

# PROCUREMENT PRINCIPLES AND PRACTICE



PCM 102

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## **LECTURE 1:**

Introduction to Procurement and  
Supply Management

# Expectations?

- What do you know
- How did you know
- Where did you know
- What are your expectations



# Introduction





# Purchasing

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- The purchasing *function* of an organization involves the acquisition of supplies or inputs (raw materials, components, goods and services) for conversion, consumption or resale.
- These supplies or inputs are necessary for running maintaining and managing the company's primary and support activities is secured under the most favourable conditions.



# Supply

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- **Supply** may be defined simply as the act (or process) of providing something or making something available, often in response to buyers' or customers' requirements.
- It involves the transfer or flow of goods, services and information from one party (a supplier) to another (a customer).



# Purchasing and Supply

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- The term '**purchasing and supply**' is often used in recognition of the fact that the purchasing function has a role not just in '**buying inputs**', but in '**securing supply**': that is, ensuring the consistent, reliable, cost-effective flow of goods and services into the organization from the supply market and supply chain.



# Procurement

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- It includes all activities required in order to get the product from the supplier to its final destination.
- **It includes sourcing, negotiation, contract administration and relationship management**
- It encompasses: the purchasing function, storage and warehousing transportation, inspection and quality control and assurance, making supplier selection decision based on total cost of ownership rather than price.



# Procurement and Purchasing

- Procurement is an organizational function that includes specifications development, value analysis, supplier market research, negotiation, buying activities, contract administration, inventory control, transportation, and stores management.
- Purchasing refers to a function that makes sure customer demands are satisfied. The function of an organization that is responsible for acquisition of required materials, services and equipment.





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- **To purchase:** acquire items by paying for it
- Market?
- **To procure:** activities involved in acquiring inputs



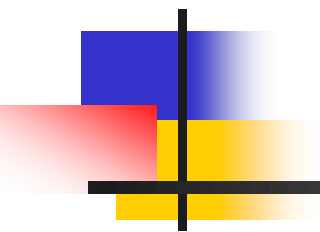
# Differences between procurement and purchasing

## **Purchasing**

- Tactical or operational (short term)
- Transactional (One off)
- Buying
- Reactive

## **Procurement**

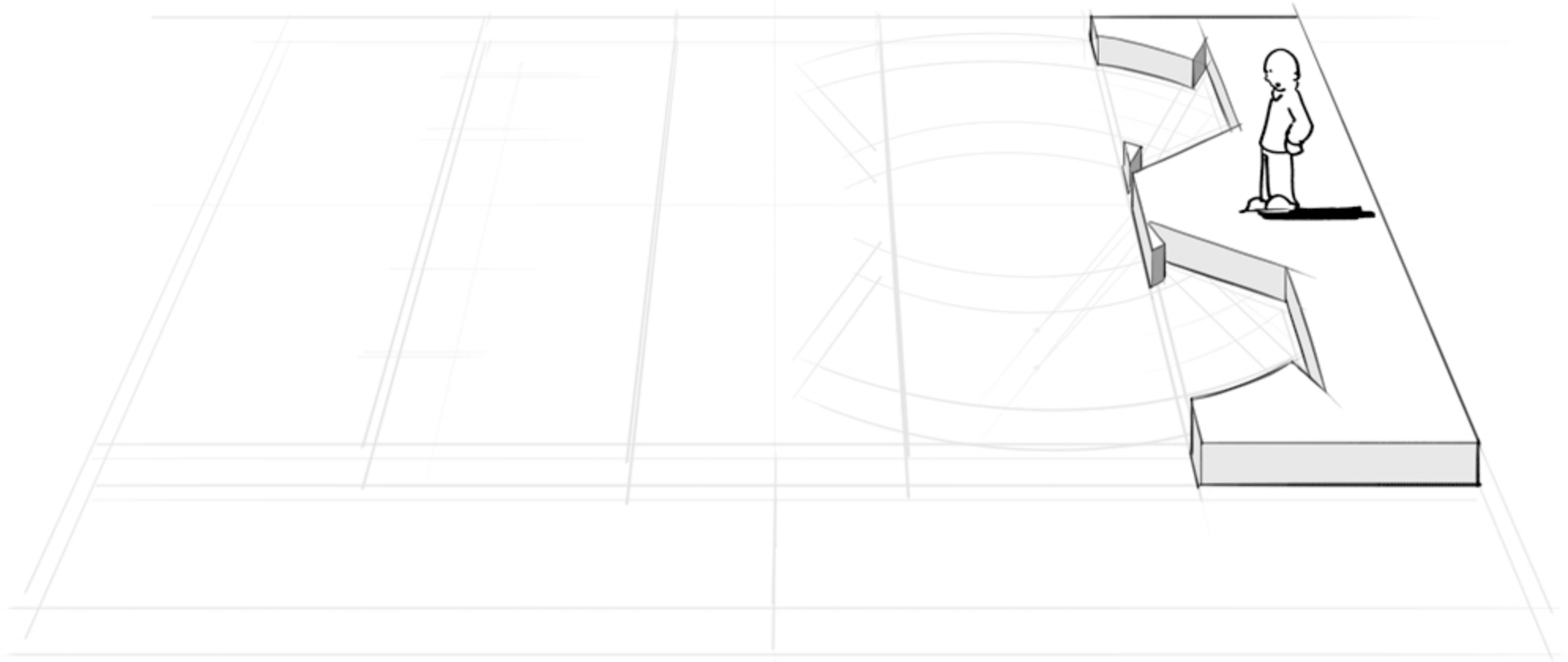
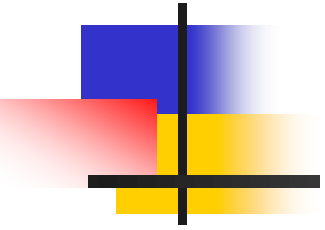
- Strategic (Long term)
- Relational (Builds Relationship)
- Obtained (items could be gotten to satisfy demand not only by buying)
- Proactive



