AFRICA POPULATION INSTITUTE

PROCUREMENT AND CONTRACT MANAGEMENT
(P&CM)
HANDBOOK

Website: www.africapopulation.net
Email: info@africapopulation.net

TABLE OF CONTENTS

FORWARD

API is a registered organization with 4 years' experience of supporting voluntary organizations, agencies and individuals in developing quality systems. A major part of our work is providing external evaluations and trainings to organizations or specific projects and also building capacities of the members to have relevant skills applicable to their working environment.

How we work:

We aim to understand the precise needs of your organization and to offer you good value, an integrated service, and work which is based on clear principles. Our style is inclusive, participatory and flexible.

We aim to help you:

- Develop your skills, reflect and gain focus
- Make your organization more confident, effective and efficient, and able to demonstrate this to others
- Help you plan more effectively and strategically for the future
- Demonstrate the benefits (or outcomes) for your service users.

Our approach

- Starts by listening carefully to what you need and tailoring our services accordingly
- Includes clear and practical advice, plans and reports
- Is based on extensive knowledge and experience of the voluntary sector
- Is supportive and friendly.

Courses offered in our training workshops that are client tailored

Monitoring and Evaluation Training
Project Planning and Management
Public Health and HIV/AIDS management
Guidance and Counseling Techniques
Family Planning and RH issues
Research Methods and Data management
Specialized Statistical Packages for data analysis (SPSS, STATA, EVIEWs, ATLAS TI, SUDAN, EPINFO and Epi Data etc)
Training of Trainers Course
Management and Leadership Skills Development
Procurement and Contract Management
Peace and conflict Management/Resolution
Disaster Preparedness and Management Course
Communication Skills and Technique
Heath Care Administration (HCAD)
Interdisciplinary Environmental Health Studies (ENVHs)
Substance Abuse and Addictions Management (SAAM)
Advocacy and Lobbying Techniques
Strategic Planning and Management
Business Sales and Marketing Strategies
Health Marketing and Health Promotion
Logistics, Transport and Supply Chain Management

MODULE 1: INTRODUCTION TO PROCUREMENT

Purchasing is the process of acquisition of goods, works and services to satisfy the identified needs of an organization through legal means. It is common to use the word purchasing and procurement interchangeably but procurement is seen to be a slightly wider concept and more utilized especially where acquisitions are made for a commercial cause.

Procurement is an important function within an organization that accounts for the biggest share of expenditure in many firms. For purposes of this course, the words purchasing and procurement shall be used to mean the same thing.

Reactive Vs Proactive Purchasing/procurement:

Reactive procurement is the traditional way of carrying out purchasing duties. Typically, the procurement department would just receive orders from other departments and execute them without question. It is still common in the public sector in the developing world.

In Proactive Procurement on the other hand purchasing personnel are required to use their initiative, knowledge and expertise to positively and aggressively contribute to the adding of value and minimizing of waste in organizations they work for. It is common in leading organizations even in the third world.

Comparison based on characteristics:
'

Reactive Procurement systems	**Proactive Procurement systems**
1. Traditional	1.Modern
2. Purchasing is clerical (paper chasing	2. Purchasing is strategic (Decision makers). query processing function)
3. Purchasing is low in the Organizational chart e.g. Purchasing Assistant.	3. Purchasing is high in the organizational Chart e.g. Procurement Manager/Director
4. Purchasing reports to another function	4. Purchasing reports to the top.
5. Anyone does purchasing	5. Purchasing is done by buying expert
6. Everyone buys	6. Only purchasing section buys.
7. Many suppliers for a given item	7. Few suppliers because of relationships
8. Short term supplier relationships	8. Long term supplier relationships
9. Price is a major buying criteria	9. Criteria is far beyond price.
10 Focus is on immediate supplier	10. Focus goes beyond immediate supplier (includes 2nd tier suppliers onwards and the whole supply chain.

Objectives of Procurement:

From a management level, the objectives of procurement are:

- First to buy the right product.
- From the right supplier.
- In the right quality
- At the right time.
- At the right price.

The above represent the five rights of purchasing; which are commonly referred to as the traditional objectives of purchasing. They are the general objectives of all Procurement Personnel regardless of the sector. However, the growth of the function and diversity of activities has led to the transition of these objectives into:

- To ensure uninterrupted flow of requirements
- To minimize waste. Anything that consumes resources but does not add value.
- To buy competitively
- Complying with external requirements e.g. regulations, green issues, etc.
- To keep inventory related costs to a minimum
- To optimize value for customers (internal and external) through out the supply chain.
- To develop effective and reliable sources of supply (suppliers who are willing to work with buyers). These will help you while in Pinch/crisis.
- To achieve maximum integration with other departments etc.

These are functional level objectives rather than company wide objectives. It should be noted that the functional interests are in no way seen to conflict with the general interests – the five rights.

Evolution of Procurement:
Procurement is relatively a new function in terms of recognition but an old function in terms of practice. The changing nature and environment has led to a series of recognizable transactions as indicated organizations.

- Prior to 1900: Purchasing was recognized as an independent function by many railroad organizations.
- Prior to World War 1 (1914-18): Purchasing was regarded as primarily clerical.
- During World War 1 (1914-18) and World War II (1939-45) the function increased being recognized due to the importance of obtaining raw materials, supplies, and services needed to keep the factories and mines operating.
- During the 1950s and 80s; purchasing continued to obtain status as the techniques for performing the function became more refined and as the number of trained professionals increased, the emphasis became more managerial.
- During the 1970s and 80s: more emphasis was placed on purchasing strategy as the ability to obtain needed items from suppliers at realistic prices.
- During the 1990s, purchasing became more integrated into the overall corporate strategy.
- Currently, the field is experiencing increasing integration with supply networks and information technology. The field has changed from "purchasing" to "supply management" to reflect the transition from a transaction – based, tactical function to a process – oriented, strategic one:
- Reasons for the changing nature of procurement:

The growth of academic and professional institutions training and teaching the discipline. These have increased awareness among employers and practitioners about the function.

Finite Resources: Supply markets are becoming competitive with more The increasing focus on the supply side rather than the sales side by firms. Customer markets are saturated yet firms are under pressure to increase profits. The only option left is cutting costs and procurement provides the first opportunity. Increasing awareness that not anyone can buy. Organizational managers have realized that the criticality handled of purchasing to a firm's success requires the function to be handled only by those who can handle it competitively. For the, experts have been hired and they have transformed the way it is handled.

The changing environment in form of technological, economic political, and social aspects. For example the introduction of the PPDA Act, 2003 in Uganda. This requires all public entities to have fully constituted procurement Units handled by procurement buyers yet requirements are becoming extremely scarce. This calls for the employment of people, who can managed these markets well to assure continuity of supply and overall organizational operational operations. The sources seemed infinite in the past. Emergence of modern supply concepts and tools which cannot be utilized under a reactive system. Among these is supply chain management. JIT, etc. To be able to use these, entities are forced to embrace modern Procurement methods synonymous with the concept of proactiveness.

Functions of the Procurement/ Purchasing department:
A typical proactive procurement department is expected to handle the following functions:

- Participating in the identification of needs (early buyer involvement)
- Drafting solicitation documents (Bids).
- Participating in drafting of specifications (Statement clearly outlining the details of a requirement before making an order).
- Guiding user departments on procurement procedures.
- Following up payments for suppliers.
- Evaluating suppliers' bids/Tenders.
- Managing supply related records e.g. supplier contacts, ratings, specifications, etc.
- Disposal of assets.
- Monitoring the supply market trends for update information like current prices, new products in the market.
- Vendor rating (necessary to know who to continue working with, who to develop and which suppliers to drop). This is always done after performance of a contract.
- Participating in drafting supply contracts.
- Negotiating on behalf of the organization.

Linkages between Procurement and other Functions:
The Procurement department and other departments work together so as to have a smooth flow of resources. The other functional units/departments include stores, Accounts, Finance, Sales, Production, Transport, Human Resource, Research and design among others. The Procurement Unit follows some steps in purchasing and it is through these steps that it interfaces with other functional units.
The steps involved processes include:

- Receiving the formal request from other functional units.
- Defining the product and purchase specification.
- Grouping items that can be supplied by the same vendor.
- Sending formal request to potential suppliers.
- Selecting preferred suppliers.

Procurement interacts with other functional units as in;

a. Preparing the purchase order.
b. Checking with suppliers to see whether the order will arrive on time.
c. Following up with the operation whether the order has arrived and its quality on delivery is satisfactory.
d. Keeping information on supplier's price, quality and delivery performance for future evaluation.

