

INTRODUCTION TO PROCUREMENT

TOPIC 1

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Learning Objectives

1. Procurement and purchasing
2. 5 Rights of Procurements
3. Procurement Situations
4. Classification of purchased/ procured items.
5. Objectives & significance of the procurement/purchasing function
6. The procurement process
7. Documents used in the procurement process.
8. Principles of procurement

Public Sector procurement accounts for up to 60% of Governments expenditure and 30% of the Gross Domestic Product.

National Public Sector Procurement Policy 2019

Definitions

Purchasing refers to the transactional aspects of acquiring goods, services and works. It involves the actual process of buying, including order placement, receiving, and payment. It is part of the procurement process.

Procurement refers to the entire process of acquiring goods and services or works from external sources to meet organizational needs. It encompasses identifying needs, managing supplier relationships and ensuring contract compliance.

Procurement covers all practices and activities required to ensure that there is continuous flow of good and services to the Organization.

Aspect	Procurement	Purchasing
Scope	Broad strategic, and end-to-end process	Narrow, transactional, and operational
Focus	Long-term value, supplier relationships	Immediate acquisition and payment/shortterm
Activities	Need identification, sourcing negotiation, contract management	Order placement, payment processing, receiving of goods
Objective	Align with organizational goals (cost, quality, sustainability)	Execute the transaction efficiently

The five rights of procurement and supply relate to buying goods or services:

- In the right quantity
- In the right quality
- At the right time
- At the right place
- At the right price

Critique of the 5 Rights

- What is “right” is situational and changes over time. It also varies from person to person – each person has their own definition and measure of what is right.
- In practice, it is hard to get all the “rights” in one offering. There is a possibility the quality may be the “right” one that is desired, but a premium price is being charged for the good quality.

Broad Categories of Procured Items

- 1) **Goods** are tangible or material items, which can be consumed.
- 2) **Services** are actions individuals or organisations perform which confer a benefit, but do not result in the ‘ownership’ of anything.
- 3) **Constructional Works** include projects such as the construction, alteration, repair, maintenance or demolition of buildings or structures; the installation of fittings; and so on

Types of Procurement Situations

- 1) **Straight rebuy** is a routine purchase decision such as reorder without any modification.

Common situation and they apply where:

- the item or commodity bought is in continuous or recurrent demand
- suppliers are already known
- the item is dealt with routinely by current purchasing arrangements
- past experience has established a reliable supply pattern.

- 2) **Modified rebuy** is a purchase decision that requires some research where the buyer wants to modify the product specification, price, terms, or suppliers

Common situation and they apply where

- it is necessary to purchase a new product from a known supplier,
- it is necessary to purchase an existing product from a new supplier
- better alternatives for existing products have become available
- the demand for the item is continuous or recurrent, but at expanded or reduced levels
- minor changes have been made to the product's specification

- 3) **New task** is a purchase decision that requires thorough research such as a new product

New task situations apply where:

- the product or specification is new or unfamiliar
- the purchase is infrequently needed
- make-or-buy or outsourcing decisions may be required
- considerable expenditure on supplier sourcing and appraisal may be required as buyers may have little or no past experience on which to draw

Item Categories

In general, procured goods fall in the categories mentioned below:

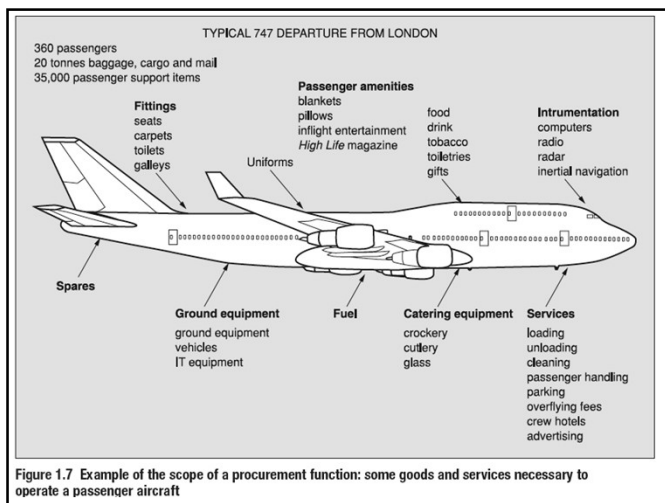
- **Raw materials:** Items with a lack of processing by the supplier into a newly formed product. Often these raw materials are not of equal quality and are purchased by "grade."
- **Supplementary materials** - These are materials, which are not absorbed physically into the end product they are used of consumed during the production process. Examples of this type are lubricating oil, cooling water, polishing materials and industrial gases.
- **Semi – manufactured products** - These products have been already processed once or more and they will be processed further at a later stage. They are physically present in the end products. Examples are steel plates, rolled wire and plastic foils.

Item Categories

- **Components** - These are manufactured goods, which will not undergo additional physical changes but will be incorporated and are built into the end product. Examples include headlight units, lamps, batteries, and engine parts. A distinction can be made between specific, customised and standard components. Specific and customised components are produced according to the design or specification of the customer while standard components are produced according to specification of the supplier or industry norm.
- **Finished or trade products** - These include all products, which are purchased to be sold. Items sold by retailers, wholesalers and stores fall in this category.

Item Categories

- **Investment goods or capital equipment** - These are products which are not consumed immediately but whose value is depreciated over a period of time. Investment goods can be machines used in production, computers and buildings.
- **Maintenance, repair and operating materials (MRO Items)** - These products sometimes, called indirect materials or consumable items are materials, which are necessary for keeping the organisation running in general. Examples include office supplies, cleaning materials, copy paper but also maintenance materials and spare parts.



Objectives of the Procurement Function

1. To supply the organisation with a steady flow of materials and services to meet its needs.
2. To ensure continuity of supply by maintaining effective relationships with existing sources and developing other sources of supply either as alternatives or to meet emerging or planned needs.
3. To buy efficiently and wisely, obtaining by an ethical means the best value for every coin spent.
4. To maintain sound co-operative relationship with other departments, providing information and advice as necessary to ensure the effective operation of the organisation as a whole

Objectives of the Procurement Function

5. To develop staff, policies, procedures and organisation to ensure the achievement of set objectives

Other Specific Objectives of the Procurement Function

- To select the best suppliers in the market
- Help generate the effective development of new products
- Protect the company's cost structure
- Maintain the correct quality / value balance
- Monitor supply market trends
- Negotiate effectively in order to work with suppliers who will seek mutual benefit through economically superior performance.

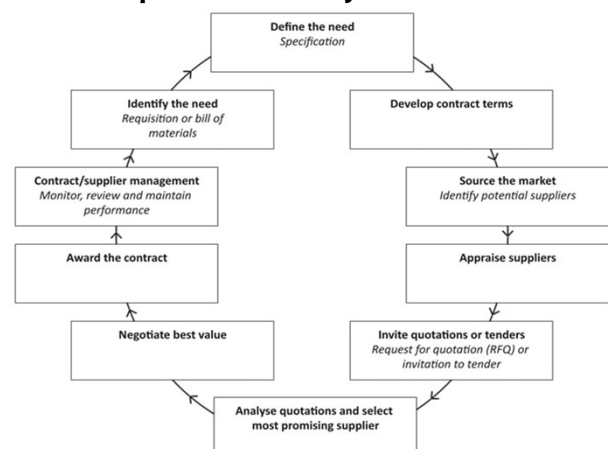
Procurement Process

In order for one to obtain needed items, a process has to be undertaken; this process has a number of stages and may vary depending on the firm or even sector that is whether it is private or public.

Public procurement is different from private procurement, because in public procurement the economic results must be measured against more complex and long-term criteria.

