

INTERNATIONAL PROCUREMENT PROCESS AND CONSIDERATION

- Needs identification and specification
- Sourcing
- Evaluation and selection
- Contracting
- Contract management
- Contract performance evaluation

a) Needs Identification and Specification

In most cases the user department identifies the need and forwards to the procurement for approval however this should be in the approved procurement plan and budget. And if it has been approved then the specification can proceed.

A specification is a statement showing the attributes of a product, process or service. When writing specifications for products or services, the dimensions of quality are used.

Specification refers to a statement which provides a list of characteristics required in an item.

Specifying is the most determining step with regards to the success of Procurement, simply because this is the stage in which what is going to be purchased is defined. It therefore provides the basis for everything that follows. The result of this step is the Programme of Requirements, listing all requirements a supplier has to meet in the offer.

This process shows specification as a part of purchasing process. This means purchasing officers should always take care with specifications particularly when making purchase orders because an incorrect specification is taken on and suppliers will supply what has been stated. The suppliers will have played their part and the buyer will have to answer.

The following terminologies are related to specification as follows;

Requirement	Terminology
Goods or supplies	Specifications
Services	Terms of Reference (TOR)
Works (Construction)	Scope of Works (sow)

Functions of specifications

Specifications serve two main functions of communication and comparison.

Communication - A clear specification facilitates communication between the buyer and the supplier as well as user departments. It is what the buyer uses to inform the supplier of the attributes of the product or service that is required.

Comparison - Clear and unambiguous specifications facilitate accurate comparison of supplier's bids for contracts on the same basis.

It is important to note that in ensuring supplier conformance, particularly in regard to the quality of the product, the buyer has an important responsibility. Firstly, the buyer must make sure that he is himself clear about the product that he wants. Secondly, he should communicate these

requirements to potential suppliers as precisely as possible. To avoid any ambiguity, and later disputes, he should specify the product characteristics in terms of one of the following:

- Physical, chemical specifications and acceptable tolerances;
- National standards (buyer's own country)
- Other country's standards
- International standards (e.g., International Organization for Standardization);
- Market grades;
- Industry standards;
- Manufacturer's own standard
- Brand name;
- Manufacturing process specifications;
- Drawings (engineering);
- Samples:
- Performance specifications;
- Acceptance tests;

b) Sourcing

Sourcing is the process of identifying, selecting and developing suppliers. It is a key purchasing activity. The aim of sourcing is to find a supplier who will offer the best service at the most favorable cost. When sourcing, it is vital to know the qualities of a good supplier, the basis on which a supplier will be judged to be good or bad, the sources of information about suppliers and the sourcing options available.

In international procurement the one activity which in a sense underlies the realization of all other objectives of a good purchase decision is the selection of the supplier. Even when an importer may have done his homework in identifying the "right product" to meet his needs, the achievement of the importer's objective will ultimately depend on how well his selection of the supplier has been. The importer must ensure that the supplier is able to provide goods which conform to the buyer's standards and specifications.

If the supplier ultimately ships goods which do not meet the buyer's requirements all his other objectives will also not be realized. Likewise, if the supplier fails to ship the goods on the agreed date, his objective of having them at the "right time", will not be achieved. Delayed delivery would also mean that the objective of the "right price" would not be realized, as the delay may mean stock out and replenishment at a much higher cost. The same would be true of short delivery.

The International Sourcing Process

- Obtain Senior Management Support
- Determine best Sourcing Method
- Target Potential Supply Countries
- Locate Interested Sources
- Develop Inquiry Packages/invitations to tenders
- Obtain Supplier Quotations
- Determine Freight & Import Costs

- Develop Delivered Price
- Qualify Suppliers
- Prepare for Negotiations
- Resolve Technical, Commercial & Quality Issues
- Write & Place Contracts

Attributes of a good supplier

Once the buyer has laid down what he wants, as clearly and in as much detail as is necessary for effectively communicating with a potential supplier the latter's ability to conform to some or all of the contract terms and conditions will depend on his:

- Technical ability;
- Manufacturing facilities;
- Financial strength;
- Managerial competence.
- Delivers on time
- Provides consistent quality
- Gives a good price
- Is responsive to the needs of customers
- Keeps promises
- Provides technical support
- Keeps the buyer informed on progress
- E.t.c