The Procurement Department and the Production Unit: The principle service that Procurement renders to the Production Unit is to procure materials needed for production. The relationship therefore is two way traffic and both must understand each other fully and live up to their individual responsibilities if the total results are to be efficient and economical from the overall view point. Let's assume that the production unit is rather careless about its planning and decides upon its production schedules at the eleventh hour. If this happens, the procurement unit cannot plan its program and might quite often resort to rash procurements which are in most cases extremely expensive. In this case, both Functional Units share the problem and thereafter help each other in the planning program.

The procurement and production departments have an interdependency say in failure of supplies delivery. If reasons for failure were external for instance a strike in a supplier's factory, road diversions en route due to floods or disruption in transport and communication. In such a case, it is very necessary to have a very close coordination between Procurement and Production.

This shows that the production managers' performance depends upon the purchasing/procurement managers' ability to obtain maximum value for money spent or the ability of the procurement managers to buy the best advantage which could contribute to the optimism of costs. The longer the time taken at each stage of a supply chain in production the higher the cost incurred by the organization and a reduction in time at any stage will provide an opportunity for cost reduction which in turn leads to a reduction in price.

Procurement and the Sales Unit: The sales unit s responsible for marketing products and the success of this function depends on the quality of the products, their prices and availability on delivery dates. In regard to this, the sales department depends upon the efficiency of the procurement and production departments among others.

- The ultimate price of a product will to a great extent depend on the price at which the procurement department has acquired the raw materials. Both departments assure that the price paid for raw materials contribute to the overall economy and profits.
- The procurement department can also help the sales department by having reciprocal business relationships with suppliers. For example a company can buy materials from those companies which buy its products which in-turn helps promoting sales.
- In order to be competitive in the market, the finished goods must have elements of improvements in them. The Purchasing department can contribute significantly towards achieving this objective by assuring that delivery of finished goods depends on delivery schedules indicated by the procurement department with reference to its suppliers.

Procurement and the Stores Unit: The Procurement Unit has a highest degree of interface with the Stores Unit. The Stores Unit is a vital customer to the Procurement Unit since all departments work together and neither of them tends to be dominated by the objective of the other . Stores might often require that they should not be let down by the procurement unit because any delays in supply result into consequent inability to meet production needs. They may therefore tend to over stock and yet on the other hand the procurement department would want the minimum stocks to be kept.

These two conflicting tendencies can be overcome by ensuing a proper and healthy coordination between the two units.

Procurement and Design /Engineering: The design or engineering unit has a responsibility of designing the equipment or product that is manufactured. The engineering and procurement departments initially save each other's costs. The purchasing department can obtain quotations and technical assistance from suppliers and can help the design to prepare and evaluate alternative bids in regard to the specifications or design of product requirements. The procurement department /Unit can also help the engineering unit by conducting market surveys and searching for new and better material and equipment. On the other hand the engineering department can render assistance to the purchasing department in deciding what should be the right quality of the product; it helps in standardization of materials on matters relating to specifications.

Procurement and the Legal Department; One of the important factors realized in regard to Procurement is that it is a legal contract between the buyer and the supplier. There are several legal implications in any of such contracts and it is necessary for the Procurement unit to be fully sure that the legal interests of the organization are protected. The Legal Departments can provide an expert interpretation of the legal contractual obligations, commitments, agreements, etc. The Procurement Unit will in all cases consult the legal department when in doubt in order to protect not- only the organization but also itself. The Procurement department needs to know the rights and obligation ´s of the buyer and the supplier and such knowledge is obtained from the Legal Department. Thus making both departments interdependent..

Procurement and the Accounting Department: The interaction between purchasing and accounts takes place on a daily basis. Since the procurement department spends the bulk of the income of the organization, the accounts departments has to arrange finances to meet the suppliers' bills. However the purchasing department must give advance notice to accounts in respect to the planning requirements. The Accounts Department ensures that company rules ´, policies and procedures are fully respected; materials receipts and invoiced prices are ordered from the purchasing department before payment is realized to suppliers.

Procurement and Human Resource: The Humana Resource department is responsible for recruitment, training, development and evaluation of the Procurement personnel of an organization. It is the function that ensures that the people carrying out procurement duties acquire the skills they require so that they observe the aims and objectives for which the procurement function exists in an organization.

MODULE 2: PROCUREMENT PROCEDURES

The Procurement Cycle: The purchasing/procurement cycle describes the typical stages that characterize the procurement process. Clearly all these stages would not be repeated every time a simple requisition was made by a user for, say, stationery. It would be cumbersome to negotiate with external suppliers for every order. Similarly authorization for every purchase order may not be necessary and in reality low-value orders (below certain) may be deemed as to not warrant authorization. It therefore follows that a firm may need to devise means of handling such orders.

A typical purchasing transaction would go through the following steps to get complete:

1. Need Identification: This is where a given department recognizes the need to use an item or a service. This is followed by a Procurement requisition.
2. Defining the specification: This is a statement that clearly explains what is required.
3. Authorization/approval: This involves getting the opinion of no objection to buy and the designed specification from any relevant office. It may be a head of department, an accounting officer, a financial controller, etc-
4. Identification of potential suppliers: This may be through tendering or inviting offers from the supply market.
5. Appraisal and selection of a supplier: This involves evaluating the bids/quotations/proposals from those who responded.
6. Contract negotiation: The best evaluated supplier may not necessarily give an offer that completely caters for all the needs of the buyer. This may therefore call for discussions between the buyer and the supplier on such issues as quality, delivery, schedule etc.
7. Award/placing orders: An order is placed say using a local purchase order or signing of a contract.
8. Delivery and receipt of services/products/work: This is both the responsibility of the supplier and the buyer.
9. Payment: Upon successful performance by the supplier, he will submit a tax invoice against which the buyer will pay.
10. Vendor rating/review of performance: It may be important for the buying firm, to evaluate the performance of the supplier. This will assist the buyer in future in case a similar need arises.

Purchasing Documentation.

The above analysis of procedures used in purchasing is a clear indication that purchasing is complicated and therefore may require some form of support. Documents assist in guiding the procurement staff to manage related complications. For purposes of this study our main focus will be on purchasing manuals.

A purchasing manual is an essential document in any entity containing the policies governing the "how to "of purchasing. The manual can contain a variety of topics, from basic instructions on how to prepare a purchase order to the procedures used to take telephone quotations, submit a sole source justification, make an emergency perchance or negotiate a contract. A manual makes it easier to enforce purchasing policies:

Contents of a Purchasing Manual:

The manual addresses the following:

- Principles of purchasing
- Responsibilities of the purchasing agent.
- Purchasing policy.
- Agency responsibilities
- Business relations with suppliers
- Unauthorized purchases
- Business relations with suppliers.
- Unauthorized purchases.

- Preparing purchase orders.
- Purchase order return form.
- Purchase order changes.
- Cancellation of purchase orders
- Areas exempt from competitive bidding.
- Procuring professional and consultant services.
- Specifications
- Establishing new contracts.
- Sole single source procurement
- Emergency purchases.
- Disposal of surplus material
- The payment process
- The receiving process
- Formal bidding processes
- The contract and its use.

Appendices:
- Dictionary of purchasing and shopping terms
- The purchasing resolution
- Minority business policy
- Proposal evaluation guidelines.
- Contract insurance
- Negotiating contracts.

Benefits of a purchasing manual:
- It provides in readily accessible form complete record of all standing instructions.
- It facilitates standardization of procedures.
- It facilitates training of new staff.
- It provides guidance to audit.
- It makes processes more transparent.
- Reduces occurrence of errors.
- More organized purchasing function due to clear policies.

Problems of Manuals:
- They are expensive to draft.
- They require updating as contents became inapplicable over time
- They limit staff initiative.
- They promote bureaucracy because you must follow the purchasing procedures.

Other Purchasing documents include:
- Purchase orders e.g. a Local Purchase order from the buyer.
- Contract documents – This is between the buyer and the supplier.
- Receiving reports – This is from the user department.
- Solicitation documents – These are for requesting the supplier to avail the goods and services to the buyer.

MODULE 3: RESOURCE NEEDS IN DIFFERENT SECTORS

Economically, a nation's output comes from three distinct sectors:

- Primary: concerned with extraction of natural resources from the earth e.g. mining and fishing.

- Secondary: concerned with transforming natural resources into other components e.g. cotton ginning, textile. This is generally called manufacturing. Products of the primary sector rarely have immediate use and therefore require transformation into better items.

