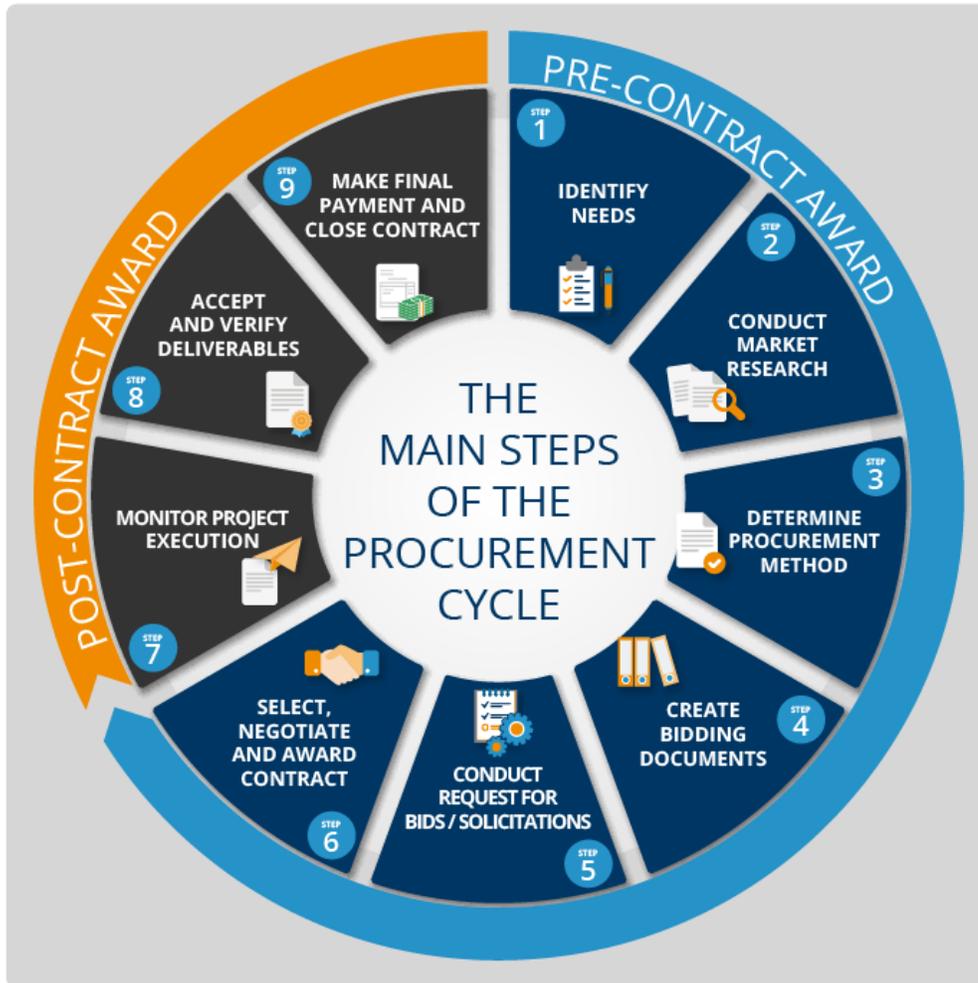


STEPS OF THE PROCUREMENT CYCLE

Let's look at the phases of the procurement cycle in the following diagram, focusing on analyzing the planning and sourcing activities (Step 1 to Step 6).



STEP 1. Identify procurement needs [what and when]

There are many types of purchases for which you can plan and budget in advance, such as buying new office furniture, replacing old computers, upgrading the offices or warehouse, or buying the inputs for your production.

Your purchasing department should perform a procurement needs assessment and develop a procurement plan at least once a year. You should update your procurement plan regularly (weekly, monthly, bi-monthly, etc.), depending on the industry. It is a common practice to forecast the annual purchasing needs at the end of each fiscal year.

The following are the key activities to plan procurements:

Determine what goods, works and services need to be purchased

Purchasing needs may originate from different units. For example, inputs from production may originate in the production department, while office and supplies may be requested by individual staff members.

Every person or unit/department of your company should be responsible for identifying their purchasing needs and informing the purchasing department of them. Purchasing needs include the list of estimated goods, works or services needed in a determined period of time, and include both items to be re-ordered and new products to be purchased.

