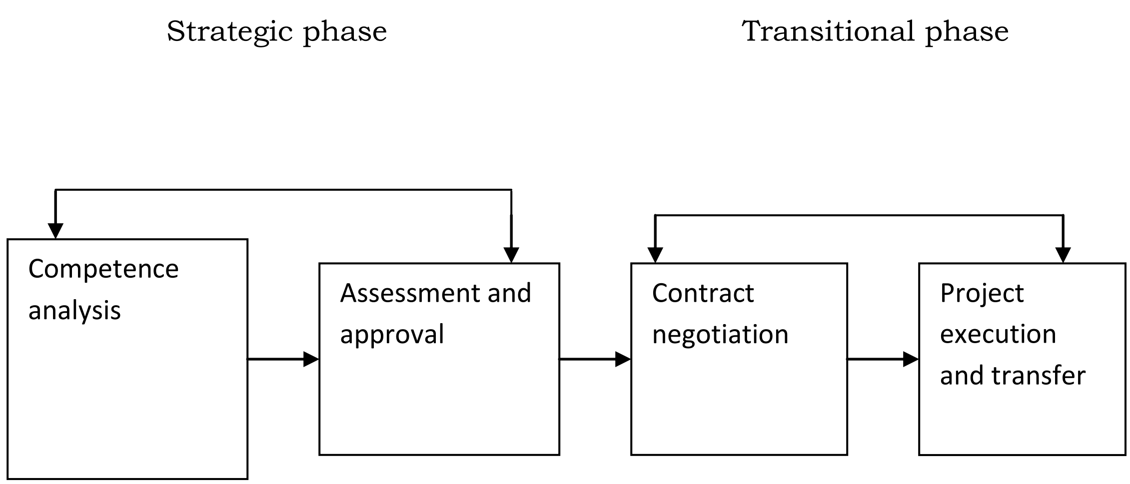
a. managing the relationships:

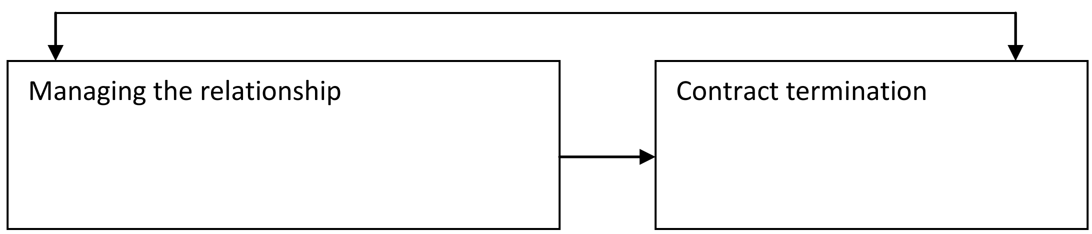
This is one of the critical stages in outsourcing and that is why it is evident from the literature that most outsourcing contracts have not achieved the intended benefits partly because managing the buyer – supplier relationship has not been done well.

b. Termination of the contract::

This is very important because the way it is handled affects future contracts with the supplier.

Diagrammatic illustration of the outsourcing process and what it covers:





Deciding on in-house :

This involves the decisions on whether the products or services should be produce in-house rather than buying them from outside. This decision may relate to the nature of sector one is putting into consideration. In any situation, when deciding to produce the goods in-house the following questions should guide that decision.

- Does the organization possess the necessary internal capacity to produce the goods in-house?
- What is the likely cost of making the products in-house compared to buying them?
- Will the internal production maintain the quality as expected by the customers?
- What time will it take to introduce the required products when they are produced in-house?
- Is it necessary to keep data and information in a secret and confidential manner e.g. on the introduction of a new brand of cars from competitors?
- Are there available resources to produce the products in-house?

The above questions and others which may be asked relate to the internal structure of the organization making the decision to make the products or services in-house. It addresses the internal capacities and capabilities of a particular organization t o make the products or services internally rather than seeking external buying.

Double and Burt (1996:194) provide a summary of the reasons for making as follows:

- Cost considerations (it may be less expensive to make the part).
- Desire to integrate plant operations.
- Produce use of excessive plant capacity to help absorb fixed overheads.
- Need to exert direct control over production and or quality.
- Design secrecy required so that competitors can not copy .
- Unreliable suppliers who might disrupt production.

- Desire to maintain a stable work force (in periods of rising sales)

Lysons(2000), groups the factors which favor making into quantitative and qualitative factors.

Quantitative factors in favor of making:

- Chance to use up idle capacity and resources.
- Potential lead time reduction
- Possibly of scrap utilization
- Greater purchase power with larger orders of a particular material.
- Large overhead recovery base.
- Cost of work is known in advance.