Tertiary: Concerned with the development and provision of services e.g. professional services like accountancy, etc.

The general scenario is that all countries have as a starting point a dominant primary sector. As they grow economically the engage in manufacturing and finally services provision. It is therefore common to find developing countries like Uganda depending on the primary sector activities like agriculture while developed nations like the UK get the bulk of their export income from services like tourism, education and financial services. An understanding of the resources required to sustain production in a given sector is important for any current and future purchasing expert. This is an endeavor to examine the resource needs for different production sectors and as a result a comparison between the public and private sector procurement will also be necessary.

The Primary Sector:
An assessment of t he environment under which an activity like mining or lumbering is carried out would give the following characteristics. This can be therefore being looked at as characteristics of the primary sector.

- Operations are located in remote areas (rural and isolated areas that rarely have most amenities e.g. roads, schools, electricity, entertainment etc.
- High spend on capital equipment, MROs (e.g. lubricants) and specialist services e.g. engineering.
- High inventories are often necessary due to long lead times because of the remote (distant) locations.
- Most fatalities (something that can cause death) and accidents occur in this sector e.g. mines.
- Environmental impact is high since this sector is mostly directly involved in interfering with the environment e.g. lumbering, oil drilling etc.
- Sourcing from local suppliers is often required for logistical and political reasons.
- Input costs are critical since the selling prices are normally fixed by global markets. This is true for commodities like coffee and cotton.

Implications of the above for the procurement professional:

- Use of total life cycle costing is important. In other words the invoice price of an item like equipment should not be the major criteria. Consider costs up to the point when the item is disposed off.
- Logistics is cal:
- The management of movement and storage of materials should be handled very carefully to minimize costs since operations are in remote locations.

For example vehicles moving output to urban areas could go back with required inventories to get more value from fuel en-route (on the return journey).

- Correct storage conditions are critical to prevent deterioration of stock since high levels are normally kept to avoid stock outs.
- Health and safety is critical. Contractors (providers of services like cleaning) must abide by health and safety regulations and must have compatible regulations concerning the same.
- Buyers need to be more vigilant about environmental procurement (Green procurement). This can be fostered through good disposal, buying environmentally acceptable items, buying from replaceable sources for example timber) etc.
- A local supply base must be developed for acceptable items. This can be looked at as social responsibility (rewarding the locals).
- To manage input costs, good purchasing practice is required for profitability since cost increases cannot be passed onto the customer. Such practices could include good negotiation, relationship management and spend control etc.

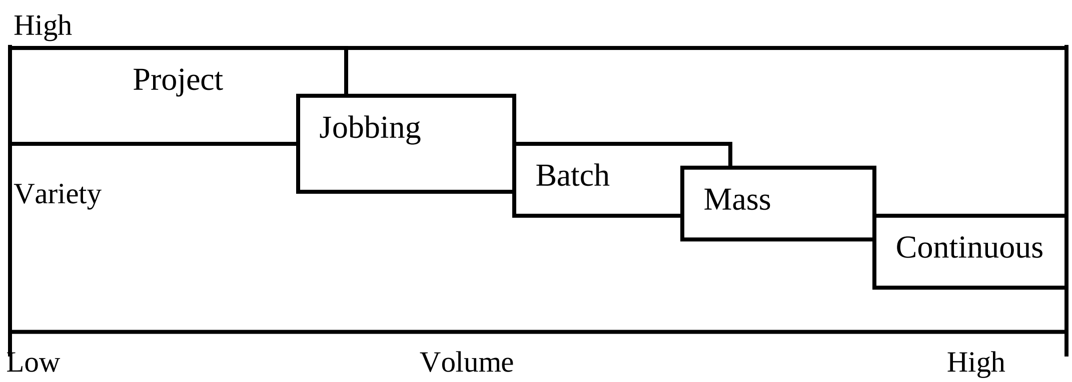
The Secondary Sector:
Characteristics of this sector include:

- An advanced purchasing function often at a strategic level .
- The Key internal customer for purchasing is production .

- The value of materials which are bought out on a regular basis is high.
- High initial expenditure on equipment necessary for manufacturing.

Process types in Manufacturing:
The complicated nature of manufacturing firms makes it necessary to differentiate them into categories depending on the volume of items they produce as compared against the variety of goods. In this regard. Volume looks at the quantities of items produced for examples a beer producer is regarded as a high volume industry. Variety looks at the various types of a similar item that is produced. A beverage firm producing one type of mineral water like Rwenzori could go for a low variety firm while a firm producing many different types of sodas like Century bottling Company could go for a high variety firm.

Basing on the above, the following classifications will arise:
Diagrammatic expression:



a. **Project process (High variety and low volume)**

Project processes are those which deal in distinct and usually tailored products.
The time required to make a product is too long e.g. construction work.
Dedicated resources: materials can only be used on one project and it is very hard to find another project where they will be needed.
Examples are manufacturing of military aircraft, railway infrastructure etc.

Implications for procurement
Materials (components) should be stocked to order after confirmation that the equipment will be needed.
The sequence in which materials amice will be critical for example finishing items like paint should be last.
Accurate estimations of required materials will be critical because any balance on one site will not be needed any where else.

b. Jobbing
Like project processes but resources are likely to be dedicated.
Examples are furniture, mats etc.

Implications to procurement
Specialist materials will be stocked to order (bought when needed only).
Common use materials will be stocked in inventory (bought even before they are not yet required)

c. Batch processes
Based upon the principle of economies of scale
Each time an item is produced. It is produced in large quantities.
Combines characteristics of jobbing with those of mass production
Examples are newspapers, text books etc.

Implication for procurement
Inventories are required at each stage of production and if the quantities are highly predictable, then materials can be forward scheduled to arrive just when they are to be worked on.

a. Mass processes (line).

- They produce items in high volumes but relatively low or narrow variety.
- Examples are Fast Moving Consumers Goods (FMCGs) producers like detergents, beers, etc.
- Material requirements are largely predictable.
- Production needs to be done with minimal interruption.
- Late customization may be done on products e.g. color packaging etc.

The Implication here would be Forward planning to ensure minimal production stoppages.

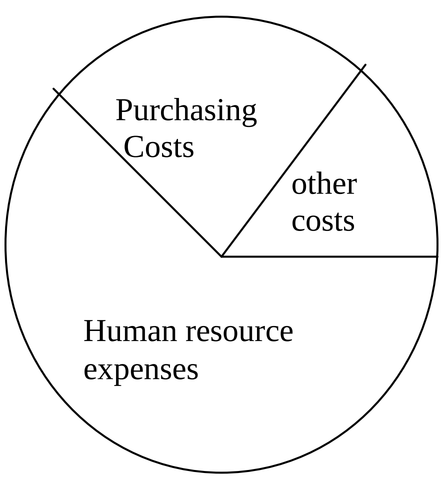
b. Continuous Process (Flow)

- These involve very high volume and minimal or practically no variety.
- Interruptions are fatal (can cause very high problems).
- Output is completely standardized.
- Output never stops unless when making major replacements.
- Examples are piped gas supplies that never stop, water, electricity.

The Implication here would be continuous supply of inputs is critical.

The Tertiary Sector: This sector unlike the other two does not have a significant procurement function. Although the emphasis is changing, the case in many service sector firms is in such a way that purchasing is done outside the procurement function in case it exists anyway.

Reasons: Physical inputs are not as critical in this sector as they are in other sectors. This is in no way supposed to mean that buying non physical inputs is not purchasing. The proportion of expenditure on bought out items is so small as compared to total expenditure. The above scenario is however changing as more activities are increasingly defined as non-core and therefore outsourced.



Human resource expenditure may include:

- Travel
- Salaries/wages
- Allowances
- Travel expenses
- Condolences
- Training

Other costs may include:

- Contingency like payment for lost court cases.
- Social responsibility drives e.g. floods – therefore need for the company to extend assistance to the locals.

Items bought by service firms

- Office equipment
- Computer hardware and software
- Staff welfare products
- Vehicles
- Advertising services and materials
- Maintenance, repair and operations MROs materials
- Utilities.

The increase in outsourcing presents procurement and supply professional with new challenges and opportunities supplier relationship management and contract management becomes key as support activities get outsourced including catering, cleaning, security, etc.

Process types in Service operations.

Like for the secondary sector, services can be categorized basing on the volume and variety. This categorization reveals three types:

Professional Services

- These are associated with low volume ad high variety e.g. lawyers, medical consultants, etc.
- Value is people based rather than equipment based.
- Value is therefore intangible and based on advice (projection).
- There is a very high level of customer contact with the expert (one on one).

