DAR ES SALAAM SCHOOL OF JOURNALISM

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TOPIC SIX
INTRODUCTION TO PROCUREMET

DEFINITION

Procurement is the acquisition of goods, services or works from an outside external source. It is favorable that the goods, services or works are appropriate and that they are procured at the best possible cost to meet the needs of the purchaser in terms of quality and quantity, time, and location. Corporations and public bodies often define processes intended to promote fair and open competition for their business while minimizing exposure to fraud and collusion.

Public sector organizations use procurement for contracts to achieve benefits such as increased efficiency and cost savings (faster and cheaper) in government procurement and improved transparency (to reduce corruption) in procurement services. E-procurement in the public sector has seen rapid growth in recent years.

Public Procurement – refers to the processes by which a government acquires goods, works and services in order to execute set plans and attain desired goals by using tax payer's money. Public Procurement entails Expenditure of Public Funds (be it directly or indirectly).

'Public Funds' is essentially Publicly owned Money, Money belonging to nobody in particular but the whole Community.

“goods” means raw materials, products, equipment and other physical objects of every kind and description, whether in solid, liquid or gaseous form, electricity, intangible asset and intellectual property, as well as services incidental to the supply of the goods provided that the value of the services does not exceed the value of the goods themselves

“non consultancy services” means any object of procurement other than goods, works and consultancy services;

“works” means -

- All works associated with the construction, reconstruction, demolition, repair or renovation of a building, structure, road or airfield;
- Any other civil works, such as site preparation, excavation erection, building, installation of equipment or materials, decoration and finishing; and
- Service which is tendered and contracted on the basis of performance of a measurable physical output such as drilling, mapping, satellite photography or seismic investigations:

Provided that, contracts which include the provision of works and services shall be regarded as works contracts if the total value of the works is greater than the value of the services covered by the contract.

The primary task of procurement is to provide the ‘right’ inputs for an organisation’s processes. Procurement objectives and analysis of the procurement function are normally set against the five rights of procurement. Over the years this approach has been highly successful, but as the role of procurement develops, so does the interpretation of the five rights. The five rights of procurement are:

- *Quality:* goods which are of satisfactory quality and fit for their intended purpose ensuring an accurate specification of the requirement and its quality standards.
- *Quantity:* sufficient to meet demand and maintain service levels while minimising stock holding e.g. by ensuring that there is accurate demand forecasting and efficient inventory management.
- *Place:* goods delivered to the appropriate delivery point, packaged and transported so as to secure their safe arrival in good condition e.g. by including transport instructions including packaging requirements as part of purchase orders.
- *Time:* delivery of goods at the right time to meet demand, i.e. not too late but not so early as to incur unnecessary inventory costs e.g. by ensuring accurate demand management, placing orders in time for suppliers to provide timely delivery and ensuring that suppliers are aware of delivery requirements.

• *Price:* securing all of the above at a reasonable, fair, competitive and affordable price. Ideally, minimising procurement costs in order to maximise profit e.g. by carrying out price and supplier cost analysis and/or by carrying out competitive tendering and negotiation. The ‘right’ price is one that represents good value for money.

7 STEPS OF AN EFFECTIVE PROCUREMENT PROCESS

After establishing the advantages of procurement planning and laying out a purchasing process, the next step is to design the procurement process. Now, it is pertinent to identify the correct steps to add to your procurement process. A good purchasing process is never “One Size, Fits All”. As a procurement professional, it is your duty to identify the steps that fit your organization based on your organization’s requirement and objectives so that your KPIs can paint the perfect picture for your success. There are many aspects of procurement that you need to consider and many-a-times, some of them may not be relevant for your organization or industry.

Here are the seven steps to create an effective procurement process flow:

Step 1: Identify the requirement for goods and services from all business units

The procurement cycle starts when any of the business units in an organization needs obtaining goods/services from an external supplier. Hence, the first step of the procurement process entails identifying and consolidating the requirements of all business units in an organization. This provides visibility into the spend areas and categories to identify areas for cost savings through spend analysis to achieve maximum utilization of resources and avoid wastage.

Step 2: Identify and evaluate a list of suppliers

Once the business units identify their requirements, the next step in the procurement cycle is to identify a list of potential vendors who may supply the goods and/or services. This process involves a simple web search or through more structured measures like RFPs, RFQs, and RFIs.