Qualitative factors in favor of making:'

- Ability to manage resources
- Commercial and contractual advantages
- Worries are eliminated regarding such matters as the ability and continuing availability of suppliers or possible repercussions of changes in supplier ownership.
- Maintaining secrecy.

Deciding to buy:_

This is a decision to buy fro outside and it may be driven by cost considerations. A product may be acquired from outside because it has the lowest cost price compared to if it was made in-house. The cost factors may relate to raw materials as related to cost price of items purchased, factory fixed costs as compared to delivery and transport costs, labor, material and other input costs compared t o receiving costs, inspection and quality costs as compared to administrative costs.

There are other considerations in making a decision to buy other than cost consideration and these may include:

- The quantities required may mean that economical production is not possible in-house.
- Expertise and facilities may not be available in-house and specialist skills and procedures might be sourced externally.
- Buying – in may also have cash flow advantages and not require substantial internal investment in inventory.
- Any potential problems or risks may be transferred to the supplier from the buyer.
- Some items may not be easily available locally but have only to be obtained externally and may sometimes be acquired abroad.

Dobler and Burt (1996), provide a summary of the reasons for buying rather than making which include:

- Suppliers' research and specialized know-how.
- Cost considerations (less expensive to buy the part)
- Small – volume requirements
- Limited production facilities
- Desire to maintain a stable workforce (in periods of rising sales).
- Procurement and inventory considerations.

Lysons (2000), again group the factors which favor buying into quantitative and qualitative factors.

Quantitative factors:

- Quantities required too small for economic production
- Avoidance of costs of specialist machinery or labor.
- Reduction in inventory.

Qualitative factors:

- Spread of financial risk between the purchaser and vendor.
- Ability to control quality when purchased from outside.'
- Ability of vendor's specialist expertise, machinery and or patents.
- Buying in effect, augments the manufacturing capacity of the purchaser.

Key considerations in outsourcing:

Before an outsourcing decision is made, the arte a number of issues that hyave to be considered. These issues may include:

- A clear and accurate identification of reasons for outsourcing and the candidate functions for outsourcing.
- A clear market survey to establish the availability of capable providers for the outsource services.
- Establishment of clear performance indicators which are easy to measure doing the process of outsourcing.
- Accurate and clear terms and conditions of the contract.
- Effective and efficient management of the contract over the life time of the contract.
- Inclusion of risk mitigation clauses like the liquidated damage clauses, consequential loss clauses and termination clauses among other clauses.
- Continuous monitoring of the performance of the contract.
- Keeping of accurate contract management documents.

Passable reasons for the failure of outsourced contracts:

The reasons may generally be seen as the opposite of the reasons or conditions for effective outsourcing exercise. However, one may point out the following reasons:

- Failure to understand the outsourcing concept.
- The band wagon effect by many organizations.
- Inaccurate identification of core functions of the organization.
- Lack of planning and strategic foresight in the outsourcing exercise.
- Selection of poor providers
- Lack of foresight in making contract terms and conditions.
- Poor monitoring and supervision of the contract.

CAPITAL PROCUREMENT:

Overview:

The buying of capital goods is different from the buying of normal goods. Even the process for buying capital goods is slightly complex and negotiations may be protected. The effort and time that should be invested in capital goods is much more than the one involved in normal goods.

The roles of the various departments in the purchasing of capital goods are also differing depending on the nature of the organization. For example in the manufacturing organization, engineering and production departments may be much more involved than procurement. This is not in any way to imply that the procurement function is not involved.

Definition of Capital goods:

Capital items are not obtained fro resale either directly or indirectly after processing, but for retention within the business and they have relatively a long life span. Therefore they are those goods which are required for the production of more goods.

Capital equipment procurement involves buying or acquiring items that will be used over a long period of time. Capital purchase involves the buying of investment items which are often long lasting and ate used as inputs to produce other products.

The process of buying capital equipment can be long and complex and it certainly requires the use of risk analysis techniques and investment appraisal techniques and it may also involve the consideration of other alternatives such as leasing instead of the actual buying. In the process of buying capital equipment, many of them may not be easily obtained locally so they have to be source from overseas and there are legal as well as political considerations when buying such capital goods.

Characteristics of Capital Goods:

Capital goods are of various types and they may include:
Buildings, machinery and equipment, furniture and fittings, accessory equipment, tools and accessories.