**What is a supply chain?**

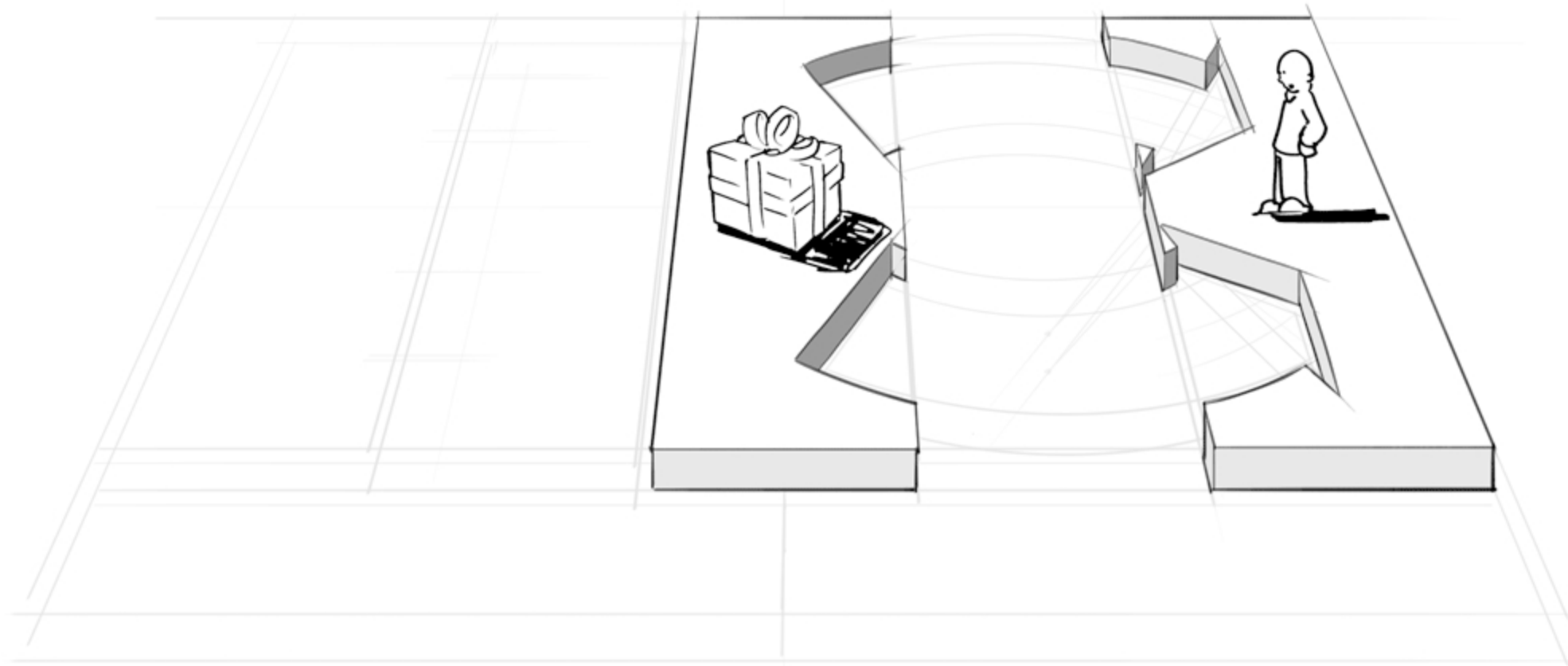


# CUSTOMER SEGMENTS



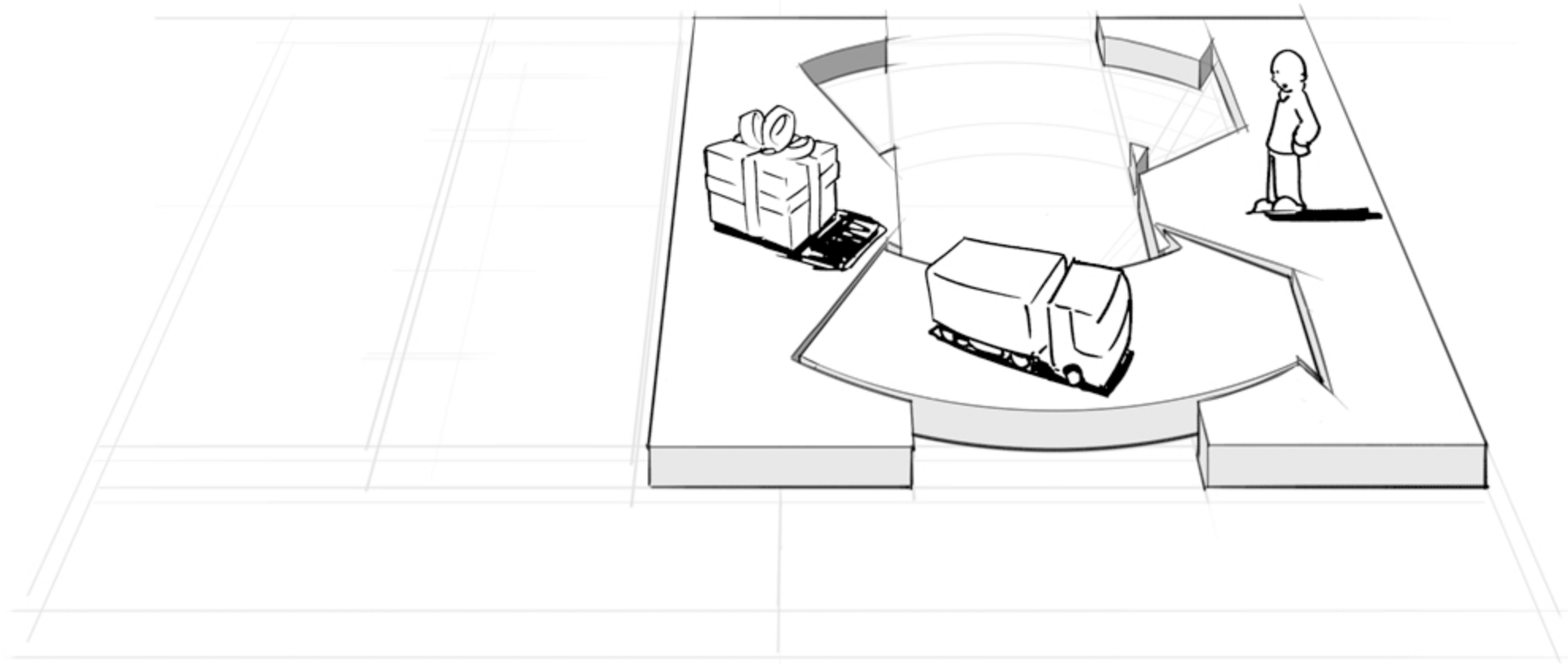
For whom are we creating value? Who are  
our most important customers?