The objective of this step of the procurement process is to evaluate relevant suppliers. Evaluation metrics include pricing, quality of service, industrial reputation and recognition, warranty and guarantee provisions, and customer service. After the assessment is complete, the supplier who offers maximum value and the best market pricing earns the deal

Step 3: Negotiate the contracts with the selected supplier

After selecting a supplier to fulfill the requirements of an organization, the contract process begins. Contracting is a crucial step for any organization for maximum value creation and stimulating buyer-supplier collaboration. This step of the procurement process involves assessing critical factors like pricing structure, the scope of work, terms and conditions, timelines of delivery, etc. Detailed analysis and negotiation of contracts give insights into more cost savings opportunities, including dynamic discounting.

Step 4: Raise a purchase requisition and release the purchase order

After an organization finalizes its contract with a supplier, the next step is to raise a purchase requisition (PR). A PR includes a description of the good/service, pricing and quantity, supplier information, and the approval workflow.

Once a PR is approved, the finance team releases the purchase order (PO) to the supplier that documents information like the PO number, payment terms, supplier information, etc.

Step 5: Complete the payment process upon receiving an invoice

Once the supplier receives a PO, he sends an invoice mentioning the price for requested goods/services. Once the organization gets the PO, and their invoice, the procurement team ensures that the invoice is up to date with both quantity and quality before releasing payment.

Depending on the payment terms established between the organization and its suppliers, the payment is released pre- or post-delivery.

Step 6: Receive and audit delivery of requested goods/services

The supplier delivers the goods/services based on payment and contractual terms. On receipt, companies should audit to ensure the suppliers have met quality expectations. The audit process should include a review of the supplier's documentation, as well as on site inspections of the products or services delivered. The goal of the audit is to confirm that the supplier has met all contractual agreements and that the products or services meet the required quality standards. If the supplier is found to be in non compliance, corrective action may be taken, up to and including termination of the contract. Therefore, it is essential for companies to perform audits to protect their interests and ensure they are receiving quality products or services from their suppliers.

Step 7: Maintain proper records of invoices

After receiving a delivery, it is important to store the invoices in an effective manner. This will help to track spending and expenditure categories within the organization. There are various ways to store invoices, such as digitally or in physical folders. Whichever method is chosen, it is crucial that all invoices are stored in a consistent manner. This will help to ensure that spending is tracked effectively and efficiently.

Standardizing the process of procurement within an organization requires documentation. Putting a procurement system in place controls costs and creates a paper trail for easier auditing. Obtaining a purchase order vs purchase requisition are both key processes in acquiring items a business needs to survive. Every buying policy and procedure is different, so it's important to first understand these two systems and how they can streamline your operations.

What is a purchase requisition?

A purchase requisition is a document that an employee within your organization creates to request a purchase of goods or services.

When you fill out a purchase requisition, you are not yet purchasing anything. You are merely beginning the process of a purchase by asking for internal permission.

This document is used when an employee in your organization makes an order request if a need arises for certain goods or services.

The employee's manager or anyone in charge of purchases at your company is notified that the employee has made an order request once they receive the requisition.

Purchase requisitions outline the details required before completing a purchase, should it be approved, such as:

• Product description and quantity
• Name of vendor
• Price
• Name and department of purchaser

Purchase requisitions rarely (if ever) leave your organization. Employees use these internal documents to obtain permission. As such, they are not a legally binding document.

Not all companies use purchase requisitions in their procurement process. In other cases, some companies require a purchase requisition for purchases going over a set dollar amount.

Additionally, the accounting department uses this document to plan for future spending. It’s much easier to avoid costly mistakes if you check the budget prior to approving a purchase.

Why do you need purchase requisitions?

Purchase requisitions detail out all the details of an order that your organization needs to make. So why not just skip the purchase requisition and go straight to the purchase order?

1. They help establish a clear procurement process. By rerouting permission to purchase to a common manager using purchase requisition forms, you can streamline your organization's pipeline. The process is much easier to manage and formalize when there are clear rules for who can purchase what, and when.
2. They help detect and prevent fraud in your organization. The more steps involved in the procurement process, the more likely someone will sniff out a fraudulent purchase if it does happen.
3. They give Finance more direct control over purchasing. If someone from outside of the department needs to purchase something, they can fill out a purchase requisition and submit it to the head of purchases. This way, the same department oversees every purchase your organization makes.

How does a purchase requisition work?

Purchase requisitions are first filled out by an employee who sees the need for a product or a service. The employee fills in all the details, including the price, suggested vendor, and the specifics of the goods or services. The document is then sent to the purchasing department for approval.