In terms of features, capital goods have the following:

- The procurement of capital equipment usually involves a heavy financial capital investment and the commitment of the organization's resources over a long period of time.
- Capital goods have different alternative ways of acquiring them e.g. lease, obtained by second hand buying.
- Capital goods need a lot of market research before they are purchased to establish the availability of potential suppliers.
- Capital purchasing is highly sensitive to the general economic conditions depending on the nature of the goods. They can stress the economy.
- Capital purchases may involve a team of technically competent personnel for their acquisition.

Zenz (1994), provides an elaborate list and explanation of the features for capital goods. In his analysis of the subject of capital goods the author identifies and describes the following features as being related t o capital goods.

- **Extent of possible adverse consequences:** If a wrong decision is made, the extent of adverse circumstances constitutes the expected or perceived risk; the more people are usually involved.
- **Purchasing situation:** The purchasing division usually handles straight re-buy but in a new task or modified rebuy situation, more departments may become involved.
- **Size of the enterprise:** In relatively large enterprises, various departments may be involved.
- **Business orientation of the enterprise:** In production oriental enterprises especially those focusing sharply on technical innovation, the production division usually plays a dominant role in evaluating the equipment. In marketing oriented enterprises, the marketing division plays a more dominant role.
- **Time:** The time taken to negotiate the purchase is often considerably longer. Similarly, the specification process for the particular equipment takes longer in order to ensure that the goods fully meet the purpose fro which they are acquired.
- **Prices:** The exact purchase prices are initially difficult to determine because equipment has to often satisfy specific needs and a specific piece of equipment consequently has to be adopted to perform a particular manufacturing activity.
- **Supplier**: There is a tendency to purchase capital equipment directly from the manufacturer or distribute especially when the purchasing enterprise requires non-standard goods and or technical advice. Important agents may play an important role if purchases are made from foreign suppliers.
- **After-sales Services:** The after-sales service on capital equipment is usually an important consideration and careful note should be taken of the competence of the suppliers' service personnel.
- **Demand:** The purchase of capital equipment is usually based on derived demand. This means that purchases will be made ad the demand for an enterprises end product increases or changes and products have to be adopted accordingly. It is therefore no simple matter for purchasers to determine the so called "best time" to buy.
- **Research:** Capital equipment is usually purchased in a more rationally and economically accountable way. Thorough research is usually conducted to ensure that technologically speaking a certain piece of equipment will serve its purpose economically over the long term.
- **Leasing:** There is a growing tendency to lease operational equipment instead of buying it.

The role of Procurement in Capital buying:

The procurement department plays a major role in facilitating the process of capital buying. The role has certainly changed in line with the trends that are affecting the procurement profession.

Bailey et al (1998), summarizes the role of purchasing as follows:

- Location of sources.
- Vetting/screening of suppliers.
- Negotiating (Active role or consultancy).
- Cost-benefit analysis.
- Life cycle costing
- Advice on residual values
- Organization of production trials
- Establishment of total supply cost
- Lease/hire, buy comparison
- Contract management
- Provision of support materials.

Factors to consider when purchasing capital equipment:

Several quantitative and qualitative factors need to be considered when purchasing capital equipment in order to ensure that a specific product is manufactured as efficiently as possible.

Some of the qualitative factors that have to be taken into account include the following:

- Reliability of the equipment: This relates to the risks of interruption in production, maintenance and adjustment times and the maintenance of staff.
- Flexibility of the equipment. This means the versatility of the applicability of the equipment can it be use for more than one function or not.
- Space requirements: Capital equipment consume a lot of space and thus whenever buying them, special consideration should be attached to the requirements of space. It should also be noted that capital is required to provide space taken up by the equipment.
- Safety of the equipment: The safety of the equipment being bought is a very important factor that should he considered when buying capital equipment. Ensure that the staff is able and willing to operate the equipment; the safety aspect must always be considered. This is because unsafe equipment can lead to production accidents, loss of production and sometimes can reduce the morale of the staff.
- Effects on the quality of the end products: The capital equipment purchased may have a direct effect on the quality of the product, quality conscious manufacturers who require very small tolerances can compare alternatives on the basis of the finished products. Equipment that can consistently provide the required quality ensures fewer rejections and defective end products which in turn eliminate production losses.
- Durability of the equipment: The technical and economic life expectancy of equipment is reflected in its durability or the rate at which it depreciates in value. Technically, one may still be able to use a piece of equipment to manufacture a product but it may be so economically obsolete that it can not compete with other equipment. From the purchasing point of view this situation should be guarded against especially in industries characterized by rapid technological innovation.
- Preference by other departments: Different user departments have their own preferences therefore instead of focusing on technical and economic aspects alone, the preferences of other departments should be considered.