Sources of Information about Suppliers and Market Conditions

- Sourcing services – a number of agencies will provide information to buyers about potential sources of supply
- Supplier representatives – these represent suppliers and provide useful information to buyers about potential sources of supply.
- Exhibitions – these events may provide the buyer with an opportunity to compare similar products from different sources.
- Colleagues – personnel in other departments within the company are often knowledgeable about sources of materials.
- Other buyers – communications with fellow professionals in the purchasing field might be useful in discovering new sources.
- Agents – stockists and distributors might provide comparative information on different manufactures and their products.
- Organisations promoting trade – e.g. UMA, association for small scale industries, UIA, e.t.c
- Approved lists – individual organisations may maintain lists of companies that have been assessed and approved.
- Recorded performance – the purchasing department may maintain records, which may provide information on past performance of suppliers who have been used in the past.
- Trade directories
- Catalogues
- Publications
- Professional associations

- Government sources like ministries, bureaus of statistics, e.t.c
- E.t.c

MAKE OR BUY DECISIONS

When firms decide to “make”, they have taken the option of manufacturing their own inputs instead of obtaining them from an external source, which is a supplier. On the other hand, when they decide to “buy”, inputs are obtained from sources external to the organization.

Why firms decide to manufacture their own inputs

1. Cost reasons
2. Reduction of lead-time
3. Need to utilize idle resources
4. When quantities required are too small and buying them from external parties proves more expensive
5. Confidentiality reasons
6. Need to train staff, build experience and expertise

Question

Discuss the challenges that a firm may face when a decision to make supplies instead of buying them from external parties is taken.

LOCAL VERSUS FOREIGN SUPPLIERS

Local sourcing involves obtaining supplies from domestic suppliers while foreign / global / international sourcing is obtaining supplies from suppliers outside the borders of one’s country.

LARGE VERSUS SMALL SUPPLIERS

Questions

- Discuss the benefits and challenges of the following sourcing options:
 - Local sourcing
 - Foreign sourcing
 - Using small suppliers
 - Using large suppliers

SINGLE SOURCING

This is obtaining all supplies from one supplier.

Why single sourcing?

1. Monopoly – the supplier of the particular good or service may be a monopoly. E.g UMEME, NWSC
2. Less administrative and overhead costs are involved.
3. It is easier to establish co-operation
4. When orders are very small
5. Need to obtain volume discounts

6. Easy communication and scheduling of supply requirements
7. Standardization is made very easy
8. E.t.c

Questions

- Highlight the disadvantages / demerits of single sourcing?
- Discuss the challenges that may be faced by a firm undertaking single sourcing

DUAL SOURCING

This is obtaining supplies from two suppliers. Each provides a percentage of the supplies.

MULTIPLE SOURCING

This obtaining supplies from more than two suppliers. For example, three suppliers, each providing a percentage of the supplies.

Why multiple sourcing?

1. Avoidance of over dependence on one supplier
2. Need to increase bargaining power of the buying firm
3. Supply security – need to be assured of supply
4. Need to spread risks
5. Legal obligations
6. Required capacity may be higher than one supplier is able to meet
7. Geographical factors
8. It can be used as a way of supporting small, local or new suppliers

Question

- Highlight the benefits and challenges of undertaking multiple sourcing

Challenges faced when sourcing for suppliers internationally

Physical distance between suppliers and buyers; this tends to limit the buyer from visiting the supplier's premise to assess and audit the supplying firm before an order is placed. If the buyer decides to visit the supplier, then there are high costs associated with that.

Government actions and fiscal policy; the taxes levied on imported items is usually high. This is done so to discourage people from buying products which have substitutes in country even if they are of lower quality.

The role of agents and intermediary suppliers: It is apparent that some suppliers "hide" behind agents who take direct responsibility for factory conditions, yet allowing them to source from factories that do not comply with it who may give them a cost advantage. In case of any problem the blame can't be shifted onto the agent since it is the manufacturer's brand name that is at risk. The buyer may also find it difficult to deal with the manufacturer directly.

Fraudulent practice: Pretious, M & Love, M, (2006) identified fraudulent practice as one of the challenges experienced in international procurement: they say that suppliers mislead the buyer over the true source of production. Many suppliers claim that goods are made in one factory and in one country yet they transfer the production elsewhere, making it difficult for the buyer to audit. For example you may place an order for HP computers with US office and the actual manufacture is done in China.

Difference in ethical codes of conduct: Pretious, M & Love, M, (2006) also identified the difference in ethical code of conduct as a major challenge faced by international purchasers. “When does supplier hospitality, for example, become excessive?” they wondered. More problematic is the tradition in some source markets for gifts to be offered to important business contacts at festivals, for example, Lai See in China at Chinese New Year. In some countries bribes are common and it would appear rude not to accept them. The Ugandan public procurement code of ethical conduct in business however state that a gift should be of nominal value like a pen or calendar.

Fake or conmen on the international market who may mislead the purchasers more especially when one sources on the internet.

