Ch.3 Methods of Procurement.

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Competitive Bidding vs. Negotiation

Competitive Bidding.

Formal or Informal Bidding.

- In formal bidding, specifications are written, requests for proposal are advertised, and responses from all responsible suppliers are evaluated. A contract is awarded to the lowest qualified bidder.
- In informal bidding, the purchasing organization may pre-select or limit the suppliers from whom it solicits proposals. The requirement may not be advertised or widely distributed.
Competitive Bidding vs. Negotiation

Factors affecting competitive bidding.

Degree of competition/market situation.
- If there are very few suppliers of the needed product, competitive bidding can be less effective.

Industry norms and standards.
- Products that are manufactured to the same general specifications by all producers are commonly referred to as "industry standard products." Because of the competitive nature of the markets for these products, competitive bidding rather than negotiation is ordinarily used for acquisition.

Urgency.
- The time available to obtain the product or service must be sufficient in order to allow for competitive bidding.
Factors affecting competitive bidding.

Dollar Value.
- If the dollar value of the item is relatively low, the time and expense of competitive bidding is probably unjustified for both purchaser and supplier.

Nature of Product/Service Specifications.
- If the specifications are clear to both purchaser and supplier, competitive bidding may be used.

Type of Contract Desired.
- Fixed-price contracts are based on a price that will be differ from that agreed upon at the time of ordering. This type of contract is a good candidate for competitive bidding.
Competitive Bidding vs. Negotiation

Factors affecting competitive bidding.

Procedure for Selection of Successful Offer.
- The criteria for bid selection will affect the choice of contracting method. Finite, clearly, and measurable sets of criteria allow the use of competitive bidding.

Organizational Policy.
- Many organizations have minimum dollar levels that are necessary before formal bidding or negotiation is required.

Frequency of Purchases.
- A product or service that is purchased frequently is usually a poor candidate for competitive bidding because of the time requirements of the competitive bidding process.
Methods of Procurement.

Different Methods for Procurement.

- Purchase Order.
- Contracts.
- Letter of Intent.
- Consignment Methods.
- Blanket Order.
- System Contracting.
- Telephone Order/FAX Order.
- Electronic Order Systems.
- Stockless Buying/Inventory Systems.
- Purchase Order Draft/Check with Order.
- Petty Cash/Local Small Purchases.
- Standing Orders.
- Credit Cards/Procurement Cards.
- Kanban/Pull Signals.
- Direct Release.
- Supplier Replenishment/Supplier Managed Inventory.
- Negotiation.
Different Methods for Procurement.

**Purchase Order.**

- Purchase orders are written contractual documents prepared by the purchaser to describe all terms and conditions of a purchase.
- For routine purchases, a standard purchase order form is most commonly used, detailing the requirements for either single or multiple items.

**Contract.**

- Contracts are legally enforceable written or oral agreements that define a job or service to be performed.
- Contracts are used when the issues involved are more complex and/or when the time frame of the agreement exceeds one year.
Different Methods for Procurement.

**Letter of Intent.**
- A letter of intent may be used between purchaser and supplier to confirm certain agreements in connection with a future procurement action.
- A letter of intent may serve as an interim purchase order or contract and provides immediate documentation of the more salient features of an agreement.
- The purpose of a letter of intent is to gain time in a commitment to a supplier prior to the issuance of a more complete purchase order or contract.

**Consignment Methods.**
- At times, suppliers may be willing to place their inventories in the customer's warehouse. Typically the inventory consigned by the supplier to the buying organization is paid for at the time of use.
Methods of Procurement.

Different Methods for Procurement.

Blanket Order.

- A blanket order is a term commitment - usually one year or more - to a supplier for certain goods or service over a predetermined time at predetermined prices, or at prices to be determined on market or other condition.
- This practice is aimed at reducing the number of small orders, using short-term releases to satisfy demand requirements.

Systems Contracting.

- This type of ordering is most frequently associated with the procurement of office goods or MRO supplies.
- The contract itself often authorizes designed employees of the purchase organization to place orders with the supplier for specified materials as needed during the time the contract is in force.
Methods of Procurement.

Different Methods for Procurement.

Stockless Buying/Inventory Systems.
- This technique, sometimes referred to as "just-in-time purchasing" transfers responsibility for on-time delivery to the supplier.

Purchase Order Draft/Check with Order.
- In this method, the purchase order document combines the purchase order with a bank check for payment purposes. The supplier completes the bank check, which is limited to relatively low dollar amounts, and sends it to the bank for processing.

Petty Cash/Local Small Purchases.
- Use of small amounts of cash for small or emergency purchase is another procurement method. This method is being replaced by the increasing use of procurement cards.
Methods of Procurement.

Different Methods for Procurement.

Standing Orders.

- This type of order generally specifies all terms except quantity. Shipments are made against release orders per contract, with the supplier delivering goods at fixed, agreed-upon prices over a defined period.