The Implication is:

Material inputs like testing equipment may be needed for delivery of the service(s) but inventory is not likely to be very critical.

a. Service shops:

- These are associated with medium volume and medium variety e.g. restaurants, banks.
- There are lower levels of customers contact.
- Lower levels of customization.
- Higher volumes of customers.
- Some cases of one to one contact may be there but not as frequent as in professional services.

b. Mass Services

- These are characterized by high volume and low variety e.g. schools, airlines.
- Very limited contact with the customer e.g. vice chancellors. Very limited customization.
- They are relatively capital intensive.

Implication:

Great expenditure on outside spend and so proactive purchasing may be needed to save costs.

PUBLIC VERSUS PRIVATE PROCUREMENT:

Sectoral differences between Public and private firms do not mean a total difference in resource needs management. For example it is clear that in either sector. For example it is clear that in either sector, the traditional rights of purchasing remain crucial for the success of the purchasing professional. However, a number of diversions may be cited including the following:

Key Difference	Private Sector	Public sector
Responsibility(where you report)	Shareholders (Owners).	Public
Main objective	Profit maximization	Service delivery comes first

Source of finding	Private (Shareholders)	Public
Producers used	Exist but flexible	Tight and bureaucratic procedures e.g. PPDA

Each sector has its own characteristics that impact upon purchasing. These must be considered as in some cases they have profound impact on the success of a given venture. Although purchasing operatives may differ from sector to sector, the application of professional practices will have similar benefits in all sectors.

MODULE 4: THE TRENDS IN PROCUREMENT

The fields of Procurement or purchasing have undergone certain trends. This is in response to the broader environment of globalization and it is important for procurement students to understand such trends:

- It's now governance issue is mainly emphasizing value for money for both central and local government.
- It's now tied to development. This is due to huge sums of money compared to other government expenditures.
- Its an issue of small scale contractors and consultants both in central and local government
- It's an issue of small scale contractors and consultants both in central and local government procurement.
- Procurement is now increasingly being dominated by young people.
- It's now shifting from manual to computerized system.
- It's now a strategic function, this due to the amount of money within an organization that is allocated to procurement estimated at 70%.
- Its undergoing reforms e.g. Legal and institutional framework.
- People are now rushing to get qualifications.

COMPUTERISED PURCHASING SYSTEM:

E-procurement (Electronic Procurement) is the business-to-business purchase and sale of supplies and services through the internet as well as other information and networking systems, such as Electronic data interchange (EDI). An important part of many B2B (Business to Business) sites, e-procurement is also sometimes referred to by other terms such as supplier exchange. Typically, e-procurement websites allow qualified and registered users to look for buyers or sellers of goods and services.

Depending on the approach, buyers or sellers may specify prices or invite bids , transactions can be initiated and completed. Ongoing purchases may qualify customers for volume discounts or special offers. E-procurement software may make it possible to automate some buying and selling.

Companies participating except to be able to control parts inventories more effectively, reduce purchasing agent overhead and improve manufacturing cycles. E-procurements is expected to be integrated with the trend toward computerized supply chain management.

Some types of e-procurement:

E-sourcing: Identifying new suppliers for a specific category of purchasing requirements using internet technology.

E-Tendering: Sending requests for information and prices to suppliers and receiving the responses of suppliers using internet technology.

E-Reverse auctioning: Using internet technology to buy goods and services from a number of known to unknown suppliers.

E-Informing: Gathering and distributing purchasing information both from and to internal and external parties using internet technology.

Computers linked by networks can be used for any of the following procurement tasks.

- Access data about products available in the supply market.
- Find sources of supply.
- Make price comparisons
- Advertise the organizations' requirements
- Issue invitations to tender and let contracts
- Spot-buy from auction sites, market exchanges
- Monitor supplier performance
- Receive invoices and make payments.
- Act as a delivery channel for incoming products/services e.g. professional advices, software, notes etc.
- Making payments for consumed supplies or services.

Benefits of Computerized Purchasing:

- Reduced prices resulting from better sourcing.
- Shorter procurement cycle time resulting from faster communication e.g. instead of setting a letter, one sends an e-mail.
- Accountability and audit trail is often better than with paper work due to the nature of IT.
- Processes become more transparent.
- Less errors e.g. many electronic forms cannot be sent if the codes/data is incorrect.
- Reduced maverick (unethical or undesired) buying.
- Easier access to new and better suppliers.

Problems:

- It is expenses to acquire soft and hardware components like e-procurement software.
- Maintenance and upgrade of required software may be a hurdle to the company's profitability.
- It requires training of staff to be able to cope with e-tools for successful e-procurement initiatives.
- Computerized systems can be used to cheat an organization e.g. banks.
- Relationships with suppliers may be lost because of less physical interactions.

The future of Computerization in Purchasing:

Implementing e-procurement solutions requires an investment and therefore authorities have to make sure they have a sound case for any implementation now or in future. The best way to get the interest and support of the senior management team is to demonstrate what would be different in the authority if various e-procurement technologies are implemented current procurement spend and processes in order to measure the benefits that will accrue.

What councils are finding difficult about e-procurement is not the technologies but the change, management issues and persuading people to alter their behavior. Letting go of the paper is not as straight forward as it sounds. Whatever stage an authority is at, they should not try to do everything on their own.

MODULE 5: THE PROCUREMENT PROCESS

The word process is defined differently by different people. One dictionary (Longman) offers the following two definitions;

A connected set of natural actions or events that produce gradual or continual change over and on which humans have little control.

A connected set of human actions or operations that are performed intentionally in order to reach a particular result or as a part of an official system or established method of doing something.

A process usually depicts a set of interrelated sup processes all directed at achieving a common outcome. Procurement or purchasing is seen as a series of stages aimed at acquiring goods and services to achieve particular organizational objectives.

These processes have to be linked together in a logical manner and activities that may be performed at one stage may be repeated at another stage. It is for this reason that terms like the procurement or purchasing cycle suffice. They are called cycles because activities which may be performed at one stage may be repeated at another. Each component in the procurement process is concerned with a particular aspect and one stage definitely leads to the other.

The Public Procurement cycle in Uganda:
The procurement cycle includes a series of steps and activities that span the procurement process. An effective and efficient step by step application of the stages involved in the cycle is the only sure way of ensuring good governance as the key objective of government policy in Uganda. Procurement and its effective management is now regarded as a global and governance issue.

Processes involved in a procurement cycle at government setting:

1. **Identification of the need:**

This is the core first step in any procurement process not necessarily at the local government setting but in any organized procurement. No procurement can be talked about without an understanding of the goods and services to be procured. The User departments must identify their needs and this has to be before the budget process is concluded because the entity's budget has to incorporate the identified needs. The success of the subsequent procurement process depends on how well the identification of need is sufficiently managed. In the old days of procurement (where the function was clerical and reactive in nature), on department could do the identification on behalf of other departments. In a strategic consideration however, which is now being preached, the integrative and participatory approach in needs identification is required.

2. **Procurement Plan Formulation:**

The Procurement and Disposal Unit (PDU) then formulates the entire corporate needs, procurement plans and schedule for the acquisition of the goods, services and works as the identification of the need stage revealed. The procurement plans must be prepared each year and should contain certain information to facilitate approval and subsequent procurement process.

3. **Advertisement for pre-qualification:**

After the procurement plan presentation and approval, implementation follows. The first implementation part of the procurement pan is the advertisement for pre-qualification of providers for a particulars financial year. The pre-qualification tenders have to be made in accordance with the procurement plan. In the prequalification advert, the interested applicants for the provision of works, services and supply of goods are required to submit information to the PDU. The exact expectations from the interested applicants must be clearly stated without any ambiguity and the principles of public procurement must be seen to apply.

4. **Preparation of Bid Documents:**

Bid documents are the same as solicitation documents as per the PPDA Act of 2003. The PPDA has standard bidding documents as models for drafting all solicitation documents for public procurement. One of the principles that should be followed in public/government tendering is an adequate time spent on preparing bid documents. It's from the accuracy of the bid documents that value for money originates. The bid documents are prepared by the PDU. In addition to bid documents, the Terms of References (T.O.R) for the provision of services have to be prepared by the same committee.

5. **Tender Board advertises tenders:**

Following the established procurement plan and after a thorough preparation of the bid documents which include among others; the approved budget for the contract, instructions to bidders, T.O.R, eligibility requirements, plans and technical specifications and the conditions of the contract, the tender board advertises for tenders.