Determine when goods, works, and services need to be purchased

Each unit should inform your purchasing department about when the goods, works, or services will be needed. You have to distinguish between purchases that are made frequently and those that are made rarely. For example, if you own a restaurant you may need to buy fresh food products on a weekly basis, drinks and beverages on a monthly basis, and other items (e.g. tablecloths) once a year. From time to time, you may need to replace or upgrade old equipment (a coffee machine, a cash register, etc.) or get professional services to develop your business website or social media. Once you have identified when the purchases need to be made, you can develop a calendar for your purchases, which you should update regularly.

Start preparing your procurement plan

You should start preparing your procurement plan as soon as you determine what you need to purchase and when. The procurement plan is a document that lists the goods, works, and services that you will buy over a specific period of time (usually one year, revised periodically). A procurement plan should include:

- A brief description of each planned procurement contract
- The estimated cost of each planned procurement contract
- The time schedules
- The procurement method to be used [STEP 3]

You can complete and update your procurement plan, with the additional information needed, as you advance in the following steps.

STEP 2. Conduct supplier market research [from whom and at what cost]

Supplier market research is an important activity that you need to conduct on regular basis. Both your purchasing department and individuals requesting the purchases need to conduct supplier market research, especially when the needed items are non-standard. Supplier market research helps you with: (1) defining the requirements of your purchases, (2) identifying and assessing potential suppliers and their market saturation, and (3) estimating the costs of your future purchases.

Define the requirements of your purchases

Sometimes, you may not have a clear idea of the specific characteristics of the good or service required. For example, you may want to improve efficiency and you are thinking about purchasing project management software. However, you do not have a clear idea of the options available that best satisfy your needs. In this case, you may want to conduct market research to better understand the available options in the market. Also, you may want to contact a few software providers to ask for advice and to find out if a customized solution is necessary. If you decide to contact some suppliers, you may want to send them a Request for Information (RFI). An RFI is an inquiry made to several suppliers to gather information about the potential solutions available in the market to satisfy your specific need. An RFI does not force you to buy from any of the potential suppliers, but it may lead to a future Request for Proposal (RFP) or Request for Quotation (RFQ).

Identify potential suppliers and assess saturation of the market

Market research helps you identify who the potential suppliers are and assess the saturation of the market. Are there many suppliers for the goods, works, and services you need, or very few? Do you have many choices, or only one or two?

Estimate the costs of your future purchases

You need to find out the estimated costs of your planned purchases in order to budget and ensure that funding is available when needed. What prices, terms and conditions do potential suppliers offer? In some cases, you may want to contact some suppliers and request a quote to get a better idea of your potential purchase cost. This process is called Request for Quotation (RFQ), and it is explained in STEP 3.

When you have it, update your procurement plan with the estimated cost of your planned purchases.

STEP 3. Determine the procurement method [how]

You need to determine the procurement method for the purchase of each category of goods, works and services. The table below explains the three most commonly used procurement methods that you may want to consider, including advice about when to use each method:

COMPETITIVE METHODS		NON-COMPETITIVE METHODS
Main advantages: <ul style="list-style-type: none"> • Promote competition, transparency and accountability • Maximize the possibilities of getting the best value for money in your purchases, as you have a greater choice of suppliers 		Main advantages: <ul style="list-style-type: none"> • Non-bureaucratic process that usually takes less time to process and involves less paperwork than a competitive method
Request for Proposal (RFP)	Request for Quotation (RFQ)	Sole-sourcing or direct-sourcing
Definition: includes an invitation to potential suppliers to bid, followed by an evaluation process and a contract award. In some cases, there is an invitation to express interest to shortlist potential suppliers before the RFP is issued.	Definition: simplified bidding process used to solicit the price of standard goods or services from external suppliers. An RFQ may involve not only the price per item, but additional information such as the delivery method and date, or the warranty	Definition: limited process of soliciting from and negotiating with only one supplier. If you use this method, you will not go through Steps 4 and 5 of the sourcing process.
<ul style="list-style-type: none"> ▪ Used for procurements that are critical to your organization (e.g. high value and high risk procurements) ▪ Usually used for services, works and complex goods ▪ Usually quality has most of the weight in the evaluation or selection criteria ▪ Usually used when the buyer is committed to buy once the process finalizes 	<ul style="list-style-type: none"> ▪ Used for procurements that are non-critical for your company ▪ Usually used for standard goods that have well-defined requirements ▪ Price has most of the weight in the evaluation or selection criteria ▪ The buyer may not be committed to buy (can be used to request price information only) ▪ The solicitation process is simpler and quicker than an RFP 	<ul style="list-style-type: none"> ▪ Used for very small purchases of standard goods and services ▪ Used for emergency or urgent situations, or when only one provider in the market can supply the requested goods and services ▪ Used when it represents a clear advantage over the use of a competitive method