Let’s say you are running a manufacturing company. You have a team of mechanics who do routine inspects and fixes on your drills, saws, and other machinery. If one of your mechanics finds out about a new type of equipment that would make their lives easier for routine checkups – equipment that your company has never purchased before – they could fill out a purchase requisition without needing to ask for permission first.

The mechanic files the completed form to the purchasing department. They take care of approving or denying the request for new equipment. Because the equipment is high-end, the head of purchases would check in with the finance department first to make sure this is a feasible demand.

What is a purchase order?

Also known as a PO, the purchase order is a document outlining the details of an actual purchase.

The purchasing department creates the purchase order once a purchase requisition has been approved. If an organization does not use purchase requisitions, other employees may fill in purchase orders for approval as well.

Unlike a purchase requisition, the purchase order is an external document. Purchasing sends it to the vendor as a set of instructions for how to fulfill your order and process your payment.

Note that POs are not the same as invoices — they are not a prompt for payment.

And once a purchase order form has been finalized and approved by the buyer and vendor, it becomes a legally binding document.

A sample purchase order sent to the vendor corresponding to the above purchase requisition.

POs include everything the vendor needs to know to fulfill the order and everything your company needs to document the purchase:

- Name of your company
- Name of the employee making the order
- Date of PO creation
- Quantity and price of goods
- Payment terms
- Signature of all involved parties

How do purchase orders work?

Your organization creates purchase orders only when it wants to go ahead and officially purchase goods or services. When it has an approved purchase requisition, the purchasing department can create a PO from the information in the requisition. If the PO exceeds a set amount, most companies demand approval of the VP before finalizing the document to send over to the vendor.

Let’s go back to our manufacturing company. Management decides to approve the mechanic’s purchase requisition for new high-end equipment.

From there, an employee from the purchasing department would fill in a PO. However, because the equipment will cost over, a VP must approve the PO before the purchase can be made.

The VP takes a look at the PO, approves it, and sends it back to the purchasing department, who takes care of sending the PO to the vendor and to their own accounting department.

Once the vendor receives and signs the document, the PO becomes legally binding. Now everyone – the mechanic, the purchasing department, the VP, the accounting department, the vendor – is in the loop and has read the same terms and conditions for a purchase.

So once the company receives their new equipment on a specific date, they’ll be expecting it.

What is the difference between a purchase requisition and purchase order?

Feature	Purchase Requisition	Purchase Order
What is it?	Request for a purchase	Confirmation of an order
Who creates it?	Any employee	Purchasing department or head of a department
When is it sent?	When an employee sees a demand for goods or services	When an order needs to be placed for goods and/or services
Who receives it?	Head of department and/or purchasing department	Vendor

What info does it contain?

– Date requisition is created
– Requisition number
– Name of employee making requisition
– Description of items needed
– Number of items and price– Suggested vendor information

– Date PO is created
– PO number
– Name of buyer
– Description of items or service being purchased
– Number of items and price
– Payment terms
– Billing and shipping addresses
– Delivery date

BENEFITS OF EFFICIENT AND INEFFICIENT PROCUREMENT SYSTEM

An Efficient Procurement System has many Benefits,

e.g.:

– Enhances effective use of Public Financial Resources;

– Improves Availability, Quality, Reliability and Cost of Public Services;

– Encourages Accountability and Responsibility in the Supply Management Process;

– Improves Participation and Growth of the Private Sector;

– Is an Integral Part of any Good Governance Process

An inefficient Procurement System has many (negative) Benefits.

E.g.:

– Encourages Corruption and Malpractices;

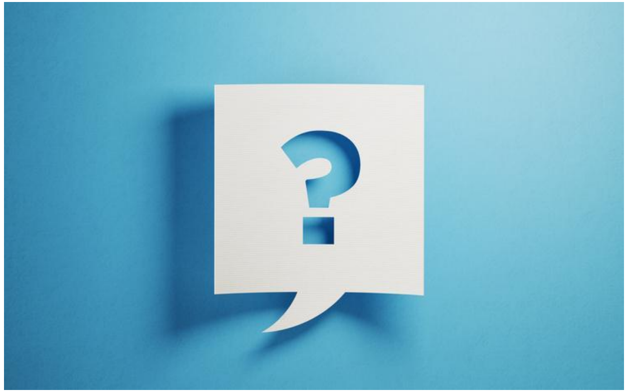
– Can lead to Delays in Delivery of essential Public Services;

– Demotivates Private Sector Suppliers leading to lack of Competition; and

– Increases the Cost of items. ⇒Loss of the Scarce Public Financial Resources.


THANK YOU :)

Any Question?



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