

Practical Procurement Skill, Theory and Techniques

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Abstract

Over the past four decades, purchasing and supply management has evolved from a clerical function in the 1960s, through being an operational activity in the 1980s to the strategic nature in the 1990s (Gelderman and Van Wells, 2005; Spekman et al, 1994; Kraljic 1993). While several organizations have transformed their purchasing and supply capabilities into competitive advantage, other are still lagging behind. Today, proactive firms are expected to control their purchasing operations in an effort to build competitive advantage (Carr and Smeltzer, 1997). In spite of the fact that purchasing has gained recognition amongst companies in the developed countries; the reverse is the case however in the developing countries (Msimangira, 2003). Specifically, African scholars have focused more on investigating according to Van Weel (2000) procurement refers to all the activities in a firm that involves getting a product or

Purchasing and supply –also known in procurement–may appear to be a ‘hidden’ function in many organizations. In fact, procurement is a highly strategic role, whether the organization is manufacturing or service-oriented, in the public or private sector, for profit or not. Procurement is complex. It covers the full supply chain from contracts (negotiating), procurement (purchasing) and logistics (storage/distributions). Procurement will lose its value when it is not proactive and the driver does not have what it takes to make more effective and lively in terms of skills and techniques.

INTRODUCTION:

Background

This study is set out to investigate and demonstrate the practical skills and competence in clear terms the practical procurement theory, techniques and skills required to excel or to be outstanding as a procurement specialist or professional. Procurement in recent years have changed from what is used to be to more sophisticated and therefore from what is used to approach to meet up with the current standard.

What is Procurement? To define broadly, it is a complete action or process of acquiring or obtaining materials, services, or on operational and tactical level with some focus on strategic matters either by government or private entity.” Most of the time, we use the word “purchasing and procurement” interchangeable. “Procurement” is a term or word made popular in the armed forces to describe part of the supply activities in Logistics. Lamar and Dobler (1983) say that procurement is defined by the Armed forces as including the whole process whereby all classes of resources (people, materials, facilities, services). Dobler and Burt (1996) say that “The procurement process or concept encompasses a wider range of supply activities than those included or involved in the purchasing function. It includes a broadened view of traditional buy role in the day to day activities, with more buyer participation in related materials activities. (Donald, W. David, N.B 1996). Specific activities usually included in the procurement process include:

1. Participation in the development of materials and services requirements and their specification.
2. Conduct of materials studies and management of value analysis activities.
3. Conduct of more extensive materials market studies
4. Conduct of all purchasing function activities
5. Management of supplier quality
6. Purchase of inbound transportation
7. Management of investment recovery activities (salvage of surplus and scrap)

Alhaji Mohammed J. Aliyu, National Executive Chairman Chartered Institute of Purchasing and Supply Management (CIPSM) in a paper titled “Inventory Management in a centralized and decentralized setting”. Presented at National Workshop on Stores, Purchasing and Supply Management held at Gateway International Hotel, Ota, 28-30, March 2001 organized by Arib West Africa Limited, Lagos in Collaboration with Africa Regional Central for trade Research and development (ARC-TRADE) defines Procurement as “a function which married inventory management, purchasing, renting, leasing trading, obtaining, supplies and other requirements of an organization in a neat form”.

In essence, procurement tends to be broader and more proactive in nature, with some focus on strategic matters, as compared with the typical implementation of the purchasing concept.

Though, generally speaking Procurement is well pronounced in the public sector than private that is well carried and enforced in the government owned establishment than the private. The point is very obvious, whether in the public or private, activities is carried out.

On the part of government, there is always a need for the tax payers to see the value for their money. In the public sector, the government tends to pursue accountability and justification for spending any money in securing services for the public. Bearing that in mind the due process has to be followed and that have public procurement Act 2007 to regulate procurement activities in the public sector.

In the other hand, Government or public procurement refers generically to the formal process through which official government agencies obtain goods and services, including construction services or public works. Within the GATT/WTO system, public procurement refers to the process by which a government obtains the use of or acquires goods or services for governmental purposes and not with a view to commercial sale or resale, or use in the production or supply of goods or services for commercial sale or resale. (World Trade organization, Dispute Settlement, 3. 12 Government Procurement, P.3 (2003). OECD, Journal on Budgeting, Volume 2, No. 3, p. 151 (2002).

However, the approach, processes, techniques of procurement in public institution like government establishment differs greatly from private sector. That is why, a number of factors drive the different approaches, and it is important to consider the nature of each procurement requirement and then decide on the appropriate approach.

Practical Procurement:

The procurement practice has changed from what is used to be (theoretical) to more practical and proactive in approach. If any, organization or government agency have to be relevant in this twentieth century, the procurement or purchasing personnel have to be more practical in terms of proficiency and competency. The days of dull moment of personnel's without the ability to deliver and prove their worth are gone.