6. **Procurement and Disposal Unit:**

In between the advertisement and opening of tenders/bids, there is an imbedded process of receiving bids before the deadline set elapses/passes. The bids have to be received in accordance with the instructions given in the advertisement e.g. fully addressed and sealed to be delivered at a designed place or officer. The closure date starts a process of opening the bids as per the established procedures.

7. **Evaluation by the technical Committee:**

After the bids have been transparently opened by the tender board, the technical evaluation committee will start the evaluation process. The evaluation process involves stages like the preliminary evaluation aimed at ascertaining completeness and responsiveness to the bid followed by the technical evaluation and finally the financial evaluation. The law requires that the committee after evaluation write a report with recommendations on the best evaluated bidder to the tender board, which on the basis of these recommendations can accept to award a tender or reject the recommendations with sound reasons for doing so.

8. **Tender Board reviews technical reports**:

Upon confirmation by the Accounting officer of the availability of funds and fulfillment of all the legal requirements, a contract has to be signed together with the local purchase order (LPO) by which the authorized parties (CEO) and the agreement must be duly and securely kept in a contract file. The contract file definitely contains other documents and it is beyond the scope of this article.
The copies of the contract LPO are given to the technical supervision staff.

9. **Contract administration and management:**

This is a post-award function that rarely receives the close attention it deserves from those responsible. This stage is one of the core ones and its negligence or "careless" management results into shoddy works and services. The stage involves as key activities monitoring and contract performance against established standards and this is done by the User department, any other interested party fro the successful realization of value for money procurement, supervision and evaluation by the technical staff of that relevant district, recording and reporting, certificates of works upon satisfaction o f good works.

10. **Payments:**

It is a contractual obligation for the providers of works, services and goods to receive payments for the work done. The payment should be done after the "inspection and auditing" of the work done in case of works, when a certificate has been issued by the engineer. After the payments have been made, the transactions have to be recorded for use by relevant organs of the district and external stakeholders.

11. **Reports:**

The procurements cycle does not end with payment of contractors or suppliers for the work done. It is a requirement that monthly and or quarterly financial reports as well as the supervision and monitoring and evaluation reports are prepared and submitted to relevant organs. It is from such reports that a performance assessment of a particular PDE, over a particular contract within a particular period can be made. The failure to make such reports is a sign of weakness and failure to follow the procurement processes.

The above stages in the Public Procurement Cycle can for convenience and ease of remembering be summarized into three main stages:

1. **The Pre-award stages:**

These include all the preparatory stages before a contract is awarded and may include: Procurement planning, solicitation planning and the solicitation itself. Procurement planning articulates 5 issues of what to procure, when to procure, where to procure, how to procure and how much to procure. Solicitation planning involves the preparation of the bid documents and the determination of the selection criteria. It also involves advertisement of bids.

2. **The award stage:**

This is the stage which involves source selection and actual award of a contract. This is one of the most challenging phases as influence and corruption tendencies manifest themselves in their "time colors". The stage involves receiving and evaluation. Preliminary, technical and financial evaluation and the award of the contract.

3. **The post-award stages :**

These as the name suggests involve the stages that take place after the contract has been awarded. They involve two broad processes of contract administration and close-out or termination as applicable.

REQUISTION AND STATEMENT OF REQUREMENTS:

The procurement requisition:

The User Department has the responsibility to terminate the producer for the requirement(s). This is done by using a procurement requisition form. In public procurement, it is done by using a PP Form 20. It is important that the form clearly state the supplies, services or works required. It is recommended to use a computer while filling in the form. This makes mistakes due to bad handwriting being avoided.

Three officers have to sign the PP Form 20:

- The originating officer in the User department
- The authorizing officer in the User Department.
- The accounting officer (unless delegated)

A specific reference number has to be allocated to each procurement requirement at this initiating stage.

NB. Although it is the responsibility of the user department to initiate the procedure for the requirement by filling in a procurement requisition. It is t a large extent in practice a cross – functional work. In most cases it will be a co-operation between the User Department which has the procurement expertise and the financial department having the knowledge about the funding. When developing specifications/T.O.R/S.O.W, the cross functional team should also carefully define any pre-requisites for identifying, qualifying and selecting competent service providers or suppliers.

When filling the requisition form it is also necessary to estimate the value of supplies, services or works required so as to get a confirmation that the funds are available. In public procurement certification of the funding is made by eh Accounting officer or any one to whom this task is delegated. If the payment to the provider is anticipated to last more than one year, the accounting officer shall ensure that financial provisions are made in the budget for the coming year(s).

As the main rule, a PDE shall not initiate any procurement or activity for which funds are not available or inadequate. However, the following cases arte exceptional:

- When both the activities and the consequent payment are anticipated to be effected from future financial years.
- For framework contracts as funds will be committed at the time of the issue of each of he specific call of order.
- If the secretary to the Treasury has confirmed in writing that th required funding shall be made available.

Describing requirements/statement of requirements:

Statement of requirements is a general term but differs according to the nature of the items. For supplies/goods, these can be made as technical, functional or performance specification. When it comes to requirements foe services, these are normally called Terms of Reference (TOR) and requirements for works arte referred to as Scope of Works (SOW).

SPECIFICATIONS
A specification is a statement of attributes and or requirements of a product/ service. According to the PPDA Act 2003, it is defined as a description of an object of procurement or disposal in accordance with national or International standards adopted and approved by the authority after consultation with the UNBS, trade associations and professionals, the use of which shall be mandatory in all bidding documents.

To ensure fair competition, the description of the requirements should be worded so as to allow for and encourage the widest possible and necessary market coverage. It is important to provide a clear idea of the items, services or works that are required. Incomplete or over elaborated technical descriptions in procurement requisitions slow down the process and may result in late deliveries or the supply of inadequate, unnecessary or costly items/services or works.

Characteristics of a good description of requirements:

- Must be described in a short and concise language but detailed enough to express the intention of the User department clearly.
- Must be neutral and broad enough to promote competition.
- Should allow bidders to suggest alternative solutions.

Justification for the need of the statement of requirements:

- To ensure the evaluation criteria is stipulated.
- To avoid additional costs as a result of many parts being delivered. The supplier will always endeavor to supply something which conforms to the specifications/TOR/sow.
- To reduce delays in the procurement process because clear details will have been provided.
- It is a good tool at contract management stage.
- It is a major determinant of cost efficiency of goods and services.
- As a way to reduce risks for instance clauses should be put in the statement of requirements so that risks are guarded against e.g. terms o payment for completed and certified jobs, relation fees.

Components of an ideal specification:

a. Title page (mandatory)
   -Table of contents (optional)
   -introduction (optional)
b. Scope(mandatory)
- Background (optional)
- Service conditions and environment factors.

c. Performance requirements/measures (mandatory) which is the basis for testing whether the good/item conforms to specifications.

Types of Specifications:

a. Conformance specifications:
These describe the functionality which the product must have for the user or functional aspects that the product must consist of in order to achieve the intended purpose. The supplier may not know in detail or even at all what function the product will play in the buyer's manufacturing plant or organization. It us his task to simply conform to the letter of description provided by the buyer.

b. Detailed technical specification:
This describes the technical properties and characteristics of the product as well as the activities to be performed by the supplier. Technical aspects in terms of the physical characteristics of the product, appearance, issues that make that item different from the rest.

c. Performance specifications:
These state what a product or service should achieve under given conditions. Performance specifications are common in use because of reasons such as:
- The are easier to draft: This is particularly important where the buyer has limited technical knowledge of the product.

- They place more responsibility on the shoulder of the supplier. If the part supplied does not perform its function, the buyer is entitled to re-dress.
- They widen the potential supply base. If the task is to supply something, anything that will perform a particular function, then the expertise of different suppliers could potentially provide a wide range of potential solutions.

Note: 1.A good statement of requirements should have requirements clearly stated.
2. Should be simply written
3. Should be logical.

Common Problems:

1. Over specifying which at times makes the costs prohibitive for any willing provider and procuring entity.
2. Delivery of wrong products - if a provider does not understand the specification.
3. Failure to come up with a simple, clear and accurate statement of requirements.
4. Under specifying where items delivered fail to meet the buyers or users needs.
5. Costs involved in trying to specify on some of the issues e.g. consultancies, telephone costs, site visits obtaining samples.
6. Specifying unreasonable intolerances.