Political unrest: Political events that destabilize trading conditions more especially African countries and Asian countries for example the wars which were in Arab countries like Libya, Afghanistan and Iraq. This makes it difficult to source from the affected countries.

Difference in time zones and working days: some countries like England and USA have a greater time difference. In Muslim countries, the weekend is Friday and Saturday and yet in Christian countries the weekend is Saturday and Sunday and so this leaves only four effective days from Monday to Thursday.

Possible solutions to the above challenges.

Use of the internet to reduce on travel costs

To promote efficacy in international procurement, procurement officers need to make use of the internet. Internet sourcing reduces the cost of travelling from one place to another and also saves time. When one places an advertisement on the internet, he attracts very many potential bidders.

Formation of foreign buying offices

Larry C. Giunipero and Robert M. Monczka, (1997) identified Formation of Corporate foreign buying offices as one of the solution to the above problems: Regardless of whether firms use specialized international staff groups, other groups may be used to facilitate international purchasing. Foreign buying offices represent a significant long-term commitment to international purchasing. This commitment is necessary due to the cost involved in the operation and staffing

of a foreign buying office as well as the need to comply with foreign government regulations. In the long run;

- Foreign buying offices save money,
- manage international sourcing,
- Better vendor selection due to the ability to perform on-site inspection of the supplier
- Better pricing due to the ability to negotiate directly with the supplier,
- On-site quality inspection
- Better communication between the supplier and buying office since it can be done person to person and better information about local conditions among others.

Use of supplier's agents

Use of supplier's agents available in country: most suppliers have international agents in most countries. It will be cheaper to use the in country agent to buy the items needed. For example HP computers have Computer point as the agent available in Uganda. This solves the problem of distance between the two countries.

The use of trading companies

Trading companies may be important in performing several offshore sourcing functions. Trading companies help with marketing and selling. For example, Japanese trading companies are quite prominent in the USA; they guarantee quality and delivery of the product, and handle all of the necessary documentation.

Use of more than one language on company websites

Suppliers should use more than one language on their websites to enable buyers have choices to choose from. They should borrow a leaf from Asian Development bank which gives options to people who visit their website. They have different languages and you choose the language you are comfortable with.

Multiple sourcing

Even the best laid plans can fail so have a Plan B. Keys to success are to understand the suppliers' environment and know the time and financial constraints involved in international procurement

Sufficiently qualified staff to support the Global Sourcing process.

Important characteristics which staff must possess include: analytical skills, an understanding of, and the ability to deal with, a global economy, and skills in negotiating with people from different cultures.

Sharing information with suppliers

The research shows that companies that share supplier performance data with their suppliers are often able to achieve lower purchasing prices of products. This data may relate to aspects such as delivery times, quality, flexibility and prices of products. Supplier ratings relative to direct competitors can also have beneficial effects.

Source to a country with low labor costs and good quality control

Companies typically enjoy a 10-35% cost savings by sourcing internationally. In the past, China was considered the go-to country for the lowest pricing and acceptable quality. (Be careful here because the transportation cost alone from China to your factory door can jack up the price considerably on your landed price per unit; make sure the price your supplier offers sans transportation costs beats all other competing supplier bids a hundred times over to ensure you end up with the lowest possible price).

The key to international sourcing success lies in you doing your homework in advance. Know what pricing you need and the quality, product specifications and timeline that will fit with your overall strategy.

c) **International Supplier Evaluation Criteria**

Evaluation of Bids is an independent assessment of compliance with:

- The statement of requirements/specifications
- Ability to perform the proposed contract
- The ability to meet the objectives of the procurement

Many factors aside from cost or price may need to be evaluated in the selection process. The inputs to the supplier evaluation process are bid proposal, evaluation criteria, and organizational policies. The output from the source selection is a contract

There are normally three variables in bid evaluation and these are:

- **Examination** – this involves verification of bids for their completeness, validity and responsiveness to the bid documents
- **Comparison** – comparison of the bid to the statement of requirements as stated in the solicitation documents
- **Assessment** – determination of the level of compliance of the bid to the statement of requirements

Stages in bid evaluation

There are three stages in bid evaluation and these are:

- ✓ Preliminary Examination
- ✓ Technical Evaluation
- ✓ Financial /Price Evaluation

Preliminary examination

This is conducted to determine eligibility and administrative compliance on pass/fail basis. Only those that meet all the preliminary requirements are considered for the next stage.

Documents considered under this stage may include: Valid trading license or equivalent, valid certificate of registration, income tax clearance, valid VAT registration, power of attorney,

recommendation letters from present or past customers and declaration form by the provider of non-insolvency.