Practical Procurement skill

The significant and great changes in purchasing and Supply management over the last decade did not leave the purchasing function unaffected. Triggered by rapid changes in the changing (dynamic) business environment, new tasks and the use of web-enabled systems, the role of purchasing professionals has evolved from a rather clerical towards a more tactical and strategic function (Giunipero & Percy, 200; Giunipero, Handfield & Eltantawy, 2006).

Consequently, purchasing decision-making has become more knowledge and competence driven (Bouwman, 2003). Purchasing professional are assigned with more responsibilities and require a different skill set and knowledge for achieving excellence in purchasing and supply management (Carr & Smeltzer, 2000; Giunipero & Percy, 2000).

In recent years purchasing knowledge has received growing attention, both by scientist and practitioners. However, most of the academic research in this filed has been mainly Descriptive; identifying the ideal skill set purchasing professionals should possess. Yet, the Question on how to measure and develop the procurement skill set remains a major concern in practice and research. This seems especially important as knowledge, skill and competencies are important sources of strategic change (Axelsson, B. Bouwman, P., Rozemeijer, F. & Wynstra, F. 2006) and properly trained procurement people are still lacking in many organizations (Whitehead, 2006). Improvements should be made possible by developing the skills and capabilities of the individual as well as improving the organizational systems for learning and knowledge management.

The skills of employees have been in the focus of human resource theories for a long time as it is widely assumed that skills can positively influence not only humans but also firm's performance (Nollen & Gaertner, 1991; Wright, McMahan & McWilliams, 1994; Wright & Snell, 1995). In purchasing however, a discipline that has been under tremendous change over the last decades, employees were traditionally placed without much regard to the (specific) skill they possessed (Carr & Smeltzer, 2000). Purchasing skills has a low priority for the execution of the profession and were not of interest, neither for practitioners, nor for academicians. This view on purchasing skills has changed significantly. especially over the past years, a growing academic interest can be witnessed, that concentrates on identifying the most important skills with regard to the function and on determining how purchasing skills support purchasing trends and firm's performance (Carr & Smeltzer, 2000; Giunipero & Percy, 2000; Giunipero & Handfield 2004; Eltantawy, 2005; Giunipero, Denslow & Eltantawy, 2005; Giunipero, Handfield & Eltantawy, 2006). Some authors go beyond the mere identification of skills and diagnose purchasing professionals with a severe "skills gap" that is threatening the procurement function in itself (Whitehead, 2006; Duggan & Fogg, 2006). In order to be able to understand the importance of purchasing skills to the profession and their relation to several dimensions a clear understanding of purchasing skills is necessary, both for management practice on three questions. First, what are the skills purchasing professionals need in this profession? Second, what is the relative and combined impact of these skills on dimensions such as performance

or supplier and internal customer relationship? Third, what are the skills that current purchasing professionals possess?

The remainder of the paper is structured as follows: A review of literature on purchasing skills is presented, followed by a theoretical and practical foundation why purchasing skills contribute to firm's performance. Finally, the status quo of purchasing professionals is assessed. Implications are drawn about the current skill levels of purchasing professionals.

This paper contributes to the existing supply management literature as it gives a thorough overview of the literature of purchasing skills and attempts to determine the status quo of purchasing professionals. While previous literature had concentrated on the identification of purchasing skills and their contribution to firm's performance, there is a need to reveal to which degree these skills are held and implemented by purchasing professionals. Finally, managerial implications and further research needs are identified.

Purchasing skills in practice

Especially over the last years there has been a growing interest to identify the ideal skill sets a purchasing professionals. The attention towards purchasing skills followed the evolution of the purchasing functions, as it is widely assumed that the rapid changes in the purchasing business environment directly affected the ideal skill set for purchasers (Carr & Smeltzer, 2000; Eltantwy, 2005; Giunipero, Handfield & Eltantawy, 2006).

Compared to a function like marketing, purchasing was initially seen as a rather clerical function (Ammer, 1974; Carr & Smeltzer, 2000). Purchasing professionals did not have the authority to decide on organizational buying decision and had to fight for their legitimacy within their organizations (Barath & Hugstad, 1977; Dion & Banting, 1987). The formal scope of activities of purchasing agents was extremely limited, and purchasing professionals were involved rather late into the purchasing process (Barath & Hugstad, 1977). The restricted influence and power led to a low visibility of purchasing professionals. Purchasing was neither perceived as a function with high status, nor was seen as a priority of top Management (Cruz & Murphy, 1996). This role though, changed significantly over the last years. Facing an intensified international competition, an increase in outsourcing and offshoring and technological advances (Giunipero, Denslow & Eltantwy 2005; Giunipero, Handfield & Eltantawy, 2006), the purchasing function evolved radically **from a basic clerical to a tactical strategic function** (Giunipero & Pearcey, 2000; Jahns, 2005; Giunipero, Handfield & Eltantawy, 2006).