Functions of Specifications:

1. Communicating the requirement in a clear concise and unambiguous way between the suppliers and buyers and also internally with users.
2. Enable more accurate comparison of suppliers' bids on similar basis.
3. Indicates fitness for purpose. This defines quality.
4. Provides evidence in the event of a dispute of what the purchaser required and what the supplier agreed to provide.

Contents of a Purchase order specification:

1. Quality specifications (technical norms and standards that the product should meet).
2. Logistics specifications (quantities and delivery time)
3. maintenance specifications (how the product will be maintained and serviced)
4. Legal and environmental requirements (products, services and production process should be in compliance with legislation)
5. Target budget (supplier solutions and proposals would be with in pre-determined financial limits).

Added value of the buyer:

1. Ensuring unambiguous functional, technical, logistics ad maintenance specifications.
2. Preventing the use of supplier or product brand specifications.
3. Preventing the use of supplier or product brand specifications changes.
4. Ensuring a clear sample inspection procedure.
5. Ensuring clear descriptions of the methods of testing product quality.
6. Ensuring a general coat break-down to help assessment of quotations at a later stage.

Principles of specification writing.

The following principles should be observed by all specification writers:

- If something is not specified, it is unlikely to be provide. Therefore all requirements should be stated in the specification before awarding the purchase order. Suppliers will normally charge as 'extras' requirements added subsequently.
- Every requirement increases the price. All specifications should therefore be subjected to rigorous value analysis. Do not over specify or under specify.
- The shorter the specification the less the time it takes to prepare it . The expenditure in staff time devoted to the preparation of a specification can be high. This expenditure can be significantly lower when the length of a specification is reduced.
- The specification is equally binding on both the purchaser and the vendor. Omissions, incorrect information or imprecision in a specification can be cited by the vendor on any dispute with the purchaser. A rule of evidence is that words are constructed against the party who wrote them. Where

there is uncertainty about the meaning of a specification the court will generally interpret it in the vendor's favor.

- Specification should whenever possible be open and not closed, open specifications are written so that stated requirements can be met by more than one supplier. By making the requirements sufficiently flexible to be met by several suppliers, competition is encouraged and prices reduced.
- Specifications must not conflict with national and international standards, health, safety or environmental laws and regulations. National and international specifications should be incorporated into individual specification and identified by their number and titles.

Writing specifications for Goods:

Dimension	**Explanation**
Performance	Primary operating characteristics
Features	Provided not normally essential to the performance of a product.
Conformance	Degree to which design matches Or agreed standards.
Reliability	Likelihood of failure in a period of time.
Durability	Useful life of product
Service ability	Speed, ease and cost maintenance.
Aesthetics	The look, feel, sound task and smell of a product.
Perceived quality	Brand image reputation

Writing specification for services

Dimension	**Explanation**
• Reliability	Consistency of performance and Dependability. It means that the firm persons the service right the first time and also means that the firm honors its promises.
• Responsiveness	The willingness or readiness of employees to provide service. It involves timeliness of service.
• Competence	Possession of the skills and knowledge to perform the service.
• Access	Approachability and ease of contact like physical address telephone contact, parking space.
• Courtesy	Politeness, respect, consideration and friendliness of contact personnel (including receptionists, telephone operators).
• Communication	Keeping customers informed in the language they can understand and listening to them. It may mean that the company has to adjust its language for different consumers increasing the level of sophistication with well educated customers and plainly with a novice.
• Credibility	This involves trustworthiness, Believability and honesty. It involves having the customer's best interests at heart.
• Security	Security is the freedom from danger, risk or doubt.
• Tangibles	Physical evidence of the service like a environment. clean
• Understanding	Involves making efforts to Understand the customer's needs

The role of the purchasing/procurement functions in specification designing:
In some organizations, purchasing has only a minor role in the specification process. The buyer merely receives specifications from users and then sources the product or services specified.

However, even in the most technical and production orientated environments, this approach is misguided and may lead to waste, poor supplier performance and increased cost. Here are four arguments as to why the purchasing function must get involved in the design and specifications stages (Early buyer involvement).

All purchases have a technical and commercial aspect:

Even in highly technical purchases such as specialized drilling equipment for an oil company, commercial issues such as maintenance cover, spares availability, warranty period and user training might well form part of the specifications. These are all issues which the procurement function can address.

Early buyer involvement can help identify potential and real supply problems. If users specify items or materials which are difficult to source or have an unreasonable supply then this makes it more likely that there will be problems with production or perhaps quality. If this is highlighted at the specification stage, then these problems can be avoided or minimized.

Helps in reducing costs and waste. The greatest scope for cost reduction and avoidance is at the design /specification state. By ensuring that items are not over-specified in the first place, it is easier to reduce costs and waste rather than attempt to do so later. For example for many organizations, the cost of disposal of supplier packaging is high. Rather than cope with the problem and try to find cheaper ways of disposing of this packaging. It would make more sense to specify minimal packaging or returnable or recyclable packaging. Quality from the customers' point of view is about more than just technical aspects when purchasing computer hardware for example, the response time of the supplier to maintenance service requests is very important to internal customer satisfaction. There is little point in having technically superior equipment if system failures or breakdowns take long to fix.

MODULE 6: TECHNIQUES AND TOOLS FOR QUALITY MANAGEMENT

1. Quality assurance:

This is defined as all those planned and systematic activities implemented within the quality system and demonstrated as needed to provide adequate confidence that an entity will fulfill requirements for quality. In simple terms quality assurance is concerned with deject detection and correction. Quality assurance is concerned with every aspect of quality including design, specifications, supplier assessment, quality culture, motivation, education and training, inspection and feedback so as to ensure that all measures are effective. The objective of the quality assurance function is broadly to ensure that all products are manufactured free from dejects, conform to all specifications and satisfy the customers' requirements through using planned and systematic activities.

2. Quality Management Systems (3rd Party Certifications):

Many purchasing organizations now insist their suppliers and potential suppliers are certified to internationally recognized standards such as ISO (International Standard Organization). However, there are some criticisms of ISO standards. Some argue that it makes buyers lazy as they may not carryout any further investigation of supplier quality once they have established that he supplier follows the standards.

Benefits of ISO 9000 to the buyer:

- It is a guarantee that their quality requirements are being met.
- It reduces the need for supplier assessment .
- Receives receiving inspection costs.
- Simplifies the buying process.
- Creates confidence in the supply base.

Benefits of ISO 9000 to the supplier:

- An independence authority verification of th quality claims of the company.
- It is an international register of certified companies being increasingly used as a primary source for supplier selection.
- Internationally recognized standards which save suppliers' time and money by cutting down multiple assessments and inspections by customers.

3. Quality Control:

This incorporates the activities and techniques used to maintain the quality of a product, process or service. It includes inspection and monitoring processes, finding and eliminating causes of quality problems. Quality control is divided into the following methods:

- Suppler quality control: This refers to the responsibility of managing income inequality i.e. conformance to requirements of all materials supplied to a company. And this is achieved by such activities as supplier evaluation and approval, supplier quality education, supplier auditing, receiving inspection, non performance material control, supplier quality measurement and rating, supplier feed back concerning improvements and the provision of technical support wherever needed.
- In-process quality control:- This refers to the responsibility for assuring that all products manufactured and processes employed in-house are defect free. This is achieved through product inspection and verification process certification, equipment calibration, quality measurements and reporting, ensuring standards conformance, initiating quality improvements, provision of technical support and reports to production management.

On-line aNd off-line quality control: - This refers to some of the quality tools that are employed off-line i.e. before production to ensure that quality is built into t he product or process while on-line quality control methods are those tools employed during the production process to ensure that quality can be maintained to a pre-determined level.

Off-line quality tools:
Error proofing – This involves stopping the process whenever a defect occurs, define the cause and prevent the recurring source of the defect e.g. micro-wave ovens are error proofed i.e. they can not operate if the door is open.
Failure mode effects analysis (FMEA) - This involves reducing negative impacts/effects of problems that cannot be 100% prevented.

Robust design - Under this method, feature are built into products at designs stages that account for likely usage and misuse situations for example mobile phones are designed to be able to pick up a specific signal no matter how much interference there may be from other signals in the vicinity.

On-line quality methods include:
Sampling and inspection – Here a sample is taken from a batch of work based upon statistical tables. If the sample is within the quality specification tolerances, then the entire batch is accepted.
Control charting: - Under this method, upper and lower control limits are set for a product or process, samples are taken and the results are plotted on a chart so that upward, downward or unusual movements can be spotted easily and remedial action taken.
Quality circles – These are small groups of operational workers who meet voluntarily to discuss and suggest process improvements or solve problems related to work.
Bench Marking – This is an approach where an organization measures, its performance against industry leaders in the areas of quality control and procedures.
Costs of Quality or failure to implement quality:

Philip Crossby, the famous American writer on quality once said "Quality is free but it is not a gift" meaning that as organizations improve quality, their overall costs decline as they do not need to inspect as much. Their products are less likely to fail, so warranty claims are less, customer satisfaction is higher and there are fewer cracks and re-work.