These departments may include marketing, finance, production, Human Resource, etc.

Quantitative Factors:

Apart from the consideration of qualitative factors, when buying capital goods/equipment, professional buyers should also consider a number of quantitative aspects. Under quantitative factors there are two major methods that can be applied.

(i) The pay back method: This looks at the period in terms of years that it will take for one to recoup or recover the initial capital investment. The major considerations that one should invest in a capital whose payback period is shorter compared to those with longer periods. Take an example of investing shs.10m as an initial investment in buying a tractor which is then used in productive activities and the sh.10m initially invested can be recovered within a period of 8 months. This can be compared to investment of the same shs.10m in constructing a building whose payback period is after 3 years. The payback method therefore dictates that one should invest in buying a tractor because its payback period is short compared to the house with a longer payback period.

(ii) The Net present value method (NPV):

The NPV method simply means the discounted costs vis-à-vis the discounted benefits. This method generally believes that the value of money held today is more than the money held in future and therefore the method discounts the future benefits and costs so as to enable decision making.

$$NPV = \frac{DB}{DC.}$$

When using this method, there are three possible answers to get.

1. A possible NPV: This means that the benefits of investing in a certain capital equipment are more than the costs therefore one can invest in that capital equipment.
2. A negative NPV: This means that the discounted costs are more than the discounted benefits. By implication therefore, when you invest in such capital equipment you will get losses instead of benefits and therefore it is advisable not to invest in such equipment.
3. A Zero NPV: This means that the discounted benefits and costs are the same. That the money which is invested is exactly the same that will be obtained and it is therefore only worse investing in.

NEGOTIATION:

Introduction:

Negotiation had been considered as one of the most important components of the procurement manager's tool box. It has also changed its original meaning and focus from a win-lose situation to a win-win situation. The emphasis in negotiation should not aim at a particular organization winning and the contractors or consultants losing but it should be a middle way where all are seen to be benefiting from each other.

This is a relational point of view owing to the global changes that now consider suppliers, contractors and consultants not as enemies but important partners. Negotiation is a process that spans through the contract making process and all issues must be brought for discussion during negotiation.

Meaning of Negotiation:

Several definitions of the term have been advanced. In the Oxford English Dictionary, negotiation is defined as a discussion with another with a view to compromise. An occasion where one or two representatives of two or more parties interact in an explicit attempt to reach a jointly acceptable position on one or more divisive issues about which they would like to agree.
Negotiation has also been defined as the process where two or more parties may decide what each will give and take in an exchange between them. This definition highlights:

- Its interpersonal nature.
- The interdependence of the parties
- Its allocation of resources.

Negotiation should not be confused with bargaining which is just part of negotiation but a narrower term implying only giving and taking.

Negotiation involves a wide range of activities and altitudes such as persuasion, posturing, warning, threats, flattery. It is important to note that most definitions of negotiation stress three important aspects:

- Communication and information exchange.
- The relative strengths of the participants.
- Implicit and explicit objectives.

Negotiation therefore is the process whereby two or more parties initially with differing views attempt to reach a compromised position using a method dominated by persuasion rather than by cohesion. Negotiation is a cycle that involves:

- Gathering the facts.
- Determining the bargaining strengths
- Setting objectives
- Planning strategies and tactics.
- Negotiating
- Reviewing performance.

Approaches to Negotiation:

Adversarial negotiation:

This is also referred to as distributive or win-lose negotiation. Here the focus is on 'positions' staked out by the participants in which the assumption is that every time one partly wins the other loses. As a result ´, the other party is regarded as an adversary.

Partnership negotiation:

This is also referred to as integrative or win-win negotiation. Here the focus is on merits of the issues identified by the participants in which the assumption is that through creative problem solving, one or both parties can gain without the other having to lose. Since the other party is regarded as a partner rather than an adversary, the participants, may be more willing to share concerns, ideas and expectations.

Factors in Negotiation

(i) Negotiators as representatives.

Personality:

This may be defined as 'the relatively enduring and stable patterns of behaving, thinking and feeling which characterize an individual.

External appearance: Height, facial features, colors and physical aspects.
Behavior: Aggressive, friendly, courteous etc.

Studies have shown that personality variables such as authoritarianism, anxiety, dogmatism, risk avoidance, self esteem and suspiciousness affect the degree of co-operation or competitiveness present in a negotiating situation.