Purchasing professionals enhance their work focus and turned to electronic commerce, strategic cost management, tactical purchasing and global supplier development (Carter et al. 2000; Giunipero, Handfield & Eltantawy, 2006). Top executives are realizing that the purchasing function can contribute significantly to a firm's competitive position and start regarding purchasing as an important level for organizational success. Purchasing is now on top of the corporate agenda (Burt, Dobler & Starling, 2003, Giunipero, Handfield & Eltantawy, 2006).

As purchasing professional were mainly followers taking a passive role in the purchasing process, they now need to broaden their skills and acquire new ones one to apply strategic supply management practices and to achieve competitive advantage (Carr & Smeltzer, 2000; Giunipero, Handfield & Eltantawy, 2006). Purchasing professionals must become proactive, creative and decisive to react quickly to the changing business environment. Adopting a comprehensive skill set has become crucial to the purchasing profession (Giunipero & Pearcey, 2000). Managers of organization and Directors in government offices need to understand what skills are necessary to enhance performance of the supply management function. Without a thorough understanding of purchasing skills, performance improvement cannot be managed efficiently and, effectiveness in organization discussion provides an overview of the most important purchasing skills identified by literature.

Until 2000, only a few articles in academic journals addressed purchasing skills. Kolchin and Giunipero (1993) used a sample of 131 supply management executives to identify the skills that are essential for supply management professionals. They identified a list of 18 skills and divided these skills into four categories.

- Technical,
- Management
- Interpersonal/group
- Individual.

The two most important skills were identified as ability to make decisions and interpersonal communication. As purchasing professionals are to a high degrees interacting with external suppliers, internal customers, they should be effective communicators, both within their organization and with their suppliers. Killen and Kamauff (1995) distinguished between operational buyer and strategic purchasing manager in four general areas, namely:

- product knowledge,
- principles of purchasing and management,
- personal attributes
- Interpersonal skills.

Strategic purchasing managers need to possess the skills of an operational buyer plus the following four additional knowledge areas:

- technical knowledge,
- analytical ability, and
- interpersonal skills,
- managerial skills,

Most studies in the popular press relied upon recruiter's assessments and tended to provide a list of skills gathered through interview and surveys. One of these studies, conducted by Down & Liedtka (1994), revealed the seven most critical skills recruiters are looking for in supply management professionals. These skills were identified as

- Communication skills
- interpersonal skills,
- Self-motivations,
- Professional presence,
- Leadership,
- analytical skills,
- Academic achievement.

generally speaking, it was assumed that purchasing professionals are especially and will be most successful if they possess technical skill (Cavinato, 1987; McKeefrey, 1998). Cavinato (1987) identified seven technical skills top managers wanted to see improved in their organization's supply Departments. The skills were:

- Knowledge of materials,
- Production systems and technologies,
- materials management and inventory systems, and JIT,
- Quality systems and options,
- Contract manufacturing relationships,
- Computers,
- Costing

Murphy (1995) illustrated the continuous search for the "ideal" skill set purchasing professionals should possess. A poll of purchasers identified four general skills identified as most important to their job function. The skill identified were:

- negotiation,
- management,
- computer literacy
- mathematics.

Many of the skills mentioned above, focus on hard rather than soft skills. As purchasing professionals started to use PCs in their day-to-day operations, computer literacy became an essential requirement to fulfill their tasks efficiently.

According to recent research by the European Institute of purchasing managers (EIPM), CPOs highlighted six purchasing skills as being the most important to career success. Over the next five years. These are equally split between analytical and soft skills.

- Analytical skills: 1. Strategic thinking. 2. Total cost of ownership (TCO). 3. Supply market analysis.
- Soft skills: 1. The ability to work in teams. 2. Influencing and persuasion skills. 3. Change management.

While none of these are new skills, the research predicts that by 2015 they will be key to success. "Over the past three years the role that procurement plays has evolved and the result is an increased demand for procurement professionals with a more strategic outlook," commented Pat Law, MD of Hays procurement. "We are also finding that candidates that can successfully combine traditional procurement skills with more interpersonal skills such as relationship building are highly sought after", he continued.

Another "Stephen C Carter, 2011" in his e-zine article states six financial skills that everyone who works in procurement should acquire. The term "financial skills" covers a range of activities that a professional buyer or procurement executive needs to have if they are to deliver value for money and manage commercial risk for their organization. However, these skills are not always covered by conventional training which means that a buyer could be creating needless exposure both for themselves and their career as well as their organization.