Credit Cards/Procurement Cards.

- The use of credit cards in purchasing involves issuing credit cards to authorized internal customers so they can charge purchases made directly from suppliers.

Kanban/Pull Signals.

- Kanbans are communication devices for transmitting information within a process or to a supplier about what products and how much to supply.
Methods of Procurement.

Different Methods for Procurement.

Direct Release.
- For items whose demand is calculated by MRP system, the planned order release information can be used as a release mechanism.
- An agreement with the supplier specifies when a release for a specified quantity is to be issued. For example, the supplier is authorized to ship the planned order releases for the next four weeks and the purchaser guarantees at least 90% of the second four weeks.

Electronic Order Systems.
- In this system, the purchaser places a purchase order electronically with a supplier. This can be accomplished with computer-to-computer linkages.
Methods of Procurement.

Different Methods for Procurement.

Supplier Replenishment/Supplier Managed Inventory.

- Supplier managed inventory means the supplier is responsible for ensuring the stock levels are maintained at the appropriate levels in the purchaser's facility, and replenishing items when the stocks are low.

Negotiation.

- Negotiation is an exploratory and a bargaining process involving a purchaser and a supplier. Each party has their own viewpoints and objectives and they are seeking to reach an agreement on all phases of a procurement transaction.
Performance Check.

1. All of the following are needed in order for a Kanban system to work EXCEPT
   A. The resolution of all quality problems.  
   B. An approved purchase agreement.  
   C. A dependable supply source.  
   D. A stable leadtime.

2. Which of the following is LEAST likely to be of benefit to a large organization using credit cards to purchase travel and living services?
   A. A reduction in the number of purchase orders.  
   B. Improved cash flow.  
   C. An elimination of cash advances for travel.  
   D. Purchase leverage based on travel statistics.
Performance Check.

3. The success of credit card purchasing depends on the assumption that all of the following are true EXCEPT
   A. Both parties are trustworthy and reliable.
   B. The buying organization will realize considerable savings.
   C. Most of the items purchased are from local sources.
   D. The paper trail is reduced.

4. The use of competitive bidding is LEAST appropriate when
   A. Materials is proprietary.
   B. The dollar value is large.
   C. Tooling is required.
   D. There is an adequate number of seller.
5. Which of the following are commonly used to purchase indefinite quantities of an item or items over a stated period of time at established unit price?
   A. Purchase order drafts.              B. Blanket orders.
   C. Purchase orders.                   D. Delivery orders.

6. Which of the following describes a preliminary contract outlining an agreement in connection with a specific procurement action, written prior to the issuance of a complete purchase order or contract?
   C. Purchase Order Draft.              D. Standing Order.
Performance Check.

7. A systems contract is sometimes called a ______ in the private sector.
   A. Kanban.                                B. Blanket order.
   C. Direct release arrangement.             D. Computer contract.

8. A demand pull system for ordering and delivery of production inventories using cards is known as
   A. Systems contracting.                   B. Direct release.
   C. Work orders.                          D. Kanban.

9. An arrangement allowing the end-user control over the scheduling of incoming shipments is known as
   A. Supplier managed.                     B. Kanban.
Performance Check.

10. A Blanket Order is for
   A. Making routine, unplanned purchases.        B. Small value, non-repetitive orders.
   C. Repetitive items based on annual quantities.    D. MRO goods.

11. All of the following statements describe Systems Contracting as a method of procurement, EXCEPT:
   A. Associated with MRO materials.
   B. Buyers place the orders.
   C. Often referred to as "stockless purchasing."
   D. Accurate detailed usage estimates are needed.
Performance Check.

12. Advantages of "stockless" buying or "just-in-time" purchasing include all BUT
   A. Higher prices for parts.               B. Reduced warehouse space.
   C. Increased inventory turnover.       D. Paperwork simplification.

13. Which of the following statements BEST describe the use of corporate credit cards?
   I. Relieves buyers from small purchases.
   II. Reduces total cost of acquisition.
   III. User department has greater control over purchases.
   IV. Everyone in the user department can procure.

   A. I, II and III       B. II, III and IV       C. I, III and IV       D. I, II, III and IV
Performance Check.

14. Which of the following does NOT constitute a form of negotiation?
   A. Placing a P.O.  
   B. Getting a deadline extension on a project.
   C. Increasing a child's allowance.  
   D. Who will drive for lunch.

15. A contract is:
   A. Always enforceable.  
   B. A binding agreement between two or more parties
   C. A form of negotiation.  
   D. Always written.

16. Which of the following problems is NOT a disadvantage of using a procurement card?
   A. Inadequate training for users causing less than full advantage taken of the program.
   B. Too low spending levels set.
   C. Some suppliers are blocked out.
   D. Purchasing time is reduced.
Performance Check.

Solutions:

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