Factors likely to influence the personality/behavior of negotiators:

- Whether the negotiator has the required skills.
- When they have little latitude in determining either their positions or posture.
- When they are held responsible for their performance
- When a negotiator has sole responsibility for the out come of negotiations.
- When negotiations are responsible to constituency that is present in the negotiations.
- When negotiators are responsible to constituency that is present in the negotiations.
- When negotiators are appointed rather than elected.

(ii) The negotiating situation:

This relates to the strengths and weaknesses of the participants in the negotiation. The factors as identified by Porter as affecting the relative strengths of supplier and buyer groups are as below:

a. the Buyer's negotiating position:

The buyers will be in a strong position in the following situation

1. Demand is not urgent and can be postponed.
2. Suppliers are anxious to obtain the business.
3. There are many potential suppliers.

4. The buyer is in a monopolistic or semi-monopolistic position, i.e. the only or one of the few firms requiring a particular item.
5. Demand can be met by alternatives or substitutes.
6. 'Make' as well as 'buy alternatives are available
7. The buyer has a reputation for fair dealing and prompt payment.
8. The buyer is well briefed regarding the suppliers' order book financial situation, manufacturing processes and other relevant intelligence.

b. The Suppliers' negotiating position:

The supplier will be in a strong position in the following situations:

- When demand is urgent (when the buyer has no time).
- When the supplier is indifferent about accepting the business
- The supplier is in a monopolistic position.
- The suppliers' reputation with buyers is good on issues such as quality, reliability, customer service, etc.
- The supplier owns the necessary tools or specialized machinery than others.
- The supplier is aware of the buyers' negotiation position.

(iii) Time:

Time must be appropriate especially the buyer himself to allow time for preparation. Senior management design, production and stores staff should understand that 'necessity never made a good buyer'. They should therefore , notify their requirements well in advance to ensure that the purchasing function has adequate procurement and lead time to obviate having to negotiate under the constraint of urgency.

Issues in Negotiation:

The process of negotiation is a complex one and therefore demands and understanding of certain issues for it to be placed in its proper context. Any avoidance of these issues can generate disaster in the subsequent procurement processes. These issues include:

- Recognition that most negotiations take place in the context of previous negotiations and these provide a clear dimension for subsequent negotiations.
- Negotiations are a mixture of the win and lose situations and any party in negotiation must win and at least lose something.
- The negotiation process is full of uncertainty.
- When negotiating a contract, you represent your organization.

Tips for successful negotiation:

- Preparing adequately for negotiations
- Structure the negotiation.
- Manage the information exchange well
- Manage the time well during negotiation
- Understand the process taking place and the way that process links to other processes.

The Negotiation process:

(I). The preparation and planning (pre-negotiation stage)

This is where the strategies for negotiations are made. The way of preparation and planning for a negotiation session is one of the key differences that separate the skilled and the pedestrian negotiator. Preparation deals with researching on the issues to be negotiated, while during planning you look forward to the negotiation, imagine how the session will proceed and plan your strategy.

Matters to be determined at the pre-negotiation stage include:

Who is to Negotiate?

There are two approaches that could be adopted here namely:

- The individual or team approach.
- **Individual approach** – when negotiations are to be between two individuals, both should normally have sufficient status to settle unconditionally without reference to higher authority. This approach is commonly used for rebuy and modified rebuy negotiations.

Team Approach.

This approach is used when it comes to important negotiations where complex technical, legal, financial, etc. issues are involved or for new buy or capital purchases. This is because an individual buyer is rarely qualified to act as a sole negotiator. However, roles and responsibilities have to be assigned in order to avoid disagreements.

Some common roles include:

- The spokesperson: Who presents the case and acts as captain of the team in deciding haw to respond to the situations arising within the course of the negotiation.
- The recorder who takes notes of the negotiation.
- The experts e.g. ,management accountants, engineers or other technical design or production staff, legal advisors- who provide back-up to the spokesperson. It is not essential that every member of the team should speak in order to make a useful contribution to the negotiation.

NOTE:

- Avoid disagreement – there should be no outward disagreement between team members while negotiations are in progress; any disagreement between team members while negotiations are in [progress, any differences between members should be resolved in private sessions.

Draw-backs to team – negotiations:

- The tendency to 'groupthink', i.e., for team members to hold illusions of group invulnerability, stereotyped perceptions of perceived opponents and unquestioning beliefs in group morality.
- The emphasis on win-lose, unless modified by the spokesperson is greater in team negotiations since team members may wish to demonstrate their 'toughness', inflexibility and ability to demolish rather than consider the merits of proposals made by the other side.

Gathering Information:

This is the intelligence gathering stage and it usually involves:

- Ascertaining the strengths and weaknesses of the respective negotiating position.
- Assembling relevant data regarding cost, production, sales, etc.
- Preparation of the data that is to be used at the negotiation in an easy form.