1. Financial analysis – This covers the use of financial ratios that enable you to identify suppliers who are under performing compared to their competitors or who might be financially vulnerable and so create a supply risk for you. Ratios compare one financial value with another in order to give you an insight into the way that supplier is run. For example, liquidity ratios look at the ability of a supplier to meet its short-term financial obligations by dividing the value of current assets (such as cash and inventory) with the value of current liabilities (such as creditors). Other ratios tell you how efficient the supplier is in turning sales into profit, generating sales from the use of assets and its ability to grow.
2. Activity based costing- This is a method that takes all of the costs of an organization and assigns them to the products or services that the supplier sells. The big difference between this approach and more conventional costing methods is that it first allocates costs to the activities that create those costs and then to products or services in direct proportion to the amount of those activities that they use in their production or service fulfillment. What this means is that you get a clearer picture of the true costs of making a product or delivering a service than you get from conventional means. The importance of this for the buyer is that they get an understanding of what drives costs and so what actions suppliers can take to reduce them which in turn lets them reduce the price to the buyer and still make an acceptable profit.
3. Understanding profit and loss accounts and balance sheets- The profit and loss account shows a buyer a summary of all the transactions a supplier has made in a period of time (such as a year) with the resulting profit they make and the balance sheet is a snapshot of the financial position of the supplier at that point in time. Accounting policies that the supplier adopts can make a big difference to the declared profit; for example, a supplier can choose how much to charge each year to the profit and loss amount for an asset it has bought and this can have a major impact on the profit in any one year. Knowing what accounting policies a supplier uses can help a buyer to understand their accounts and so make sure that the financial ratios that are used to get an insight paint an accurate picture.
4. Understanding cash flow- The lifeblood of any organization is its cash flow as it can only pay its bills on time and remain solvent if there is cash in the bank. It is important to understand that this is not the same as its profit. For example, if you sell something for ₦100 now and give your customer 14 days credit then you will not physically receive the cash for another two weeks. If you have bought materials that have been used to make that product and your supplier has given you only 7 days credit then you will have to make a payment to them before you receive the cash from your sale. If you do not have the money in the bank then you may be in difficulties. Understanding the concept of cash flow and how to calculate and analyze it is an important tool in predicting the solvency of your suppliers and their vulnerability.
5. Understanding break-even analysis- This technique calculates the level of activity your supplier needs to have if it is to break even. Levels of activity above the break-even point result in a profit for your supplier and level of activity below it means your supplier is operating at a loss. The importance of knowing this figure is in negotiations. If your supplier is already above its break-even point and has included your current level of purchases in its calculation, then any further business from you will provide a ‘super profit’ (that is, profit over and above its expected amount as their fixed costs have already been covered). You should be able to negotiate a price reduction based on this information.
6. Price and cost modeling – One of the key questions that procurement people ask of themselves is “am I paying the current price for this item?” Price and cost modeling helps to answer this question. Price modeling involves comparing the price you pay against some yardstick of reasonableness such as the price paid last time or a benchmarked price. Cost modeling goes further and is a technique in which you build up an understanding of the cost of materials, component and other costs that go into the items production or delivery (if it is a service) so that you can assess whether or not they are reasonable and whether the subsequent profit is fair.

With the evolution of the purchasing function, a broader academic interest aroused to determine important purchasing skills. Giunipero and Percy (2000) identified a list of 29 skills to be the most important to the purchasing function and developed (via exploratory factor analysis) seven skill clusters to illustrate the comprehensive skills sets required by “*world-class purchasing professionals*” (Giunipero & Percy, 2000). A world-class purchaser “visualises and approaches his job from a strategic perspective (...) and continually embraces and leverage his skills and knowledge of critical supply chain activities to provide value in meeting corporate and customer objectives” (Giunipero, 1999; p.8). Such a person can be characterized by seven key skill areas, namely:

- strategic skills,
- process management skills,

- team skills,
- decision-making skills,
- behavioural skills,
- negotiation skills
- quantitative skills.

Giunipero and Pearcy (2000) underline the importance of strategic skills for the purchasing profession. The focus on strategic skills demonstrates the radical shift of the function from being clerical, focusing only on processing orders, to strategic and contributing to the firms overall performance. Strategic skills are necessary to structure for example, supplier relationship and to develop strategies that contribute to the overall success of a firm. Implementing strategic thinking can help developing mutual beneficial relationships that will significantly impact the influence of purchasing on the organization.

Consequently, only the adoption of flexible and entrepreneurial skill sets enable purchasing professionals to adapt quickly to the changing business environment. Flexibility skills (Giunipero et al. 2005) are defined as the degree to which purchaser act entrepreneurially in seven areas, namely:

- managing risk,
- decision making,
- planning,
- interpersonal communication,
- influence and persuasion,
- internally motivation,
- creativity.