The solicitation method that you use in each of your purchases should be determined by your company's procurement policies and rules, and executed by the purchasing department. For example, you can set a threshold so that purchases over a certain value must be done through a competitive method, while purchases under that value can be done through a non-competitive method.

Determine your bid publication method:

Any bidding process can be open (any potential supplier in the market can submit an offer) or restricted (only the firms you invite are allowed to bid). If you use an open competitive bidding process you have to determine how to disseminate the opportunity to potential suppliers. You can distribute your requests for bids through industry or sector associations, publicize them in newspapers or major media, or post on

your company's website. If you use a restricted bidding process, then you need to determine to which potential suppliers you will send the request. Some companies have a registry of pre-qualified suppliers and send the requests to them every time an opportunity arises.

Update your procurement plan with the procurement method to be used, and start preparing your bidding documents (STEP 4).

STEP 4. Create the bidding documents

Create the bidding documents according to the procurement method chosen. Usually the bidding documents will be prepared by the purchasing department together with the units requesting the purchase, depending on how complex the purchase is.

Determine your bid evaluation criteria

When creating the bidding documents, you need to decide the selection criteria to be used to choose the potential suppliers. You may want to consider things such as price, quality, timing delivery, shipping costs, communication, flexibility, and any other characteristics that are important for your business. For example, some companies value other criteria, such as making sure that your suppliers pay fair wages to their workers, or that they get their inputs from reliable sources.

STEP 5. Conduct the request for bids/solicitations

Publicize the request for bids, according to the bid publication method chosen. Your purchasing department should conduct request for bids.

When using a competitive method, you may want to give suppliers a chance to ask questions or clarifications. If you do, expect potential suppliers to contact you by the means established in your bidding documents. To be fair, give the same information to all suppliers, and at the same time. Usually, you would collect the inquiries and distribute all questions and corresponding answers to all potential suppliers that you know are planning to submit an offer.

You should aim to receive a minimum of three offers before taking any final purchasing decision.

STEP 6. Select, negotiate and award the contract

Choose the supplier that offers the best value for your business, according to the established evaluation criteria. Offer selection is conducted by at least two people: a procurement specialist (a person in the purchasing department), and a technician or specialist of the department requiring the purchase. Depending on the importance of the purchase, management may also get involved.

Negotiations with suppliers about warranties, payment terms and conditions or price after bids have been received and before the contract is awarded, is a common practice in the private sector (but it is limited in the public sector). There are different opinions about whether negotiations with individual suppliers should take place in competitive bidding processes, as the evaluation and selection criteria should be clear in the bidding documents, and individual negotiations with suppliers may alter the competition and transparency of the process. If you allow a supplier to revise its offer after submission, and it changes significantly from the original offer received, you should allow all suppliers to also revise their offers.

Once the finalist has been selected, develop a contract to be signed by both you and the supplier. Once the contract is signed, you should notify the other bidders that their offers have not been selected.

Conduct the purchase

A Purchase Order (PO) is a purchasing document that your purchasing department sends to a supplier to confirm the order of a product or service, in a determined quantity and agreed price. A PO should also

specify the delivery method, delivery date, the terms of payment, and any other important terms and conditions. Once the seller accepts the PO, it becomes a binding contract agreement between your company and the supplier. A PO is also used to better plan and control your purchasing expenses, and it can be used as a substitute of a contract between you and a supplier, depending on the type of purchase.