# VALUE PROPOSITIONS



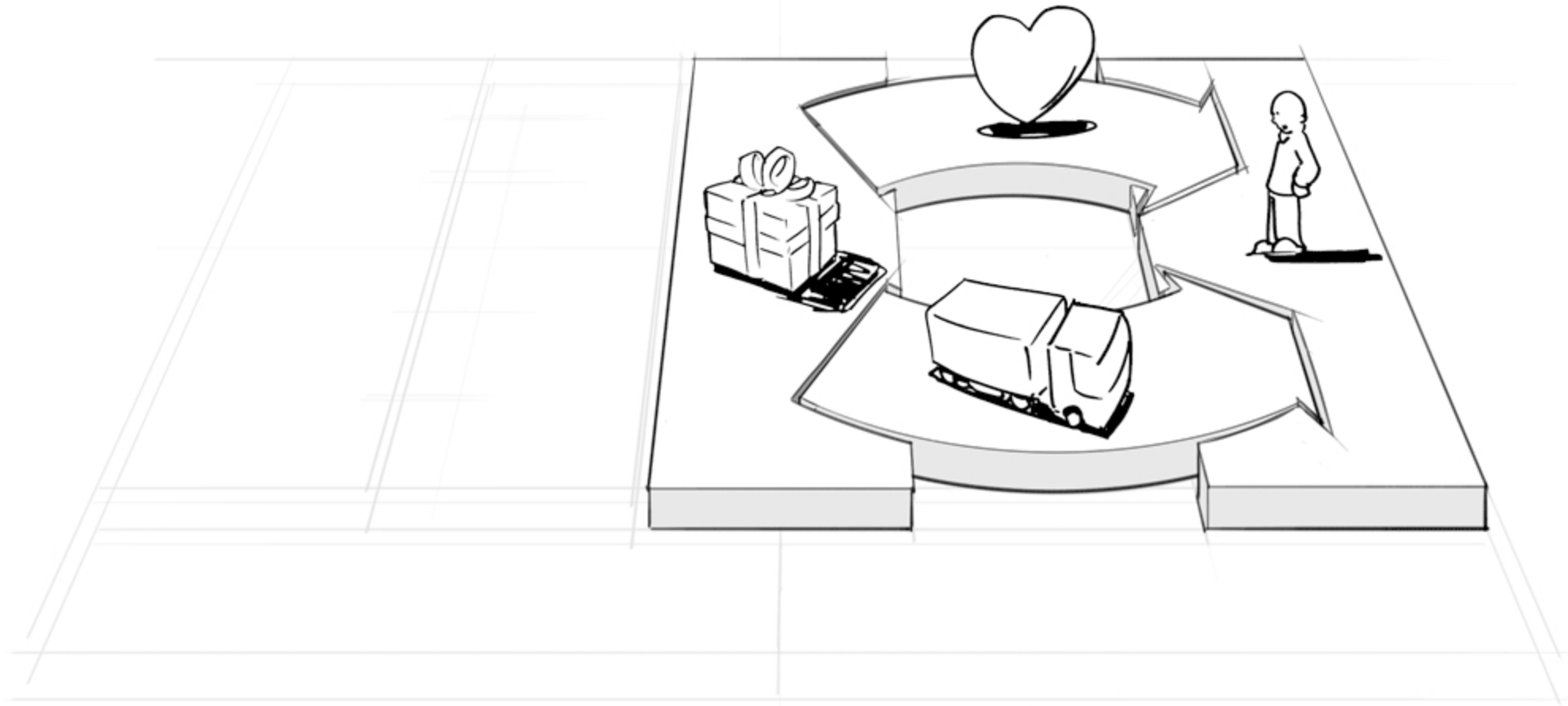
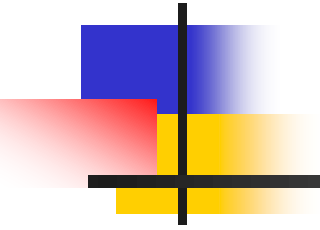
What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? Which customer needs are we satisfying? What bundles of products and services are we offering to each Customer Segment?

# CHANNELS



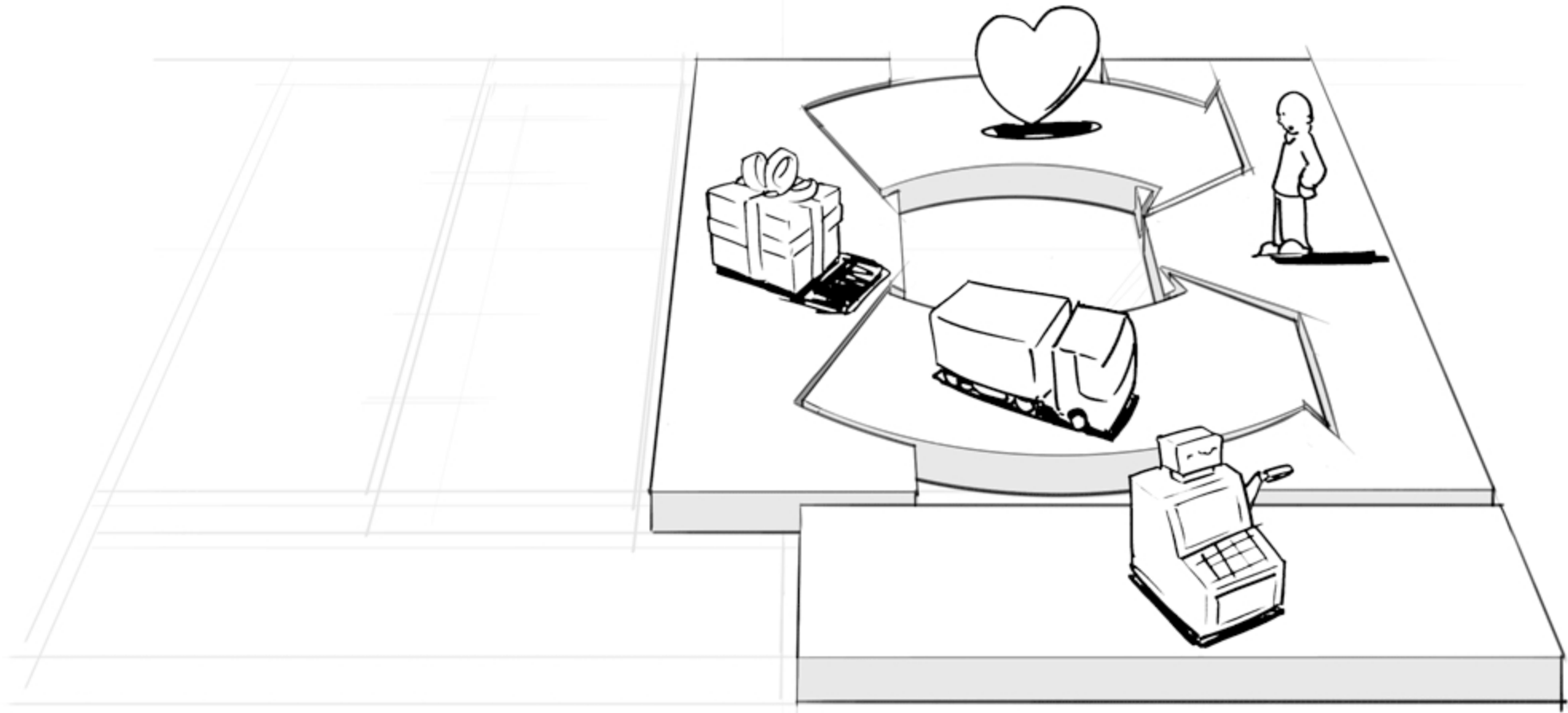
Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?