A purchase who is able to plan projects with multiple stakeholders, to influence and persuade not only suppliers but also internal customers, and who possesses a strong will to succeed will contribute to organizational success. This person is not waiting for action to happen, but is proactive, creative and decisive (Giunipero, Denslow & Eltantawy, 2005). In addition to planning and risk-making skills, Giunipero, Denslow & Eltantawy (2005) add internal motivation as being especially important. Implementing cost reductions and develop supplier relations require a self-driven approach by the purchasing department.

The purchasing function is not only driven by flexible supply chains but also by several trends that drive the purchasing function towards strategic direction. These trends include the implementation of strategic relationship management with supplier, strategic cost reduction, integrated systems and collaboration, a greater focus on total cost in supplier selection, and strategic versus tactical purchasing orientation (Giunipero, Handfiled & Eltantawy, 2006). All these trends will be facilitated by the implementation of strategic skills (Giunipero Handfiled & Eltantawy, 2004; Giunipero, Handfiled & Eltantawy, 2006). Strategic skills are characterized by five skills areas, namely:

- team-building skills,
- strategic planning skills,
- communication skills
- technical skills
- broader financial skills Giunipero, el at. 2006).

The skills included are leadership, decision-making influencing, compromising, project scoping, goal-setting, execution, presentation, public speaking, listening, writing, web-enabled research, sourcing analysis, cost accounting, and making the business case. (Giunipero, Handfiled & Eltantawy, 2006). underline team-building skills as especially important. Purchasing professionals are required to rely on term-work with multiple stakeholders. Purchasing professionals must take a leadership role in terms and take initiative to solve problems. Team-building skills are needed to integrate internal and external functions.

No skill on better procurement

This extract practically demonstrate the essence of skill in procurement: “Procurement skills ‘key to getting value for money in police force. A report out this week, Sustaining value for money in the police service, produced by the Audit Commission. Ger Majesty’s Inspectorate of Constabulary (HMIC) and the Wales Audit Office, challenges police forces to save a total of £1 billion, or 12 percent of their central government finding.

Twenty out of 34 chief constable interviewed said local police unit commanders lacked the finance skills to deliver savings, which is one of several obstacles to better buying. Fewer than one-third of the chief constables identified leadership skills as important in achieving savings. The report said the lack of such skills was another barrier to getting value for money.

Increasing the skills of procurement staff will help the police “extract and maintain benefits from current and future contracts”, the report said.

“Forces spent £1.3 billion in 2008-09 on suppliers and services, an increase of 111 percent since 1997-98.

Police authorities were being urged by the three watchdogs to do more collaborate with other forces and third parties to secure greater efficiencies. Collaboration work resulted in four forces in Wales saving £3.3 million on purchasing goods and services in 2008-09, and elsewhere Kent and Essex are merging IT department to save £20 million over 10 years.

Ten out of 16 forces visited for the joint report, were described as having an approach to efficiency that was “unlikely to address the emerging financial challenge”. A separate survey by the HMIC (also published on 20 July), shows that only eight of the 43 forces and made adequate preparations for budget cuts. The joint audit report says savings can be made by breaking down “silos”, and a more efficient match between risk of crime and the number of police on duty to deal with peaks and troughs in demand.

Sir Denis O’ Connor, chief inspector of the constabulary, said: “our reports show that while some forces are getting ready for the budget cuts we know are inevitable, many forces have yet to make adequate preparations.”

In total summation, without any doubt Procurement or purchasing role in any given organization cannot be overlooked as it has become necessary for them succeed if they have to take purchasing personnel serious. Any procurement officer or personnel that will succeed in his career will need to be up and doing as they will need to prove competency and proficiency in all ramifications to justify their worth.

Everything about purchasing or procurement system and activities revolves around the ability to fulfill the principle of obtaining materials, goods and services of the right quality in the right quantity from the right source delivered to the right place at the right time at the right price and for the right purpose. Failures to fulfill and achieve this principle in whatever procurement or purchasing capacity the practicing professional is involved have failed in his or her duty.

Therefore, skills, theory and techniques of procurement revolve in the ability to understand the core subject. The “core subject” centres in understanding the theory surrounding the principle of Procurement or Purchasing Management.

Theories of Purchasing Management:

Before World War II, purchasing was considered to be more or less a clerical duty. The work of purchasing departments in most organizations was merely made up of bookkeeping. After World War II businesses began to learn the benefits of a more scientific approach. Today there are organizations have found successful. Having a working knowledge of these theories will enable you to better understand the business process.

Fordism Theory

Henry Ford revolutionized manufacturing through the assembly line and standardizing the use of special purpose tools. His innovations created a general model and system of manufacturing that came to be called Fordism. The theory of purchasing management that emerged from Fordism places key emphasize on the control of suppliers. To better facilitate mass production, purchasing managers attempt to gain direct control over sources of raw materials such as rubber and metals.