Setting Objectives:

The objectives being clearly spelt out before the negotiation starts are an important component of the preparatory stages. The negotiating party must be clear about what they are expected to achieve.

The venue:

The team where the negotiation is to be conducted has to adequately prepare the venue where the negotiation will take place. All necessary facilities and arrangements must be made.

Tactics and Strategy:

These have to be considered before the negotiations takes place issues that can be considered include:

- The order in which the issues are to be negotiated.
- Who to speak first and what should be said.
- Will there be recess for discussions
- What concessions should be made in case they arise.
- The timing of the concessions
- What issues can be linked up on particular issues
- What t he opponents responses on are likely to be.
- Anticipate the tactics that the opponent is likely to adopt.

II The Actual negotiation (The Meeting)

The principles governing any efficient meeting may apply here and the meeting stage involves:

- **Opening Stage:**

Here the rules and guidelines that will guide the negotiation are agreed upon among the negotiating parties. The person chairing the negotiation has to make welcome remarks, show interest and respect, ensure refreshments are at hand, guide the parties on where to get whatever they need and how, agree on the agenda and setting th3e time scales.

Proposal Stage:

The parties are required to make their proposals and this will set the pace for understanding the other party's areas of emphasis. In case negotiating with the suppliers, the buying entity will ask the suppliers to make their proposals first and questions of interest must be asked here. At this phase, each party promotes and explains its own position while probing the others to search out weaknesses and areas where movement may be possible. Parties will test their assumptions made in the preparation and test the firmness of the other parties' opening position.

Bargaining stage (Moving through making Concessions):

Here, the principle is that you give and you receive. In modern negotiation, the principle is on a win-win situation rather than a win-lose situation, the principle is on a win-win situation rather than a win-lose situation.

In this phase of negotiation, the focus is on trying to get the maximum amount of movement from the other party from their original position while minimizing your own movement. A concession is a revision of a previous position you have held and justified publicly. Concessions are necessary to reach agreement, but the parties will try to move as little as possible. A skilled negotiator will usually work on the assumption that the other party is aware of this and will follow the 'must move' convention.

Agreement stage:

Issues that have been agreed upon have to be clearly stated and documented. As the negotiations move towards a close, the final offers phase commences. Final offers should be treated equally preserved as opening demands. It is rarely the case that either side is pushed to its absolute limits. The aim during the conclusions is for finalize and agreement in the manner in which it was intended.

III The post-negotiation process:

Post- negotiation involves the following activities:

Drafting statements detailing as clearly as possible the agreements reached and circulating it to all parties for comment and signature.

- Sending the agreements to the constituents of both parties.
- Implementing the agreements.
- Establishing procedures for monitoring the implementation of the agreements and dealing with any problems that may arise.

After concluding the negotiation, it is commendable to review your success. By writing a short summary of what went well and wrong, you can measure your success. It is rarely the case that there is no room fro improvements. Using the review notes of previous negotiations, you can work on strengthening your weaknesses.

Skills and Characteristics for effective negotiation:

Negotiation is an activity that requires a lot of skill and an application of certain characteristics. Among the characteristics that should be possessed by the negotiator include:

- Principled focusing on the interests of the local government.
- Have objectives
- Be open to reason and should not yield to pressure but to principle.
- Should control emotion
- Have good communication skills
- Be a good listener
- Ability to take decision
- Have analytical skills
- Possession of political skills
- Have human relations skills

CONTRACTING

Definition:

A formal definition of a contract can be given as that agreement between two or more individuals, detailing what to do and not and is legally binding. From these definitions, it is implied that not all agreements are contracts and not all of them can be enforced by law. It therefore means that there must be special characteristics to quality a particular agreement as a valid contract.

Elements that constitute a legally binding contract:

I Offer and acceptance:

The agreement between both parties is very crucial and its absence cannot make a contract valid. This agreement must involve the parties to agree fully like on quality, quantity, time and price of a particular contract. In this situation there are basically two parties namely one who offers (offeror) and the one who accepts (offeree). For example if Oluka offers to 'sell' her consultancy services to UICT unsolicited, she is making an offer and if UICT unsolicited, she is making an offer and if UICT accepts under the stated terms, then the institute is an offeree. In real circumstances however it is UICT which first advertises and if Oluka responds to their advert or request the above situation can also apply. There is a distinction between and offer and an invitation t o treat. A display of goods in a supermarket may be an invitation to teat not an offer. This means that offers result into contracts wile invitation to treat may not result into a contract. Another example of an invitation to treat is a bid advertisement in the papers.