# CUSTOMER RELATIONSHIPS



What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How costly are they? How are they integrated with the rest of our business model?

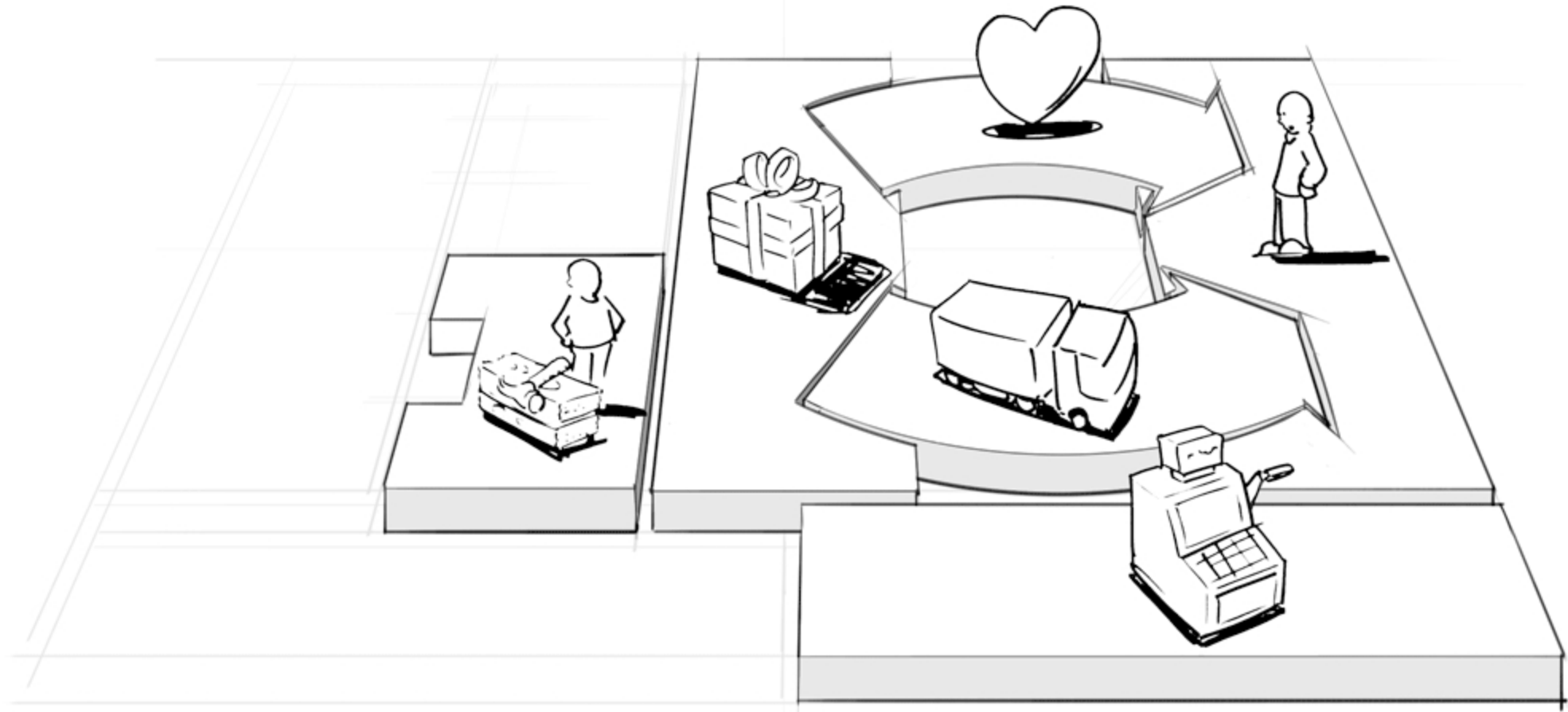
# REVENUE STREAMS



For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?

