INTERNATIONAL PROCUREMENT

CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL OF KENYA

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PART 3

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OVERVIEW OF INTERNATIONAL PROCUREMENT

Meaning of terms used in International Procurement

Procurement is the process of acquiring foods and services from external sources. Goods, services and works supplied by external sources must meet the standard requirement outlined by the buyer. International procurement is a term used to describe the process of sourcing goods and services around the world to satisfy diversified needs of the organisations objectives.

It is the process of allowing organisations/firms around the world to bid on contracts for goods and services. The concept of international procurement has gained popularity as shipping and transportation cost has reduced due to cheap and readily available fuel. The globalisation of large corporation has allowed them to reap the benefits of lower labour and material cost while still selling the same quality and quantity of products.

In order to build a global economy, each nation must have some contribution that they can offer to potential customers if a country is limited to just the goods it can produce internally. Then it either needs to invest significantly to meet every need.

Role of International Procurement in Supply Chain

Support operational requirements of the organisation. This helps to identify organisation's requirements for buying products and services to help in the flow of supply chain at the right price from the right source, at the right specifications that meet the user's needs in the right quantity and for delivery at the right time.

Manage procurement process and supply base efficiently and effectively. To manage the procurement process and supply base efficiently, procurement must follow the following key steps:

i. Identify an opportunity
ii. Manage internal operations and achieve objectives
iii. Develop strong relationships with other functional groups. This may include departments like marketing, accounting, human resource, research and development etc.
iv. Support organisational goals

Factor Influencing International Procurement

- Currency difficulties is experienced- fluctuations
- Legal difficulties in case of a dispute
- Delays in delivery
- Time required for negotiation is greatly increased
- Too much documentation e.g. bills of lading, certificate of origin customs entry form etc.
- Import duties, procedures and insurance
- Communication problems

Advantages and Disadvantages of International Procurement

Advantages

- Better prices
- Higher world class quality
- Counter-trade
- Improved customer service
- Improved competition position
- Increased availability of suitable suppliers

Disadvantages

- Currency difficulties is experienced- fluctuations
- Legal difficulties in case of a dispute
- Delays in delivery
- Time required for negotiation is greatly increased
- Too much documentation e.g. bills of lading, certificate of origin customs entry form etc.
- Import duties, procedures and insurance
- Communication problems

Definition of International Markets

A market is a system of institutions, rules and procedures relating to the exchange of goods and services between persons or organisations. Markets can be defined in different ways including by geography, customer, products or even by behaviour characteristics of customers.

An international market is defined geographically as a market outside the international boarders of a company's country of citizenship. Hence international marketing is defined as the exchange of goods and services across national borders to meet the requirements of the customers.
It includes customer analysis in foreign countries and at identifying the target market. With the increasing change in customers demand choices, preference and taste. The economies are expanding and giving way to more competitive marketing thus organisations need to respond rapidly to the demands of the customers with well-defined marketing strategies.

Participants in International Markets

The major participants in international markets are:

Multinational corporations: These are organisations that ensure the production of goods and services in one or more countries other than its home countries. Such organisations have their offices or industrial setups across nations and usually have a centralized office where they coordinate global management.

Other Large Firms: Besides MNCs, there are a large number of firms active in international marketing. Although they do not qualify to be regarded as MNCs, many of them have manufacturing and other operational facilities foreign countries.

SMEs: Small and medium enterprises also play a very significant role in international business. A very large number of them do considerable business abroad. There are many in this category which is hundred percent primarily export oriented. In the case of USA and Germany, the largest exporting nations, more than half of the exports are contributed by small firms. About 35% of India's exports come from village and small industries.

Private Firms: The bulk of the international transactions are carried out by private firms MNCs; other large firms and (small and medium enterprises) SMEs.

Exporters: They are the oversea sellers who sell products and provide services across their home country by following necessary jurisdiction.

Service companies: A service company generates revenue by trading on services and not on physical commodities e.g. clearing and forwarding agents

Financial institutions: provide financing

Government- regulations, tax

Importance of international markets

1. Important to expand target market – Target market of a marketing organisation will be limited if it just concentrate on domestic market. When an organisation thinks globally, it looks for overseas opportunities to increase its market share and customer base.

2. Important to boost brand reputation – International marketing may give boost to a brand's reputation. Brand that sold internationally is perceived to be better than the brand that sold locally. People like to purchase products that are widely available. Hence, international marketing is important to boost brand reputation.