Technical Evaluation

Technical evaluation helps in determining technical compliance with the specifications in the Bid document. The bids must pass a minimum score as per the criteria set by the evaluation committee to proceed to the financial evaluation.

Price/Financial Evaluation / comparison criteria

The purpose is to determine the lowest priced responsive, qualified, technically compliant quotation. Financial comparison is conducted for proposals that passed the preliminary and detailed technical evaluation stage. For the case of merit point system bids that adhered to the minimum qualifying score under the detailed technical evaluation are financially evaluated to determine the best evaluated bid.

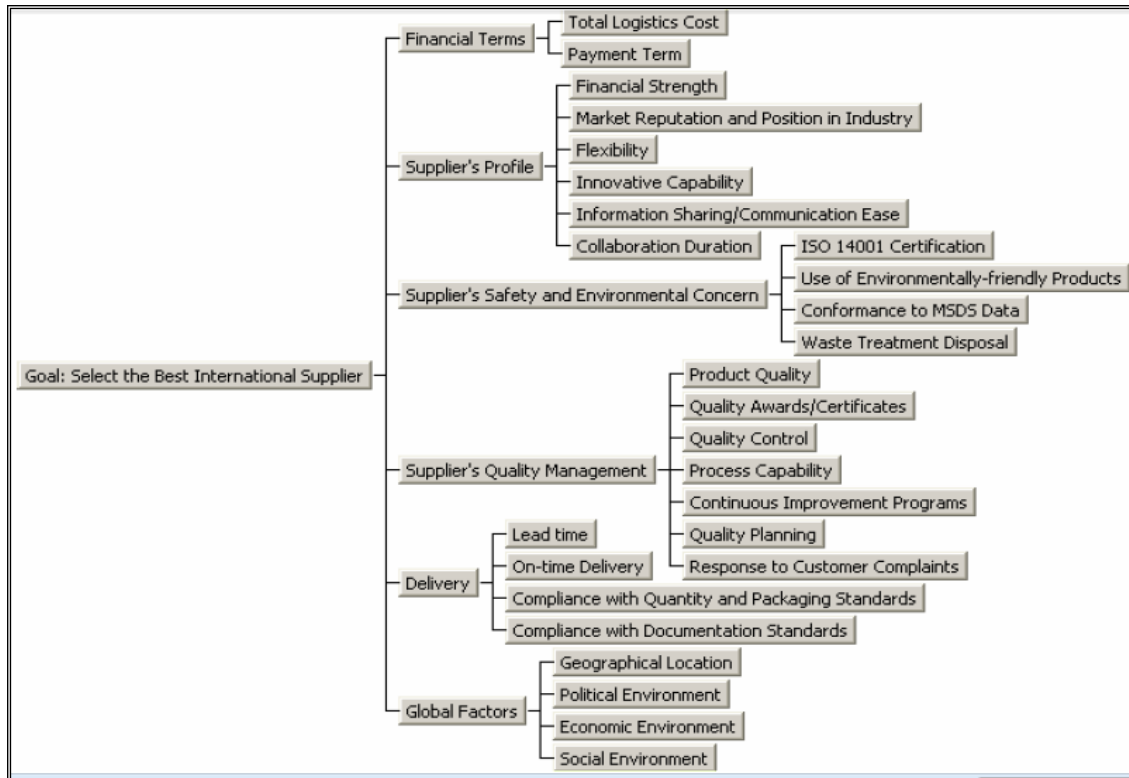
Post-Qualification

This is done to determine whether the bidder whose bid emerged as the Best Evaluated has the capability and resources to effectively carry out the contract. This involves visiting supplier's premise to physically verify the information which was included in the bid. Among the many, key points considered here include: Experience of work, Performance, capabilities, staff qualifications and experience, financial situation, facilities available locally, capacity to undertake the work, litigation record, and any other relevant data.

Key aspects to consider when evaluating suppliers in international procurement

What aspects should be looked at when choosing or evaluating a supplier? These include the following:

- Company profile i.e. ownership, global ability and dependency
- Finance
- Production capacity and facilities
- Human resources
- Quality
- Performance
- Information technology
- Organizational culture
- Environmental and ethical considerations



International Supplier Selection Criterion

d) Contracting in International Procurement

Contract finalization is the process followed by the procurement officer to form a written contract with a supplier. The purpose of contract finalization is to ensure that all proper elements are in place to conclude a written agreement that protects the interests of the organization and reflects the offer made by the supplier in response to the requirement presented by the organization.

A contract is formed on the basis of an “offer” and an “acceptance” or a written document, containing the agreement, and the terms and conditions, between the organization and the supplier, and which serves as proof of the obligation.