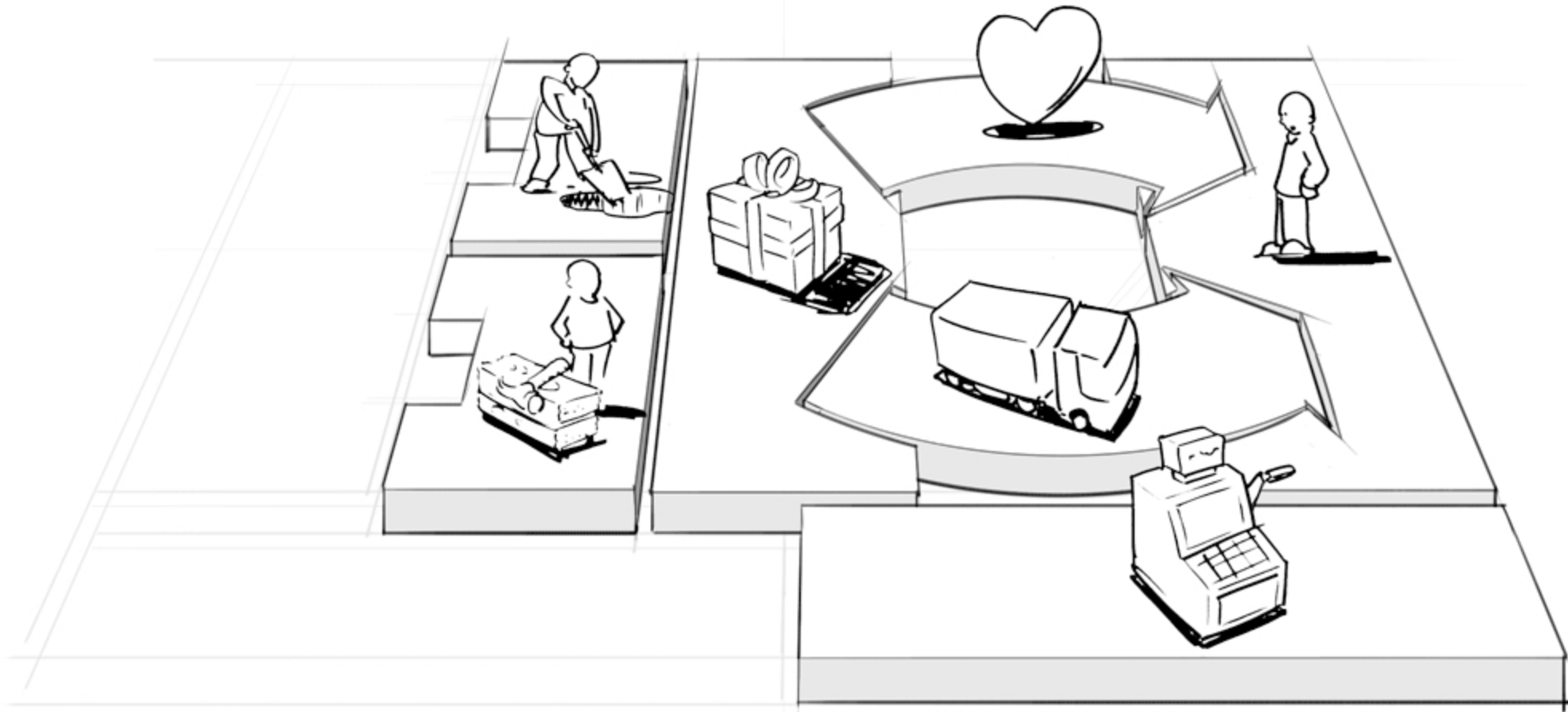


# KEY RESOURCES



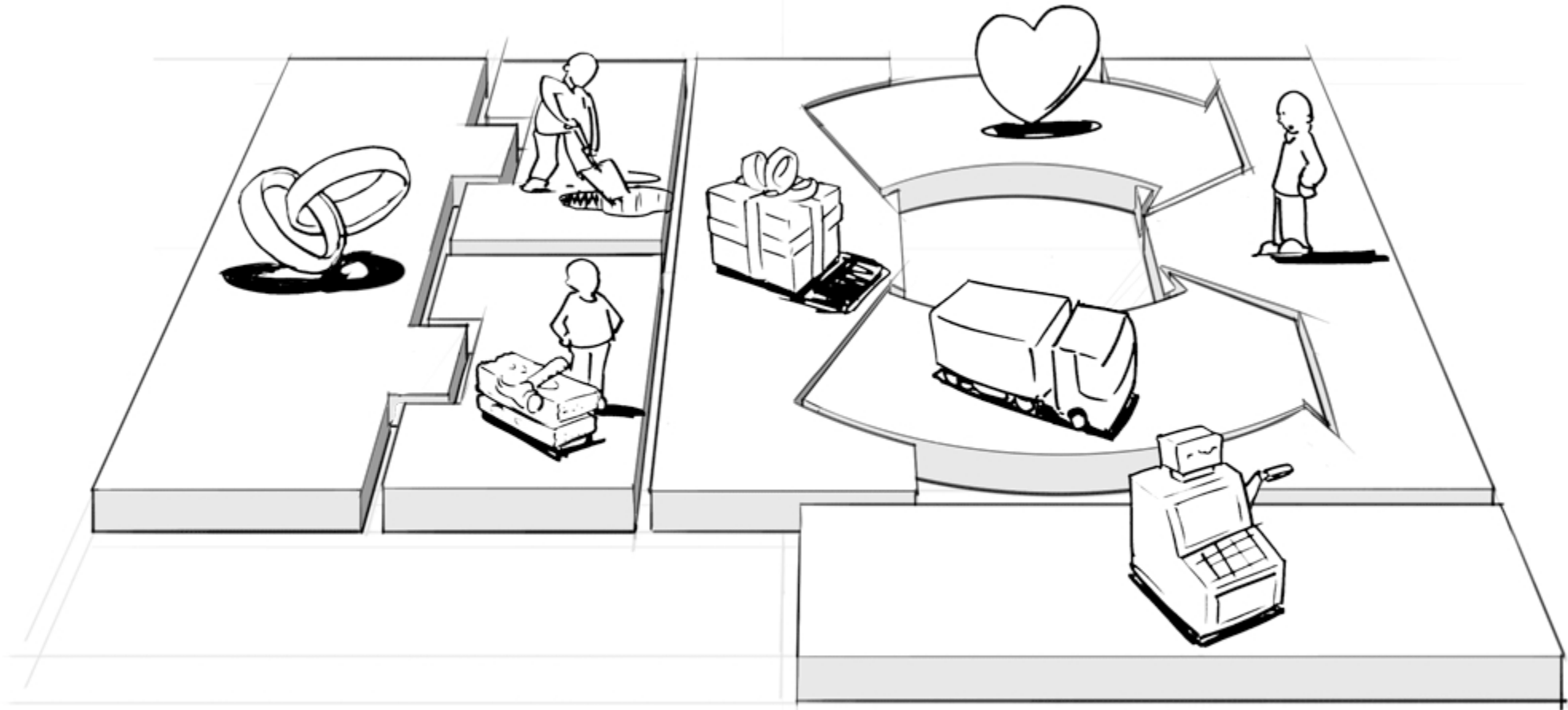
What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?

