

PROCUREMENT PRINCIPLES AND PRACTICE



PCM 102

LECTURE 3:

The procurement process

Introduction





Lecture content

- The procurement process
- Methods of procurement:
 - Competitive tendering
 - National and International
 - Sole sourcing
 - Single sourcing
 - Price quotations



Procurement process

- Recognition of need
- Specification
- Make-or-buy decision
- Source identification and selection
- Contracting
- Contract management
- Receipt or handover and Inspection
- Payment
- Fulfilment of need



Cont'd

- **Need recognition** is the first stage of the procurement process, in which the entity recognizes a problem or **need**.
- **Specification:** detailing the technical requirements, features or purpose of items to be procured
- **Make or buy decision:** the act of **making** a strategic choice between producing an item internally (in-house) or **buying** it externally (from an outside supplier)



Cont'd

- **Source identification and selection:** this is called sourcing. It involves identifying where to obtaining inputs and who to supply those inputs.
- It also involves evaluation of several sources and making a decision
- **Contracting:** once a decision is made, contract is signed
- **Contract management:** involves monitoring the ongoing contract to achieve the expected results
- It involves negotiations, expediting, dispute resolution



Cont'd

- Receipt or handover and Inspection:
 - Payment for items or asset procured
 - **Fulfilment of need:** the unit that placed the requisition receives item.
-
- Please note that some of the activities happen concurrently. For example, works may be inspected and a percentage of contract sum is paid based on what has been done.
 - A supplier can make deliveries in batches and each batch separately paid for.



Procurement Methods

There are different methods of procurement for good, works and services. factors which determine the appropriate method include:

- ❖ The kind of entity involved,
 - ❖ private, public or third sector
 - ❖ Public sector requirements of the Public Procurement Act 2006, Act 663 and Act 914 (2016) as amended
- ❖ Urgency of requirement
- ❖ Estimated value of the good or service to be procured,
- ❖ Nature of requirement: complex, technical, etc.



Competitive tendering

- In competitive tendering, in which suppliers are asked to quote on terms and prices, and the buyer chooses the best offer.
- Competitive tendering is mostly used in procurement in the public sector
- In the private sector, it may be used in procuring low value and routine items like stationery, office furniture, etc where long term partnership relationship is not important to the buyer.
- The objective is to award business to the most qualified bidder.



Competitive tendering is used when:

Mostly used by public sector entities:

- Volume is high enough to justify this method of business.
- The specifications or requirements are clear to the supplier, and the supplier knows or have the ability to estimate accurately the cost of producing the item.
- The marketplace is competitive, which means it has an adequate number of qualified suppliers who can be engaged in competition for the business.
- Adequate time is available for the procuring entity to evaluate the requests for quotations (RFQ).



NOTE

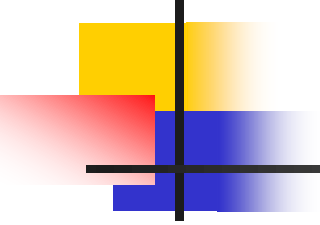
NB:

- The term "***tender***" is often used interchangeably to the term "bid".
- However, "***bid***" is increasingly being used by supplier and the term "tender" used on the procurement side (the buyer)



Types of Competitive Tendering

- **International Competitive Tendering (ICT):**
- It is used where the supply of goods by their nature or scope, is unlikely to attract adequate local competition.
- Such contracts usually require high level expertise which makes it prudent to invite international suppliers.

- 
- **National Competitive Tendering (NCT):**
 - National Competitive Tendering is appropriate for lower value procurements, less complex, where the goods by their nature or scope are unlikely to attract foreign competition.



Restricted Tendering

- ICT or NCT can either be ***open*** or ***restrictive***
- Is a tendering process by direct invitation to a shortlist of pre-qualified, pre-registered or known suppliers.
- Although considered a competitive procurement method, competition is limited to only firms shortlisted or invited by the procuring entity.



Restricted Tendering

It is an appropriate method of procurement where:

- the requirement is of a specialised nature or
- the requirements are of public safety, or public security which make an open competitive tender inappropriate;
- due to the urgent nature of the requirement, an open competitive tender is not practical;
- the number of potential suppliers are limited



Sole sourcing

- A situation in which a company buys from one, monopolist supplier.
- In purchasing sole sourcing take place when only one supplier for the required item is available to deliver
- It is sometimes termed as "no-bid contract" which means that there is only one supplier or company that can provide that good or services needed, so any attempt to obtain bids would only result in that supplier or company bidding on it.



Sole Sourcing

- This method of procurement is also appropriate under the following circumstances:
- Equipment for which there is no comparable competitive product.
- A component or replacement part for which there is no commercially available substitute.
- An item where compatibility is the overriding consideration, such as computer operating software existing system.
- A supply, equipment, part, service or supplier that, due to technically constraining factors associated with scientific research, are needed to ensure the fairness and validity of the underlying research.



Single sourcing

- A single source purchase is one where there are multiple sources of supply, but for specific reasons the item or service must be purchased from a specified supplier.
- A situation in which a company acquires goods, services and construction works from only one source, although there are other equally good suppliers.



Single sourcing vs Sole sourcing

- In purchasing sole sourcing takes place when only one supplier for the required item is available,
- whereas with single sourcing a particular supplier is purposefully chosen by the buying organisation, even when other suppliers are available (Larson and Kulchitsky, 1998; Van Weele, 2010).



Single sourcing

- Single sourcing decisions are usually made at strategic and top management level where purchasing and supply managers need to determine the costs and benefit of such decision(Leenders et al., 2002).
- It is often opted for with the purpose of reducing material costs, as placing all purchasing requirements with only one supplier often makes it possible to negotiate better purchasing conditions.



Single sourcing

Some prerequisites of a single sourcing decision include but not limited to the following:

- prior commitments with the supplier,
- successful past relationship, or
- an ongoing long term relationship with a supplier.
- when the supplier can offer unique or outstanding quality,
- the order is so small it is not worth dividing it,
- concentrating purchases lead to price/cost reductions, or
- the use of just-in-time is easier with a single supplier.



Single sourcing

- This is clearly a non-competitive procurement method, and it should be used only under exceptional circumstances, namely:
 - for emergency situations;
 - when only one firm or individual is qualified to fulfil the requirement;
 - for the continuation of previous work, or additional work, that cannot be acquired from another firm or individual due to patent, compatibility issues, or exclusive rights;
 - the total cost is within the threshold set for this method of procurement;
 - for the procurement of related items that are available only from one source;



Problem? Or Disadvantage

- Being dependent on a supplier can impose a number of risks, for example, constant price increases, lowering level of quality or delivery, slowed down or continuous improvement programmes (Leenders et al., 2002)
- For single sourcing, the buying firm can always switch suppliers.
- When it comes to sole source supplier, the possible option the buying firm may have is by backwards integration i.e. acquiring the supplier to reduce the associated risks



Request for quotation

- The request for quotations is a procurement method that is used for small value procurements of readily available off-the-shelf goods, small value construction works, or small value services procurements.
- This is also known as “shopping” and is based on comparing price quotations obtained from several suppliers, usually at least three, to ensure competitive prices.