Public procurement is subjected in all countries to enacted regulations, in order to protect the public /national interests. It is worth noting that unlike private procurement, public procurement is a business process within a political system.

Generic procurement cycle



1. **Identification of the need.** This is normally done when a user recognizes the problem or need, this is internal stimuli. A requisition of what is required can also be triggered by external stimuli outside the Organization from the environment.
2. **Define the need** in terms of detailed characteristics /attributes of what is required in order to meet the need. The role of drawing up specification/attributes/features may be undertaken by individuals, teams, procurement officers and user departments depending on the organization and the sector (whether private or public).
3. **Develop contract terms:** the procurement experts are guided by the documentation from the users clearly detailing their requirement .Documentation is developed with tentative details(quantities, delivery times, payment terms etc)

- 4) **Source the Market** by locating of products or services that are required for your organization to operate. Decide on the best suppliers to get the products or services from.
- 5) **Appraise the Suppliers/Vendors;** check the ability of the suppliers to fulfill your requirements based on the attributes/specification that were earlier provided by the user and select the suitable suppliers
- 6) **Invitations for tenders or bids;** Through Request for Quotation, Invitation to tender ITT(containing details- quantities, delivery times, payment terms etc) are sent to the suppliers are requested to submit their quotations/offers that must be able to meet the requirement of the organization.

7. **Analyze quotations and select the most promising supplier.** This entails an evaluation of the quotations from the various suppliers that expressed their interest by submission of a quotation to assess how best the quotation fulfills the requirement of the Organization.
8. **Negotiate the best value based on the Organization's position.** Negotiations are between the best supplier and the Organization on finding a middle ground/ suitable position for both parties.
9. **Award of the Contract that entails aspects agreed upon in the negotiations between the buyer and supplier.** The formal contract awarded shall require legal guidance.
10. **Contract/Supplier management.** This involves monitoring, reviewing and maintaining performance of the supplier as contract is being executed. Close supervision and monitoring by an appointed contract manager. Furthermore activities like reporting, processing of payments are carried out here.

Why have structured procurement processes?

- It ensures that all tasks have been performed that need to be performed.
- It helps to maintain consistency in processes and outcomes.
- It prevents conflict and sub-optimal behaviour.
- It supports good governance and managerial control
- It supports compliance with relevant standards, law and regulation.
- It enables meaningful process analysis, problem-solving and improvement.
- It supports the devolution of some procurement tasks to non-procurement staff.

Elements of the Procurement Process

The procurement function is more than just the procurement process.

A number of elements have to be organised properly to support the procurement process and adequately facilitate a successful procurement practice.

These elements are categorised as: Clients and suppliers, methods and procedures, personnel and organisation, information services, procurement policy and performance indicators.

Elements of the Procurement Process

1. Clients and Suppliers

The clients refer to all employees that make use of the products and services purchased. This means that the entire organisation is a client of the procurement function.

Suppliers define the market that the procurement has to deal with. They are the main external counter part of the buyers.

2. Methods and Procedures

A method describes how a certain activity has to be done and hence increase the effectiveness of this activity and sets a standard that helps to realise uniform working practices and quality.

A procedure describes which actions have to be done and by whom.

Both procedures and methods have an influence on the quality of the outcome.

Elements of the Procurement Process

3. Personnel and Organisation

The quality of the people working on the procurement task largely define the quality of the function. It is vital to determine the procurement tasks and assign them to the right people. This involves deciding how these people will work together, in which structure they will be organised and who reports to whom. This is called purchasing/procurement organisation.

4. Information Services

Information is necessary and useful in all steps of the procurement process. It serves different objectives and can be used by several people and departments to better perform their task. Information can either be qualitative or quantitative.

Elements of the Procurement Process

5. Procurement Policy and Performance Indicators

The procurement policy states the way an organisation wants to profile itself towards external parties such as suppliers by providing guidelines. These guidelines are in line with relevant company policies and reflect the firm's opinion on economic, organisational and ethical issues.