Just In Time

Just in Time models of production were first pioneered by Japanese manufacturers. The major advantage of this form of production is that it allows manufacturers to reduce inventories and thereby warehousing costs. Items and suppliers are purchased only when immediately needed. It is the role of the purchasing management department to create an effective system for ordering. This system is only made possible by computing technology that monitors production needs for timely communication.

Vendor Management

Vendor management is an evolution of the Just in Time theory of purchasing management. The control over inventory is placed not with a purchasing department or any management, but with the actual sellers of items. Vendors are able to use computer systems to order items that are only manufactured at their command. This system is meant to take advantage of the particular expertise of vendors and the knowledge they gain from customer interaction.

Customer Management

Another evolution of the Just in Time model of production is customer management. In this method of purchasing customers are able to order items themselves that are then manufactured with immediately provided suppliers. To the extent that this sort of system can be implemented with any item it offers an ideal arrangement. Expenses for suppliers are only incurred when there is a definite demand from a definite customer. This system requires very flexible production methods.

Procurement Techniques:

Techniques or methods of procurement can be defined or said to be cycle or process or procedural steps to be followed in execution of purchasing or procurement activities. Already said in the beginning of this paper that the approach in public and private entity differs to a great extent. Therefore, the approaches also are quite different though the objectives are achieved at the end of the day.

Both approach that is the cycle both in private and public (government owned) will be explained in this write up.

Under Private settings:

How is Procurement process carried out in Private organization?

1. The Need

You need to identify that there is a need to update the inventory or stock. You may also need a business service or ad hoc product. The need may arise from any user department requesting for materials and suppliers. The purchase requisition is made to purchasing department who is mostly saddled with the responsibility to place orders for the materials and suppliers on behalf of the company.

2. Soliciting analyzing proposal and bids

Once the needs and specification have been clearly identified and request for materials and other suppliers had been received from the user's department, next stage would be to locate possible sources of supply for the materials, their terms and condition of offer. etc. When other is relatively small the need for proposal is usually avoided. For middle and large size orders, companies mostly call for bids, quotations and proposals. While to carry out large and complex projects, a REQUEST for PROPOSAL (RFP) is usually given.

There are different types of bids: 1. competitive bidding, 2. Two steps bidding, 3. Middle of the road bidding. If the competitive sealed bidding is to be used, then solicitation for supply will be looked into and analyze potential suppliers, adequate public notice of invitation to bid which include a purchase description and all contractual terms and condition applicable to the procurement is placed in a national daily for general circulation. The supplier will submit their bids in a sealed envelope. The bids would be opened in the presence of one or more witness at the time and place designated in the invitation for bid. The amount each bid and other relevant information as specified by regulation together with the name of each bidder is read aloud and recorded. The record is opened to the public for investigating and anybody can call for it. Bids are then evaluated. If they are accepted, they are awarded. Otherwise if they are not accepted, they are either corrected or withdrawn.

Request for proposal (RFP) can be solicited for, through public notice in some manner as in competitive sealed bidding after compiling the list of suppliers who are to submit proposals, request for proposal is placed, the proposal is received, read, reviewed and evaluated, meeting is held with the suppliers shortlisted, contract is negotiated with the selected suppliers.

3. evaluation and selection of reliable source of supply

The evaluation of a actual and potential sources is a continuous process in purchasing departments actual sources with which one is dealing regularly can be evaluated largely on their track record: on the actual experience of working with them. This is often known as vendor rating. Potential sources can be evaluated only by judgment of their capabilities. The actual suppliers can be selected based on their ability to supply specified materials needed by the buyer in terms of quality of suppliers, ability to meet ordered quantity time by delivery, service (before and after service) and price.

Evaluation of potential sources of supply is carried out in order to identify and select the most reliable sources of supply for large standard orders which are usually routinely or continuously used in production for example raw materials, companies usually enter into negotiation of contract, which expands for entire year because, production schedule must be met. This contract allows the quantity, times of delivery and purchase price to be opened as materials are needed. Such orders are usually larger sized orders that are usually placed with the same vendors. It describes the product specification, quantity and delivery date. This problem usually solved by the economic order quantity (EOQ) because EOQ balances the annual inventory holding and under-ordering. It therefore answers the question that is the current quantity to order?

4. Negotiating contracts

Contract negotiation is the act of reaching a legally enforceable agreement between the buyer and the seller on matters of price, quality, payment and schedule, delivery etc. a contract is an agreement enforceable by law.

Negotiation in purchasing, involves dealings between the buyer and the seller in a bid to reaching an agreement on price, payment and other conditions. When contracts are well negotiated, the probability of dispute is minimized. This is where expertise of the purchasing department are demonstrated. Their saving cost for the company making more rooms for profit. This skill must demonstrated beyond reasonable doubt to prove your worth as a professional in the filed of procurement as a specialist.