The cost of quality is defined by ISO as the cost of ensuring and assuring quality as well as the loss incurred when quality is not achieved. Quality costs can therefore be categorized into prevention costs, inspection costs internal failure and external failure costs.

Quality issues can translate directly into money lost or saved. An important management task in which the buyer has a significant role is to measure the costs of quality so that these can be controlled and improved upon. The three costs associated with quality can be classified as:

- Prevention Cost: This refers to costs incurred in order to make it right the first time.
- Inspection/appraisal costs: This refers to costs incurred in the process of checking whether it is right.

- Failure costs (Internal and External): These are costs of getting it wrong. In terms of the cost objective of Total Quality Management (TQM), increase prevention costs in order to reduce inspection and failure costs and finally total costs of quality.

Examples of prevention costs:
- Cost of training and motivating staff.
- Cost of quality procedures
- Cost of using only quality assured suppliers

Examples of Inspection costs
- Cost of supervision/monitoring
- Cost of salaries of inspectors
- Cost of equipment used to test products coming from unreliable suppliers.

Failure costs:
- High fatalities/accidents.
- Cost of defending court cases filed by customers because of sub-standard products bought.
- Cost of re-work
- Cost of losing customers
- Cost of selling at lower prices because of poor quality

MODULE 7: QUANTITY CONTROL

Every organization holds something in stock. Stock can be a nuisance, necessity or a convenience. Retailers and wholesalers view stock as the control future of their businesses: What they sell is what they buy and they aim to sell from stock rather than from future deliveries which have yet to arrive. Organizations such as manufacturers, health care Institutions and other service providers place stock in a subsidiary rather than a central position, but it is still an important element in operational effectiveness and often appears on the balance sheet as the biggest of current assets looking up a lot of cash.

Reasons for carrying or keeping stock:
- The convenience of having things available as and when required without making special arrangements.
- Cost reduction through purchase or production of optimum quantities: protection against the effect of forecast error and inaccurate records.
- Provisions for fluctuations in sales or production
- Reduce stock outs and the associated cost-such as loss of customer good will.

Approaches to stock reduction:

Since carrying or holding stock is expensive and it is accepted that many organization carry too much stock, a continuing drive to reduce stock without reducing service is needed to combat the natural tendency of stock to increase i.e.
- Arranging for items to be delivered just in time instead of piling just in case need arises.
- Devising ways to reduce ordering costs, setup costs and lead times so that he optimum quantities are small.
- Making forecasts more accurate, ensuring that records are right and better planning. Costs associated with obtaining and carrying inventories:

There are three major types of costs:

a. Acquisition costs –

Many of the costs incurred in placing an order are incurred irrespective of the order size e.g. an order are will be the same irrespective of whether 1 or 1000 tonnes are ordered. Ordering costs include

- Preliminary costs such as preparing the requisition, vendor selection and negotiation.
- Placement costs such as order preparation, stationery and postage or mailage.
- Post-placement costs such as follow up, receiving goods materials handling, inspection, certification and payment of invoices. In practice, it is difficult to obtain more than an appropriate idea of ordering costs since they vary with the following:

* Complexity of the order and seniority of the staff involved.
* Whether order preparation is manual or computerized.
* Whether repeat orders cost less than initial orders.

b. Holding Costs – These are sub-divided into two types

- Costs proportional to the value of inventory, insurance costs, losses in value through deterioration, obsolescence and pilferage (petty theft).
- Costs proportional to the physical characteristics of inventory e.g. storage-costs, storage space, stores rates (rent), light, heat and power.

Cost of stock outs – This means costs of being out of inventory. These include:

- Loss of production output, cost of idle time and of fixed overheads spread over a reduced output.
- Cost of action taken to deal with he stock out e.g. buying from stockists at an enhanced price, switching production and obtaining substitute materials.
- Loss of customer good will through the inability to supply or late delivery.

Factors determining right Quantity:

* The demand for the final product into which the bought out materials and components are to be incorporated.
* The inventory policy of the undertaking
* Whether Job, batch assembly or process production methods are applicable.
* Whether demand for the item is independent or dependent.

Provisioning for Independent demand:

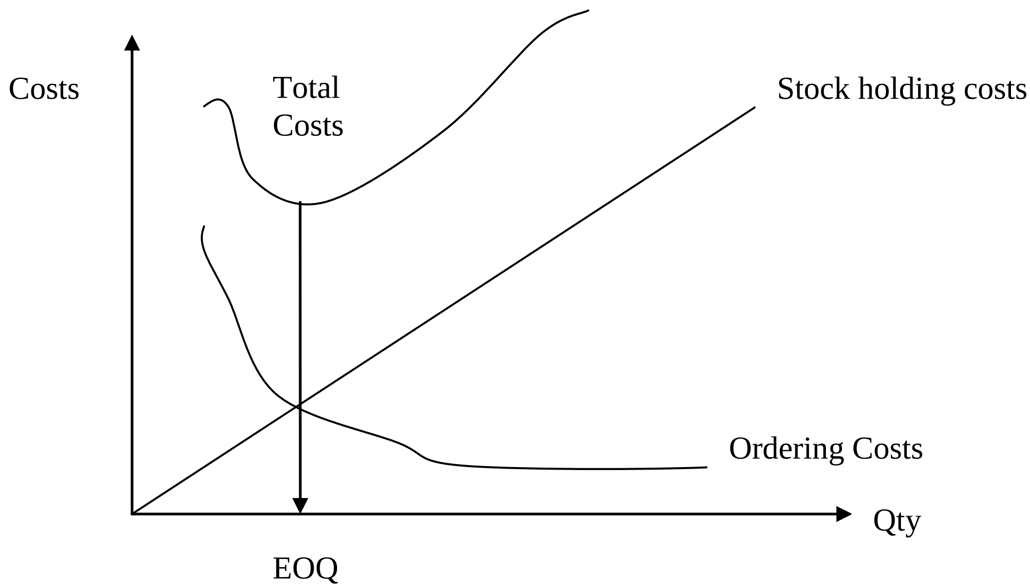
Independent demand is where the demand of a commodity /product or service. Independent demand is associated with the following systems of stock control and provisioning:

- Fixed order quantities
- Continuous/periodic review systems.

When provisioning for independent demand, the organization will attempt to minimize two sets of costs associated with inventory i.e. holding and ordering costs and they have an inverse relationship with each other. As the operation order will increase but inventory holding costs will decrease and vice-versa. The quantity at which the total of these two costs is minimized or optimized is the Economic Order Quantity known as EOQ.

Economic Order Quantity:

The EOQ is the optimal ordering quantity for an item of stock that minimizes total costs – both ordering and holding costs together. EOQ is appropriate in independent demand circumstances only.



Assumptions

- Demand is uniform i.e. certain constant and continuous over time.
- Lead time is constant and certain.
- There is no limit on order size due to either stores capacity or other constraints.
- The cost of placing an order is independent of the size of the order and the delivery charge is also independent of the quantity delivered.
- The cost of holding a unit does not depend on the quantity in the store.
- All prices are constant and certain. There are no bulk purchase discounts.
- Exactly the same quantity is ordered each time that purchase is made.

Advantages of EOQ:

- It offers solutions to inventory problems.
- It helps in finding appropriate levels of holding inventories.
- It facilitates the fixation of ordering sequence and the quantities so as to minimize the total material handling costs.

Disadvantages:

- Discounts offered for bulk purchases suggest larger quantities than EOQ.
- In the case of imported items, companies are forced to buy at least six months requirements at a time.
- Seasonal supply factors force organizations to buy in large quantities.
- Large order quantities lower transport costs.

Fixed order point system:
It is also called re-order point system. It is also called a two-bin system due to th fact that this approach provides a simple no mathematical approach to checking inventory. Under the two-bin system, the stock of a particular item is segregated into two bins and when one bin becomes empty, a requisition is made. In practice, reviews are frequent i.e. on a daily basis.

Calculation of important control levels:
If the normal usage of an item is 120 units per day, and the minimum usage is 60 units per day while the maximum usage is 150 units per day with a lead time period of 25/30 days and EOQ being 5500 units.