Invitations have no binding effect and are usually a means of displaying information. An offer may come to an end through the following ways.

- Acceptance
- Rejection
- Center-offer – accepting but with other conditionalities.
- Revocation – withdrawal of the offer
- Failure of a pre-condition
- Lapse of time
- Death

In legal terms, a contract comes into force when the offer has been accepted validity without any conditions attached. Acceptance neither cannot take lace where the offeree did not know of the offer and silence is not acceptance and it ca be by conduct and communication must be made and received by the other party.

(ii) Consideration:

This is the price at which the offer is made. It is a vital element of a valid contract.

(iii) Intention to create legal relations:

Lord Atkin in Rose & Frank Co> V J.R Crompton and BU (1925) stated that "to create a contract, there must be a common intention of the parties to enter into legal relations"

In deciding the case, the judge like in many other cases made two presumptions namely,

1. The parties in a domestic agreement do not intend to create legal relations e.g. Husband and wife living together.
2. the parties in a commercial or business agreement do intend to create legal relations.
3. Capacity to contract: The buyer and seller must be 'capable of contracting', i.e. they must be legally authorized to represent the company.
4. Presence of definite terms: To enable enforcement in case of breach.
5. consent of parties: A situation of 'consensus ad idem' must be present i.e. one party makes an offer which is subsequently accepted by the other party. There must be two expressions of will-one on behalf of the buyer and one on behalf of the supplier – that are aimed at the same outcome.

From these requirements, it follows that a binding agreement can also be reached verbally! In addition, it also means that asking for Request for Quotation does not constitute yet an agreement. Only explicit acceptance by the purchaser leads to an agreement.

Basic outline of a contract:

Although contracts vary extensively, some common elements can be identified which will usually be part of a contract.

- What is being exchanged i.e. basically the specification used by the purchaser.
- Conditions regarding price, delivery, payments, etc.
- Where and when the products should be delivered (service should be carried out).
- General terms and conditions that apply.
- Where and when the transfer of ownership takes place.

Types of Contracts:

Monzka et al (2001), identify some typical contract types distinguishing between two basic forms: a fixed price contract and 'cost plus' contracts. Choosing an appropriate contract type is essential to successful performance under a contract. The type of contract determines the cost and performance risks which are place on the contractor; there are two broad contract groups – fixed price and cost reimbursement. Within each of these groups, there are various types of contracts which can be used individually or in combination.

Firm Fixed price contracts:

This type of contract requires the contractor to successfully perform the contract and deliver conforming supplies or services for a price agreed upon. This type of contract presents the most performance and cost risk paid-by the supplier/seller. That is if it coats them more than they expected, they still get the amount originally agreed upon and if it costs them less they make more profit. A firm – fixed price contract is suitable for supplies and services that can be described in sufficient detail to ensure complete understanding of the requirements by both parties and assessment of the inherent risks of performance.

Cost Reimbursement contracts:

A cost reimbursement contracts allows for payment of al incurred costs within a pre-determined ceiling, that can be allocated to the contract are allowable within cost standards and reasonable. Therefore all types of costs reimbursement contracts place the least cost and performance risk on the contractor. They basically only require the contractors to use their "best efforts" to complete the contract. However, this type of contract is required when the uncertainties of performances will not permit a fixed price to be estimated with sufficient accuracy to ensure a fair and reasonable price is obtained.

For example if a particular task has too much uncertainly and the contractor is asked to price it on a fixed price basis they would in contingency costs to allow for the unknowns and it would likely cost the government much more money than if they would likely cost the government much more money than if they would price the contract on a cost reimbursement basis.

The latter two contract types require considerable monitoring by the program and contracting staff and staff and are usually reserved for the larger dollar value and more complex procurements. These include:

- **Call off Contracts:**

These are contracts under which a defined quantity of goods would be produced by the supplier and held in stock for ordering as and when required by individual purchasers, usually within a defined period.

- **Framework arrangements:**

These are arrangements covering a given period during which a supplier will provide goods services or works to an agreed specification at an agreed price with agreed service levels. Contracts are formed when individual orders are placed against the arrangement.

For these contract arrangements to operate successfully, the participating procuring entities must have ownership and commitment to the process. This can be achieved by their involvement in all contracting activities from drawing of specifications through to contract award and performance monitoring.

For the framework arrangements, an estimated quantity of requirements to be purchased during the contract period must be made known to the tenderers. Variable prices for different purchase quantities, different geographical locations and different service levels may be established. However for this arrangement to work there must be a clear commitment to use the contracts by the participating entities.