5. Issuing purchasing order

After the negotiation of contract, purchase order is issued by the buyer to the seller. A purchase order is a written authorization to an outside supplier or seller, to supply certain goods or services of a specified quality and quantity, at a given amount, time and place. Once the purchase order has been acknowledged and accepted by the seller, it becomes a purchase on both parties (buyer and seller) and any default party to the contract can be used in the law court for a breach of contract. This means that both the supplier and seller are responsible to the contract.

A purchase order would be seen as an acceptance of the offer for by the supplier or a counter offer which differ from the quotation of the supplier, so copies of the purchase order will be sent to the user department, receiving department, inspection department and accounting department while the original copy is issued to the supplier or vendor. A copy is like-wise retained in the purchasing department. Significantly, once a purchase order is exploited to perform his/her own delivery, various charges, time of delivery, terms of payments and discounts.

The essential information in a purchase order include name and address of purchasing company, identifying order number, date, name, and address of vendor shipping instructions including delivery date, description of materials ordered and the quantity, quality, price and discount, signature. Terms and conditions of the contract are generally printed on the back of the form.

6. Follow-up outstanding orders (expediting) and receipt/inspection of materials from suppliers

- **Expediting:**- expediting is the practice of maintaining a staff of expeditors in the field, who keep close contract with the suppliers on important orders in order to ginger up the suppliers to deliver the materials or suppliers on time as prescribed for all agreed upon. Such expeditors are made responsible for all orders placed with suppliers in a given territory. Often times, they operate from the company's branch offices in these territories but they report directly to the general purchasing office. Sometimes this function is inspection combined with materials at vendor's plant the field expeditors make regular progress reports to the follow-up department at purchasing headquarters during the life of the order or contract and his report is clocked with the schedule requirements. This is to show the proposal of satisfactory fulfillment of delivery dates so that the like hood or extent of any delay that may be encountered is recreated.

The first step in follow-up is to secure an acceptance and delivery promise from the vendor. The vendor's promise is recorded and provision is made for orderly emergency to develop if the vendors promise is not kept. Some companies only follow-up orders they classify important.

The mechanism for follow-up includes a file of open orders, arranged in numerical sequence so that those that are longest outstanding are in the front of the file, giving quick visual indication of the oldest ones.

However some expeditors use computerized system which reveals to them soon to be due and over-due items. Smaller companies follow-up by printing a scale of numbers from one to thirty one across the sheet to correspond with numbers of days in a month and use coloured tabs to differentiate the various calendar months. These coloured tabs reveal the order on which positive follow-up schedule is desired. The combination of colour and position shows the exact date at which follow-up action is to be taken. Any completed order must be removed from the file meaning receiving record must be placed against this file duty.

- **Receipt/inspection of materials from supplies**

Goods are usually delivered to the store of the buying organization. The purchase department normally expects the goods to be in good condition, in accordance to the term of the contract. However, this is subject to confirmation by the inspection department.

Firstly the receiving department issues **receiving report** (RP) and secondly, the inspection department issues and **inspection report** (IR) to confirm the acceptance of the supplier's materials

Both RR and IR are then sent to the purchasing department. The transaction closes on the basis of the materials are then set to the user/using department which acknowledge the receipt of the materials the copies of RR and IR are sent to the supplier and the accounting department.

- **Payment for goods received**

The supplier issues invoice which is sent to the accounting department in consultation with purchasing and store department. Accounting department then issues a cheque for payment. The transaction is completed and the supplier receives his/her cheque.

However, if some materials are found to be faulty during inspection, such items are rejected and rejection note is given to the supplier, notifying him of the extent of the discounted from the supplier's payment.

7. Soliciting and analyzing bids and proposal, with references to quotation and tender

Oxford advanced learner's dictionary define quotation as"- A segment of how much money a part piece of work will cost, and tender as"- A format offer to supply goods or do work at a stated price. These two words are often used interchangeably with bids and proposal. However, a bids is the price a person is willing to pay for a commodity. It is an offer to do work or provide a service for a particular price, in competition with other competitors who may be accepted or rejected. It makes procurement and constricting process relatively easy. The aim of bidding is to get the lowest from a proposal a proposal is a written format plan of a action, presented by a contractor (an individual or organization) on how he intends to carry out a job or a service, including the technical implication and financial implications. A proposal that does not address your needs or problems is virtually baseless. A proposal is different from a bid because it provides valuable technical information which are diagnostic in nature your imagination. It is a means of evaluating candidates for work required. it is used to evaluate vendors in a situation where purchasing agent believes that of competitive bidding is not practicable, logical or advantageous to be used. We shall discuss when proposal is suitable under the topic when to negotiate.