- Performance indicators are measurable indicators of the function that have been identified as representative for performance as a whole.

These indicators are directly derived from the procurement strategy. For example, when the main objective is cost reduction, the number of suppliers and amount spent will be important factors to monitor.

Documents Used in the Procurement Process

- **Budget:** Document from the Accounting & Finance department that shows planned expenditure in the Organization that in turn guides in the planning.
- **Procurement Plan:** A document that shows the requirements of all departments in Organization needs. It clearly specifies the quantities, source of funding and when the requirement will be required.
- **Procurement Policy and Guidelines;** Provide overall guidance of conducting procurement in the Organization clearly detailing roles, methods and procedures.

Documents Used in the Procurement Process

- **Requisition note**
This is created by operations or user department for the required item. And what item is needed. It also helps a buyer to know whether it's a re - buy or new buy.
- **Enquiry or Requests for Information(RFIs)**
This is a request for information sent to potential suppliers. This is done to ascertain who is willing and able to supply and at what price and terms.
- **Request for Quotations (RFQs)**
Also referred to as solicitation documents. Document sent by the buyer stating the requirements that supplier should fulfil.
- **Quotation or Proposal:** A response received from a supplier in regard to what was in the solicitation document that states the suppliers offering.

Documents Used in the Procurement Process

- **Purchase order**
Following negotiations or clarifications a purchase order is raised and copies sent to interested parties. This is a legal offer or acceptance and the supplier knows that he or she will be paid by the organization.
- **Advice note**
This is sent to a buyer informing him that the goods have been dispatched or are ready for delivery such that he gets ready to receive them.
- **Delivery note**
The supplier on the delivery of the consignment provides this. This allows the buyers goods receiving section to check that the physical delivery matches with the documentation

Documents Used in the Procurement Process

- **Goods received note**
This is a document that is sent to the procurement department after the goods have been received and checked and have been found to be in good order. The procurement department will then inform the finance that the supplier should be paid on receipt on the invoice
- **Invoice**
This is a document sent by the supplier after delivery has taken place. It requests the buying company to pay the suppliers for what was delivered
- **Order acknowledgment note**
This is a document sent by the supplier informing the buyer that he is willing to conform to the delivery dates and terms. This is done to let the buyer know that the supplier understands and accepts the order.

Principles of Procurement

1. **Economy and efficiency.** Economy-Maximizing value at minimum cost should be the thinking in procurement activities and efficiency , funds should be allocated and used for appropriately for the allocated procurements in accordance with the set budget. All this is geared to obtaining value for money
2. **Fairness** – All eligible parties must be given the same opportunities to participate in the activities. A fair process is the one that is free from favoritism, self-interest or preference in judgement, and ensures equal opportunity and treatment for all vendors.
3. **Integrity** – The procurement staff must protect the organization from prohibited practices, including fraud, corruption, collusion and other unethical practices. All parties involved to observe the highest standard of ethics during the procurement processes and in the execution of duties.

Principles of Procurement

4. **Transparency** – in the procurement cycle to ensure good-quality procurement. Sufficient and relevant information on procurement opportunities and processes must be made available to the appropriate interested parties in an open, consistent, and timely manner, through widely accessible means.
5. **Accountability:** requires anyone involved in procurement to take responsibility of for their actions and decisions and how you comply with other principles.

Principles of Procurement

6. **Competition** all potential vendors shall be provided with timely and adequate notification of the procurement requirements and an equal opportunity to tender. The buyers shall ensure that restrictions are not placed on the competitive processes, limiting the pool of potential vendors.
7. **Non-discrimination.** Of any party participating in procurement on the basis of nationality, race, religion, gender or any other criterion not related to qualification, except to the extent provided for in the law.
8. **Confidentiality** should also be maintained when it comes to proprietary information that belongs to the organization or individual who is participating in the procurement procedure.

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