# KEY ACTIVITIES



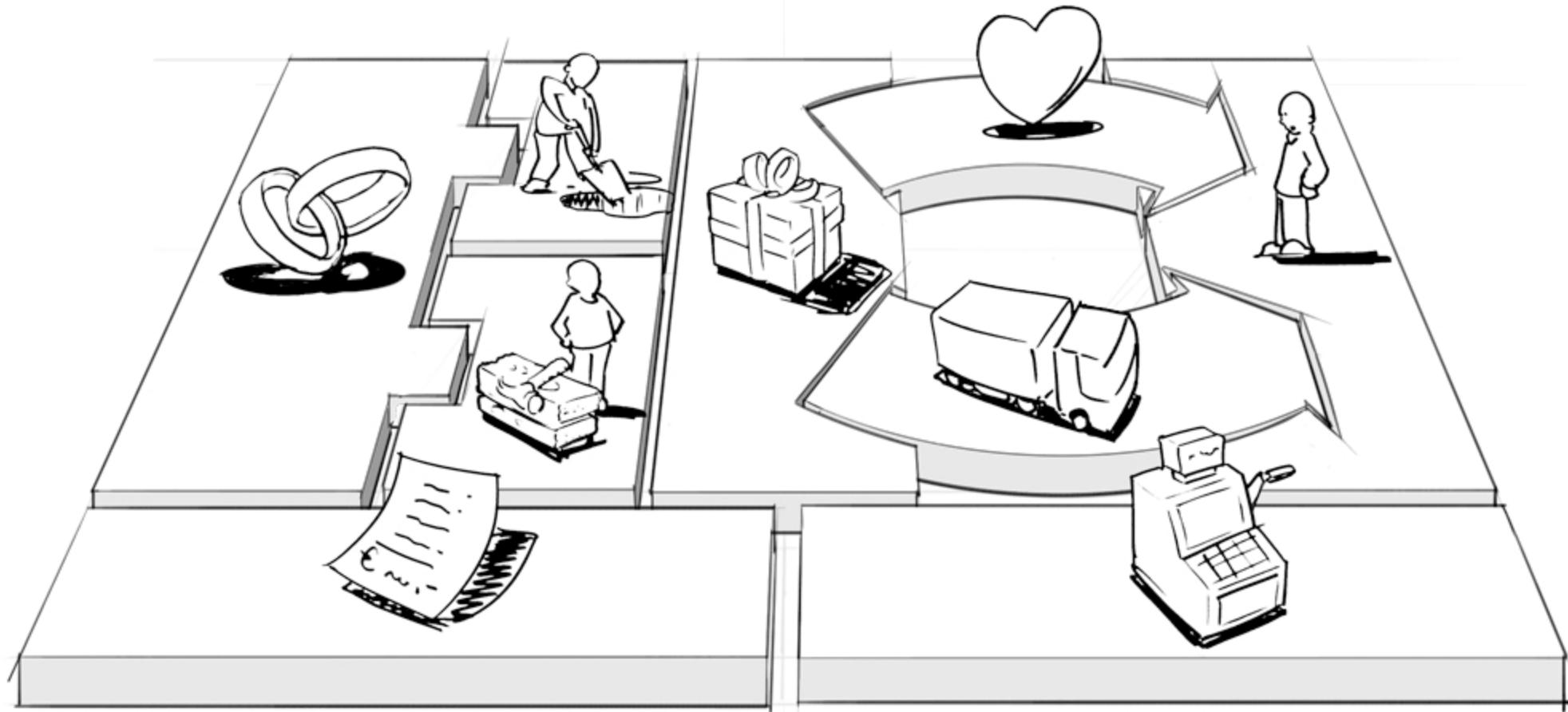
What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?

# KEY PARTNERS

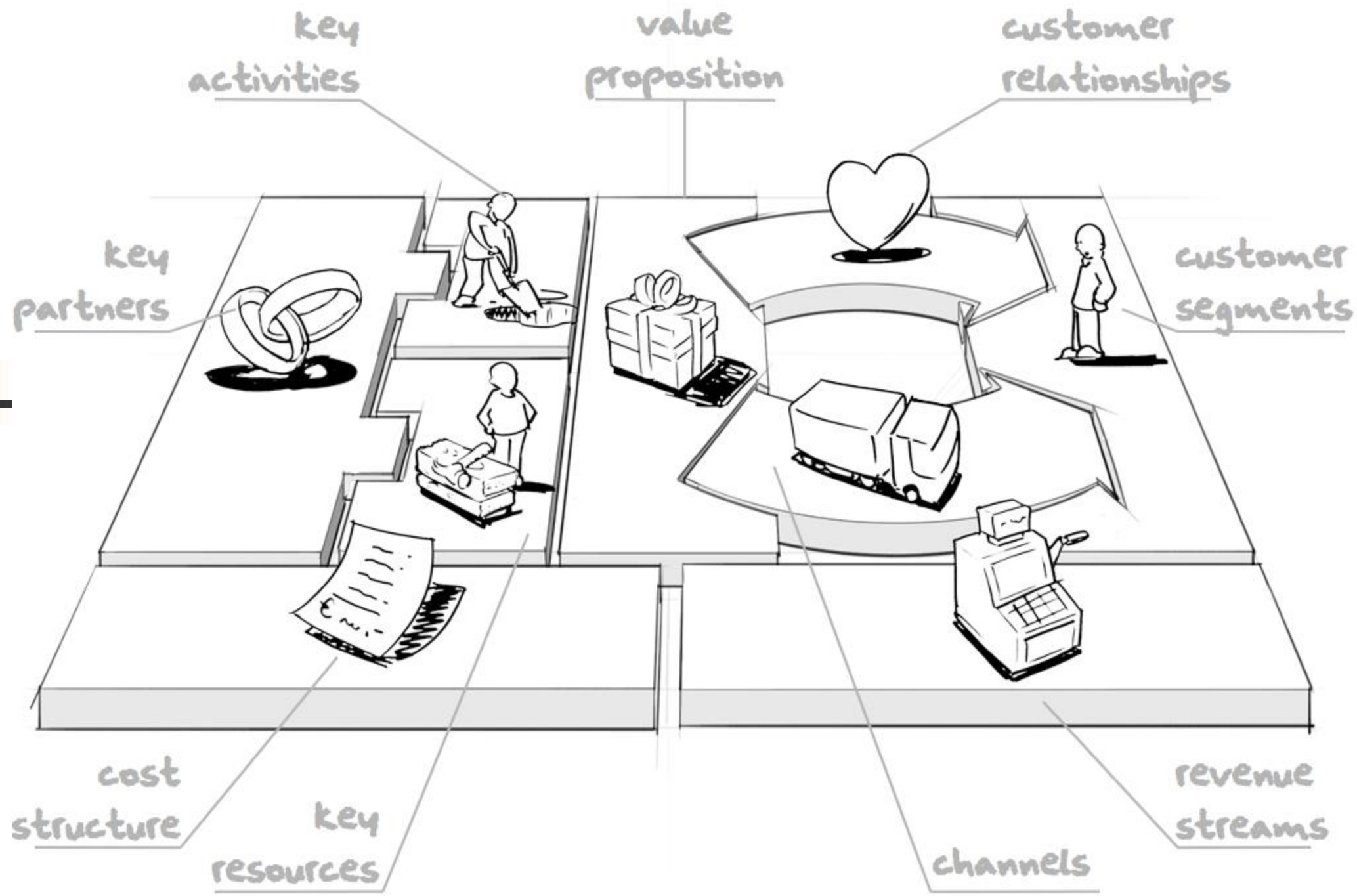
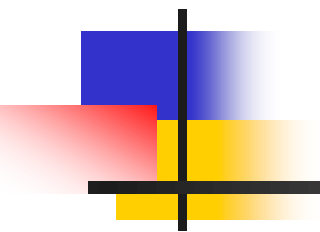


Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?