(i) Re-order level = max. usage x max. lead time
150 x 30 = 4500 units.

(ii) Safety or buffer stock = Re-order level – average/normal usage rate in
Max. lead time.
4500 – (120 x 30) = 900 units

(iii) Minimum level = Re-order level - average use for average
lead time.
4500 – (120 x 30 + 25) = 4500-3300

2
= 1200 units.

(iv) Maximum level = Re-order level + EOQ – minimum anticipated
Usage in lead time.
4500 + 5500 – (60 x 25)
= 8500 units.

Periodic review system:
Under this method of inventory control, an item's inventory position is reviewed periodically rather than at a fixed order point. The periods or intervals at which stock levels are reviewed will depend on the importance of the stock item and t he costs of holding that item. A variable quantity will be ordered at each review to bring the stock level beck to maximum. This is also called topping up system.

Maximum stock (M) = W (T + L) + S

Where: M = Pre-determined stock level
W = Average Rate of usage
T = Review Period
L = Lead time
S = Safely stock

Safely stock can be calculated in similar manner as that of fixed order usage.

Example:	Average rate of usage	=	120 items per day
	Review period	=	4 weeks (28 days).
	Lead time	=	25/30 days
	Safely stock	=	900 units

Calculate the maximum stock

M = W(T+L)+S
M = 120(28+30)+900
= 120(58)+900
= 7860 units.

If at the first review period the stock was 400 units, calculate the stock to be ordered. Stock to be ordered = Max. Stock less Actual stock to be ordered = 7860 – 4000 = 3860.

Advantages of fixed order point system

- On average, stocks are lower than with the periodic review system.
- EOQs are applicable with this system

- Enhances responsiveness to demand fluctuations.
- Replenishment orders are automatically generated at the appropriate time by comparison of actual stock levels against re-order levels.
- It is appropriate for widely differing inventory categories.

Disadvantages:

- Greater chances of elimination of obsolete items due to periodic review of stock.
- The purchasing load may be spread more evenly with possible economics in placing orders.
- Large quantity discounts may be negotiated when a range of stock items area ordered from the same supplier at the same time.
- Production economics due to more efficient production planning and lower set up costs may result from orders always being in the same sequence.

Disadvantages:

- On average larger stocks are required than with fixed order point systems since re-order quantities must provide between reviews as well as between lead times.
- Re-order quantities are not based of EOQs.
- If the usage rate changes shortly after review period a stock out may occur before the next review period date.
- Difficulties in determining appropriate review period unless demands are reasonable consistent.

Choice of systems:

(i) A fixed order point system is more appropriate if a stock item is used regularly and does not conform to conditions in (ii) below.

(ii) A periodic review system is most likely to be appropriate if orders are placed with and delivered from suppliers at regular intervals e.g. daily or monthly or a number of different items are ordered from and delivered by the same supplier at the same time.

(iii) Provisioning foe dependent demand:

In a manufacturing environment where production is scheduled, it should be easier in theory to provide materials because the demand for items required for production is dependent. In most manufacturing organizations, far more than two items are required and lead times and sequence of delivery is also more complex. In such an environment, only an MRP computer software program can perform the complex calculations, offsetting lead times and generating a Materials Requirements Schedule that would suggest when orders should be released in order to minimize inventory.

Materials Requirement Planning (MRP):

MRP is a product oriented computerized technique aimed at minimizing inventory and maintaining delivery schedules. It relates to dependent requirements for the materials and components comprising an end product to time periods known as "backets" over a planned horizon (say one year) on the basis of forecasts provided by marketing or sales and other input information.
Materials Requirements Planning Terminology:

- A Master Production Schedule (MPS): This is a plan for finished goods production over a period.
- A Bill of Materials(BOM): This is a structured list of all items required in a finished product.
- Inventory Status File (ISF): This file contains or describes in detail the supplier or manufacturer, lead time, the quantity in stock and orders placed for each item required for the production of the finished product.
- A Bucket is a time period to which MRP relates e.g. one week.

Applications of MRP:

- The demand for items is dependent.
- The demand is discontinuous.

- In job, batch and assembly or flow production.

Aims of MRP

- To synchronize ordering and delivery of materials and components with production requirements.
- To achieve planned and controlled inventories and ensure that required items are available at the time of usage and not much early.
- To promote planning between the purchaser and the supplier. This helps the suppliers to reduce lead times and production costs and minimize the inventory costs of the purchaser.
- To facilitate rapid action to be taken to overcome material or component shortages due to emergencies, late delivery, etc.

MODULE 8: 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, 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 in fact 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

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.

MODULE 9: 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 be sufficient for using this method. Suppliers competing for large contracts must 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 specifications 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.

MODULE 9: OUTSOURCING

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 Outsourcing:

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. Zenz (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 cafeteria 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 undertake 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	Program 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:

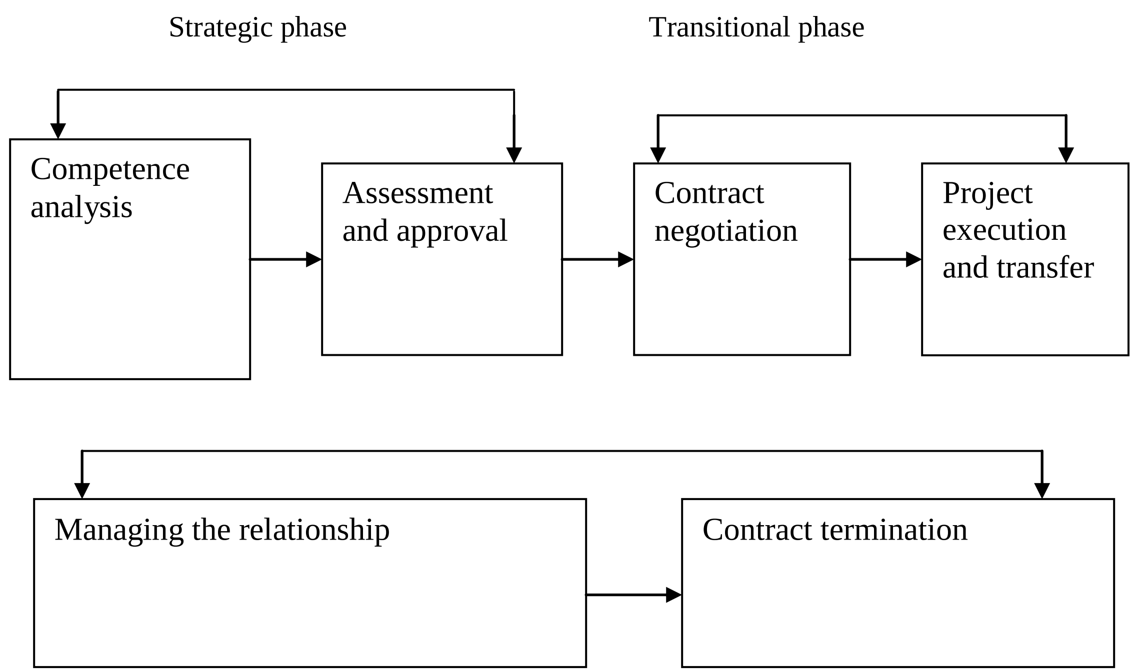
a. Managing the relationships:

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.

MODULE 10: CAPITAL PROCUREMENT

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.

$$NPV = DB - DC.$$

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.

MODULE 11: NEGOTIATION

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.

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

MODULE 12: CONTRACT ADMIMISTRATION AND MANAGEMENT

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 conditional ties.
- Revocation – withdrawal of the offer
- Failure of a pre-condition
- Lapse of time
- Death of either or both parties.

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:
Monczka 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.

(xi) 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 the 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.

Further reading on Contract Management and Administration:

- 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.

Reference:

2. Lysons (2000), Purchasing and Supply Chain Management.
3. Carter et al (2007), Purchasing and Supply Chain Management.
4. Monczka (2005), Purchasing and Supply Chain Management.
5. Lysons et al (2006), Purchasing and supply chain management
6. Lysons et al (2003), Purchasing and Supply Chain Management.
7. Weele. J. Van (2005), Purchasing and Supply Chain Management.
8. Hugo et al (2002), Purchasing and Supply Chain Management 4th edition
9. The journal of Public Procurement, volume six, nos. 1 and 2 2006.

African Population Institute
M&E Consult unit
P. O. Box 10842, Kampala Uganda
Website: www.africapopulaation.net Email: info@africapopulation.net
Tel:+256-772/712/702-836998