General conditions of a Procurement Contract:

Under section (7) of the Procurement Act, the Procurement Authority has a number of functions among others to prepare; update and issue authorized versions of the standardized bidding documents, procedural forms and any other related documents to PDEs. This function has partly been performed by the authority in issuing general conditions of contracts which among others provides for the interpretation of contract documents, provision for language, the governing law, dispute settlement, etc.

(i) The Language:

Under the general conditions, the contract as well as t he correspondence and documents relating to a contract exchanged by the provider and the PDE shall be written in English language unless otherwise specified in the special conditions of contract. Once some supporting documents and printed literature is written in another language, then they must be accompanied by an accurate translation of the relevant passages in English and the provider shall bear all costs for translation and all risks of accuracy of such translation.

(ii) **Joint Venture, consortium or Association**:
Unless otherwise specified in the special conditions of a contract, if the provider is a joint venture, a consortium or an association, all the parties shall be jointly and severally liable to the procurement and Disposal entity for the fulfillment of he provisions of the contract and shall designate one party to act as a leader with the authority to bind the joint venture or association.

(iii). Eligibility:
The provider and its sub-contractors shall have the nationality of an eligible country. A provider or sub-contractor shall be deemed to have the nationality of a country. If it is a

citizen incorporated or registered and operates in conformity with the provisions of the laws of that country and for purposes of this clause origin means the country where the supplies have been grown, mined, produced, manufactured or processed.

(iv). Notices:

Any notice given by one party to another pursuant to a contract shall be in writing and to the address specified in the special conditions of contract. The term in writing means communicated in written form with a proof of receipt. A notice shall be effective when delivered or on the notices effective date which ever is later.

(v). Governing Law:

A contract shall be governed by and interpreted in accordance with the laws of Uganda unless it is otherwise specified in the special conditions of contract.

(vi) Settlement of Disputes:

The PDE and the provider shall make every effort to resolve amicably by direct informal negotiation on any disagreement or dispute arising between them under or in connection with the contract. If the parties fail to resolve such a dispute or difference by mutual consultation within 28 days from the day of commencement of such consultation, either parties may require that the dispute be referred for resolution under the Arbitration Law of Uganda or such other common mechanism specified in the special conditions of contract.

(vi)The Scope of Supply:

The supplies and related services to be provided shall be specified in the statement of requirements and shall include all such items not specifically mentioned in the contract but that can be reasonably inferred from the contract as being required for attaining delivery and completion of the supplies and related services.

(viii) The Providers' Responsibilities:

The provider shall provide all supplies and related services included in the scope of supply in accordance with the general conditions of the contract and shall conclude delivery within schedule as may be specified in the special conditions of contract.

(ix) Contract price:

The contract price shall be as specified in the arrangement subject to any additions and adjustments there to or deductions there from as may be made to preserve the contract. Prices charged by the provider for supplies delivered and related services performed under the contract shall not vary from the prices quoted by the provider in his bid except where these price adjustments are authorized in the special conditions of contract.

(x) Terms of Payment:

The contract price shall be paid as specified in the special conditions of contract. The providers' request for payment shall be made in writing to the PDE accompanied by invoices describing as appropriate the supplies delivered and related services performed and the payment shall unless otherwise specified in the special conditions of contract be made promptly by the PDE not later than 30 days after submission of an invoice or request for payment by the provider.

The PDE shall certify or reject such invoices or payment requests within five days from receipt and where this happens. The PDE shall advise the provider on the reasons for the rejection. The currency for payment shall be specified in the special conditions of contract.

Representations/Terms:

A representation is a statement made during the entering of a contract. It is usually oral, not written. It is aimed at persuading the other party to enter into a contract. Representations are usually made at the beginning of the contract.

A Term is a written statement. Statements which are said at the time of concluding the contract are considered to be terms of contract.

Therefore the point in time at which a statement is made determines whether it is a term of contract or a mere representation.
The person who makes a statement and the knowledge he/she has as regards the property which is being sold in the contract determines whether the statement is a term of contract or a mere representation.
A statement made by a person with expertise knowledge in a certain field is considered to be a term of contract as compared to that made by a non experienced person in t he field.

Misrepresentation:

This is a mis-statement or an untrue statement. Therefore a contract entered into as a result of a misrepresentation is considered to be void-able at he realization of the innocent party that the statement was not true which led to the contract. This implies that the innocent party can avoid the contract.

Contact Management and Administration:

Include:

- Understanding contract administration and management
- Common problems in contract administration
- Benefits of proper contract management and administration
- Contract administration and management plans
- Contract administration files.

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