# COST STRUCTURE



What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?





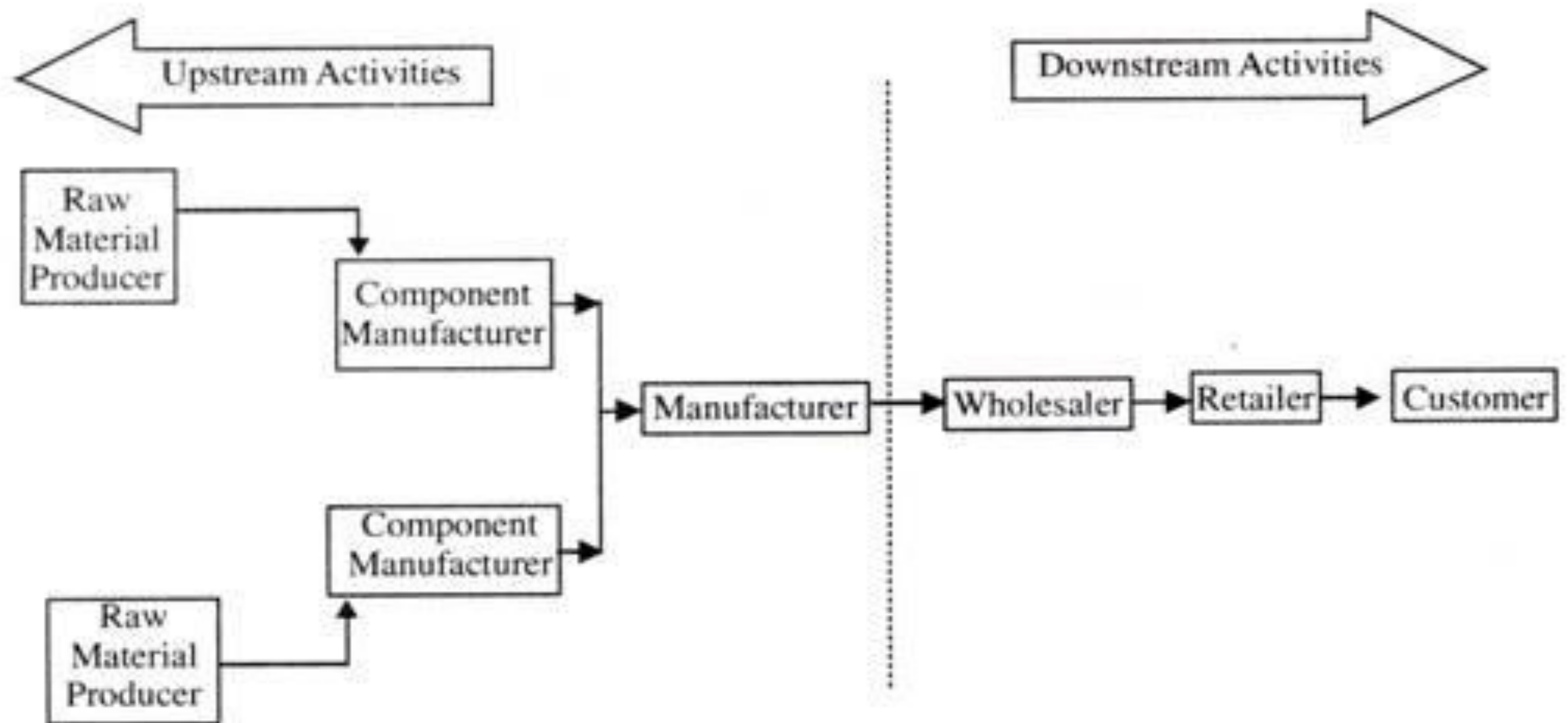
# Supply chain

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- A *supply chain* is the network of all the individuals, organizations, resources, activities and technology involved in the creation and sale of a product, from the delivery of source materials from the supplier to the manufacturer, through to its eventual delivery to the end user or consumer



**Figure 16.1**  
**A Typical Supply Chain**





# Supply chain management

- **Supply chain management (SCM)** is the broad range of activities required to plan, control and execute a product's flow, from acquiring raw materials and production through distribution to the final customer, in the most streamlined and cost-effective way possible.





# Logistics

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- *Logistics* is the process of planning and executing the efficient transportation and storage of goods from the point of origin to the point of consumption. The goal of *logistics* is to meet customer requirements in a timely, cost-effective manner.

# The role of procurement and supply in organizations

- The **role of procurement and supply** is to secure inputs from suppliers into outputs that will satisfy customers.
  - Public
  - Private
  - Third sector or Non-profit making

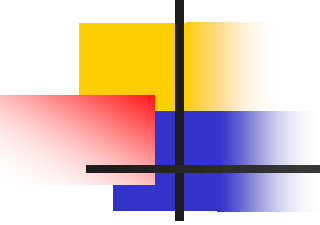




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- In the private sector, **procurement** is viewed as a strategic **function** working to improve the **organisation's** profitability.
- **Procurement** is seen as helping to streamline processes, reduce raw material prices and costs, and identifying better sources of **supply**

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- In the public sector, procurement ensures the supply of essential services such as healthcare, education,
    - materials such as for elections, national identification and immunization against coronavirus etc
    - infrastructure such as roads, schools to all citizens
    - Ensure value for money



## Cont'd

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- In the third sector, the objective is to provide help or resources to a target audience with a specific need.
- They usually serve a public **purpose** such as enriching the lives of people in the community,
- Their procurement activities is to fulfill this need to the target audience



# Total cost of ownership

- In its attempt to ensure value for money, it must consider the TCO
- Total cost of ownership (TCO) is the purchase price of an asset plus the costs of operation.
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- When choosing among alternatives in a purchasing decision, buyers should look not just at an item's short-term price, which is its purchase price, but also at its long-term price, which is its *total cost of ownership*.