Proposal follows the procedure stated below:

1. Request for proposal (RFP): proposal shall solicited for through a request for approval.
2. Public notice: An adequate public notice of the request for proposal shall be placed in the newspaper for general circulation the proposals are submitted in sealed envelopes.
3. Receipt of proposal: The proposal received shall be opened by the buying firm and register is prepared which shall be for public inspection after contract award.
4. Evaluation of proposal: the proposals shall be read, reviewed and evaluated based on price and other evaluation factors stated in the request for proposals.
5. Discussion with responsible offers: finally meeting and discussions may be conducted with shortlisted offerors who are referred to as responsible offerors. Every offeror is accorded fair and equal treatment in order to choose the best offers. During the meeting, the conduct is negotiated with the selected offerors.
6. Award is made to the responsible offeror whose proposal is determined to be most advantageous to the buying firm, taking into cognizance the price and evaluation factors set forth in the request for proposal no other factors or contents shall be used in the evolution.

Steps taken in competitive sealed bidding

1. An invitation to bid shall be issued and shall include a purchase description and all contractual terms and condition applicable to the procurement.
2. Adequate public notice of the invitation to bid is given in the newspaper of general circulation. The suppliers will submit their bids in sealed envelopes.
3. The bids are publicly opened in the presence of one or more witnesses at the time and place designated in the invitation for bid the amount of each bid and such other relevant information as may be specified by regulation, together with the name of each bidder shall be read aloud and recorded are to record shall be opened to public inspector. Anybody can call for it.
4. Bid acceptance and evaluation bids shall be accepted without attention or correction, bids shall not be evaluated based on the requirement set forth in the invitation to bid.
5. correction or withdrawal of bid contracts that were erroneously awarded can be cancelled but must be in existence with existing regulation and must be supported by a written mandate of the purchasing agent.
6. Award the contract shall be awarded with reasonable promptness by written notice to the lowest responsible and responsible bidders whose bid most to requirement and criteria set forth in the invitation to bid.

Types of bidding

1. **Competitive bidding:** is the kind of bidding which follows the steps stated above in most cases the lowest bidder wins the contract but in rare occasions they do not because of some reasons which are mostly based on technical incompetence. Statutorily, lowest bidder wins in government bidding except on very rare occasions, based on inability to under legislation to accept the lowest bidder. Acceptance of bid in private sectors is based on the fulfillment of certain criteria set by the company.
2. **Two step bidding:** this is also called hybrid method of bidding this modified bidding is mostly used by government and technically oriented companies. Firstly bidders are asked to supply their technical competence on the job. This means that they should submit all their abilities to supply the goods and services for evaluation. The technical committee of the company requesting the bid will then short list

standard and specifications. Secondly the bidders that meets the first criteria are now allowed to compete on price bases the two step bidding/procurement process is as follows

- a. Technical proposal without cost estimate are required
 - b. The proposal are judged acceptable or unacceptable
 - c. The owners of the proposal judged acceptable are invited to submit cost estimates
 - d. The lowest bidder is awarded the contract
3. **Middle of the road bidding:** in this case, a request for quotation (RFQ) is issued and one is selected for negotiation. Having considered their quotations capability statements together with the quotations capability statements together with the quotation the best bidder is chosen and through dialogue or negotiation, an acceptance of an order is confirmed.

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Conclusion

The procurement area plays a major role in materials management, and procurement is an important link in the supply chain. The procurement process can be broken down into a set of activities that include identifying a need, defining and evaluating user requirements, deciding whether to make or buy, identifying the type of purchase, performing a market analysis, identifying potential suppliers, prescreening possible vendors evaluating remaining suppliers, choosing a vendor, receiving delivery of the product or service, and making a post purchase evaluation.

Not all purchased items are of equal importance. Using the criteria of risk and value, the quadrant technique classifies items into four importance categories; generics, commodities, distinctive, and critical. Generics have low, low value; commodities have low risk, high value; distinctive have high risk, low value; and critical have high risk, high value. The procurement process activities can be more effectively managed by following a four-step process (1) determine type of purchase; (2) determine necessary level of investment (3) perform the procurement process (4) evaluate the effectiveness of the procurement process. In selecting vendors, a number of criteria should be utilized, including quality, reliability, capability, financial viability, and other factors, such as location. There are four basic sources of price; commodity market, price lists, price quotation, and price negotiation.

Electronic procurement has become widely used in business because of the publicly available internet. The advantages include lower operating costs improved efficiency, and reduced prices, with the primary disadvantage being security. There are four basic types of electronics procurement models sell-side, electronic marketplace, buy-side, and on-line trading community system.

choosing procurement as a profession is quite exciting as it makes you acquaint yourself with day to day activities in your organization and environment which ultimately impact the profitability of your organization.

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