International Contracts

Three main features of any contract are

- (1) Explanation of the deal itself; and
- (2) Payment mechanisms for the deals.
- (3) Legal enforcement provisions

The formulation of the contract represents the conclusion of what may have been difficult and prolonged negotiations. Emerging from the contract is the international sales contract, ultimately expressed in the export invoice. This represents a major document in the processing of the

imported consignment and all other documents must be aligned with it. This document will feature the Incoterm chosen and will have an interface with the cargo insurance, transport and finance arrangements. Below are some of the features in the international sales contract.

- a) The seller's registered name and address.
- b) The buyer's registered name and address.
- c) A short title of each party quoted in items (a) and (b).
- d) The purpose of the contract.
- e) The number and quantity of goods, precisely and fully described using a technical and not a commercial description.
- f) The price.
- g) The terms of delivery.
- h) Terms of payment.
- i) Method of shipment.
- j) Cargo insurance.
- k) Shipping, freight and documentary requirements or instructions.
- l) Contract conditions e.g. sale, cargo delivery Incoterms 2010 etc.
- m) Signature of both parties.

An international sales contract by its very nature requires detailed and specific reference to the duties and liabilities of both parties to the contract.

- The nature of the goods to be sold, the agreed price, terms of payment and delivery are fundamental to the sales contract.
- Documentary requirements include the need to provide evidence of satisfactory fulfillment of certain activities detailed in the contract, such as transport of goods by agreed methods, insurance cover against stipulated risks and for agreed value.
- The agreed terms of payment and method of payment must be included.
- International contracts require inclusion of clauses relating to the applicable law of the contract, with perhaps a reference to arbitration in the event of any disputes.
- Non – disclosure and confidentiality clauses.
- Intellectual Property Rights.

This list is by no means exhaustive as parties to contract will seek to include conditions best suited to their ambitions within the context of the contract of sale.

It is always important for parties to carefully draft contracts in order to minimize the risk of unanticipated legal consequences and to ensure that acceptable rules will apply to all aspects of the contract. International laws, like the CISG, try to reduce risk and transactional costs associated with the drafting of international contracts by creating unified rules which bridge differing legal systems. These uniform rules facilitate trade across borders, but require specialized attention and in depth consideration at the time of the drafting for protection of specific business interests.

e) Contract Management in International Procurement

Contract management can be best summarized as the formal process of efficiently managing the creation of a contract, along with expediting the execution and required analysis of the contract. The systematic approach of contract management is required to maximize the financial and

operational capabilities and performance of the underlying parties. In addition, contract management is undertaken to mitigate the risk associated with a contractual agreement.

Most transactions go well beyond national boundaries and cause new challenges in the monitoring, control, and measurement of contracted services.

Challenges in Contract Management

- Determining the applicable law
- Cultural conflicts
- Dominance (responsibility of Provider Vs Responsibility of buyer)
- Lack of Specificity
- Changed circumstances which may affect the implementation
- Change of Ownership or management.
- Currency fluctuations
- Language problems
- Lack of adequate skills to manage contracts
- Risks
- Communication

f) Contract Performance and Evaluation

This means watching or studying the progress (performance) of the contract. It involves considering the performance results of the contract by comparing these results with the projected performance reflected by or based on the contract objectives. The monitoring process must consider the successes and failures in the performance and taking actions to deal with deviations from the contract objectives.

The Supplier's performance will, at a minimum, be rated at the conclusion of the work.

The rating is comprised of the following major sections:

- Quality Control
- Timely Performance or on-time delivery
- Service
- Total cost
- Price
- Effectiveness of Management
- Compliance with Labor Standards
- Compliance with Safety Standards
- Responsiveness

Other areas of supplier performance as regard contracts performance commonly measured include accuracy of quotes and promises, technical support, and price variances.

STAKEHOLDERS IN INTERNATIONAL PROCUREMENT PROCESS STAGES

Sourcing

- Procurement Team
- Foreign Suppliers
- Chambers of Commerce
- Logistics Providers

Evaluation and Selection

- Evaluation Committee
- Finance Department
- Legal Department

Contracting

- Procurement Manager
- Legal Advisors
- Foreign Supplier
- Insurance Companies
- Banks

Contract management

Procurement manager

Freight forwarders/clearing agents

- Uganda revenue Authority
- Uganda national bureau of standards
- User departments

Contract Performance Evaluation

- User Department
- Procurement Department
- Finance Department.
- Senior Management

PLEASE CLEARLY EXPOUND ON THE ABOVE STAKEHOLDER ROLES