## The Iceberg Principle

Calculating Total Cost of Ownership





## Components of TCO

- Purchase price
- Maintenance cost
- Training
- Repair cos
- Cost of disposal





# The typical proportion of costs accounted for by procurements

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- Many decisions taken by departments have a procurement implication that can impact on the overall cost of carrying out the decision.
- Here, cost includes the total cost of the good or service and not simply the price that is paid.



# The typical proportion of costs accounted for by procurements

- Within an institution, its expenditure is made up of two distinct elements - pay (salaries and wages) and non-pay (all other expenditure).
- Procurement is concerned with the management of a significant proportion of the non-pay expenditure and ensuring that the best possible value for money is obtained when committing this expenditure.



# The typical proportion of costs accounted for by<sup>135</sup> procurements

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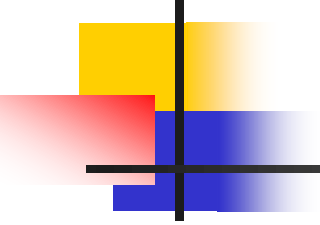
- Non-pay spend includes the day-to-day running costs of the institution as well as its capital expenditure.
- This expenditure can be further divided into that which is used to obtain goods and services from suppliers and other expenditure such as payments



# The role of procurement professionals

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- It is used to be a simple matter to define the work performed by procurement professionals.
- This was because the purchasing function used to be regarded as a reactive support service, responding to the needs of other functions as they rose by performing routine clerical and administrative tasks

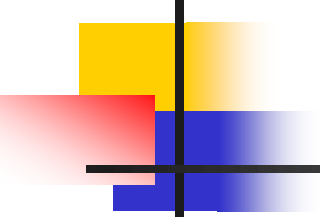
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- Clerical and administrative tasks remain vital even in a more strategic environment
  - Negotiation and buying: This category of work includes locating, assessing and selecting potential suppliers, as well as settling terms and conditions between buyer and seller
  - Expediting (i.e. chasing suppliers to ensure they deliver on time)

what's the  
opposite of  
expediting?



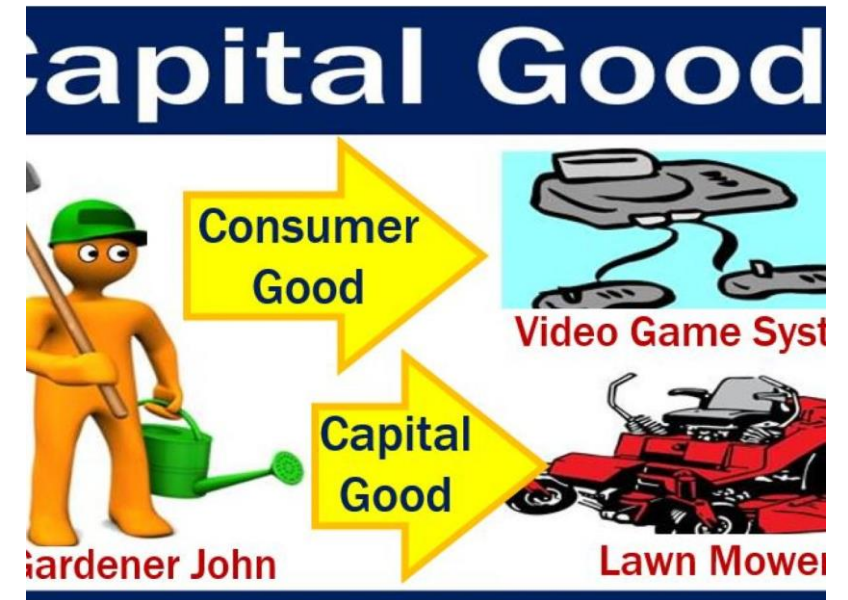
delay, hinder, retard, slow,  
stop, hurt, wait, block, cease,  
halt



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- Management of the purchasing function: includes development of policies, procedures and controls; management of resources; the building of relationships within the purchasing and supply
  - Ensuring sustainable practices in procurement activities
    - Using procurement activities to advance sustainable development-protection of the environment, social progress
    - environmentally-friendly and ethically sourced goods
    - Ensuring sustainability become part of selection requirements

# Categories of Items procured

- Goods:
  - capital and consumer
- Services
  - Consulting and non-consulting
- Works







# Goods

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- Goods are physical products purchased or manufactured on request.
- They are tangible and movable
- They can be in the ff forms:
  - Consumer goods: described as final goods
  - Capital goods: They are purchased and used to help produce consumer goods or provide services.
- Typical examples of goods are: office supplies and equipment, furniture, IT equipment, books, vehicles, medical supplies and other commodities.



# Works

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- Works are related to civil works; this includes new construction of structures of all kinds (buildings, highways, bridges, etc), renovations, extensions, and repairs.
- This category can also include, water and sanitation, transportation and electrical plant infrastructure.
- They are mostly tangible and immovable and their values are mostly high



# Services

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- Services: transaction in which no physical goods are transferred from the seller to the buyer.
- One cannot store services so they usually do not result in ownership
- Intangible products such as accounting, banking, cleaning, consultancy, education, insurance, expertise, medical treatment
- Some services come with **ancillary products**.  
**Example is medical treatment, banking etc**



## Cont'd

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- Services are classified as
  - consulting services and
  - non-consulting services.
- In some cases, they are simply classified as services because of the difficulty, at times, in clearly determining the difference.
- The distinguishing factor between the two, however, is the degree of importance of the measurable physical output of the requirement



# Consultancy service

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- Consulting services are usually intellectual in nature and are considered technical services the output of which is not equipment intensive.
- Advisory and project related services are typical consulting services; which includes: feasibility studies, project management, engineering services, finance and accounting services, training and development, to mention a few.



## Non-consulting services

- Non-consulting services, on the other hand, usually involve the use of equipment and specific methodologies to achieve their objectives.
- Some typical examples of non-consulting services are: equipment maintenance and repair, operation and maintenance services, utility management, installation and maintenance services, surveys and field investigations, and similar.

# Assignment



**Public  
Procurement  
Authority**

*Improving Efficiency and  
Transparency in Public Procurement*

- What role does PPA play in procurement activities in the public sector?