3. Important to connect business with the world – Expanding business into an international market gives a business an advantage to connect with new customers and new business partners. Apple - the tech giant designs its iPhone in California; outsources its manufacturing jobs to different countries like - Mongolia, China, Korea, and Taiwan; and markets them across the world. Apple have not restricted its business to a nation, rather expanded it to throughout the world. The opportunities for networking internationally are limitless. The more "places" a business is, the more connections it can make with the world.

4. Important to open door for future opportunities – International marketing can also open door for future business opportunities. International marketing not only increases market share and customer base, it also helps the business to connect to new vendors, a larger workforce and new technologies and ways of doing business. For example – American organisations investing in Japan have found programs like – Six Sigma and Theory Z which are helpful in shaping their business strategies.

International Market entry Evaluation Process

International market entry evaluation process gauge international business areas which offer the best opportunities for business operators in line with their distinct products/services. The five steps are: Country Identification, Preliminary Screening, In-Depth screening, Final selection and Direct Experience.

i. Country Identification

Business proprietors have the autonomy to choose any specific country to go into and start their business. To this extent therefore, business operators should conduct country identification - which means that they undertake a general overview of potential new markets. There might be a simple match - for example two countries might share a similar heritage e.g. the United Kingdom and Australia, a similar language e.g. the United States and Australia, or even a similar culture, political ideology or religion e.g. China and Cuba. Alternatively one may choose a country from the basis of being in the same trading zone e.g. the European Union.

ii. Preliminary Screening

At this second stage, one takes a broad look at those countries remaining after undergoing preliminary screening. The business proprietors are duty bound to rank nations based upon macro-economic factors such as currency stability, exchange rates, level of domestic consumption and so on. From the basis of these attributes one can start calculating the nature of market entry costs. Some countries such as China require that some fraction of the company entering the market is owned domestically - this would need to be taken into account. There are some nations that are experiencing political instability and any company entering such a market would need to be rewarded for the risk that they would take. At this point the marketing manager could decide upon a shorter list of countries that he or she would wish to enter.

iii. In-depth Screening

The countries that make it to stage three would all be considered feasible for market entry. So it is vital that detailed information on the target market is obtained so that marketing decision-making can be accurate. Business operators can deal with not only micro-economic factors but also local conditions such as marketing research in relation to the marketing mix i.e. what prices can be charged in the nation? - How does one distribute a product or service? How should one communicate with are target segments in the nation? How does one’s product or service need to be adapted for the nation? All of this information will form the basis of segmentation, targeting and positioning. One could also take into account the value of the nation's market, any tariffs or quotas in operation, and similar opportunities or threats to new entrants.

iv. Final Selection

In this step a final shortlist of potential nations is decided upon. Managers would reflect upon strategic goals and look for a match in the nations at hand. The company could look at close competitors or similar domestic companies that have already entered the market to get firm costs in relation to market entry. Managers could also look at other nations that it has entered to see if there are any similarities, or learning that can be used to assist with decision-making in this instance. A final scoring, ranking and weighting can be undertaken based upon more focused criteria. After this exercise the marketing manager should probably try to visit the final handful of nations remaining on shortlist.

v. Direct Experience

Personal experience is important. Marketing/purchasing managers or the company's representatives should travel to a particular nation to experience firsthand nation's culture and business practices. On a first impression basis at least one can ascertain in what ways the nation is similar or dissimilar to his own domestic market or the other nations where the company already trades. The distinct market entry methods comprise exporting, licensing, franchising, management contracting, manufacturing subcontracting, strategic alliances, joint ventures and wholly owned subsidiary operations.

Foreign Markets

Foreign markets exist outside of your home nation's political borders. Global markets introduce increased populations that can be targeted for higher sales and profits. Overseas markets also might offer a more accommodating sales environment because of fewer entrenched competitors. Foreign markets can be categorized into developed and emerging markets. Industrialized nations, such as the United States, Germany and Japan, represent mature markets, with relatively stable political regimes and commercial environments. Emerging markets are identified by their higher profit potential and heightened risk levels. For example, Nigeria is an emerging market where portions of its abundant oil reserves are often shut out from the global economy because of rebel warfare.

Larger businesses gain entry into foreign markets by establishing overseas operations. Coca-Cola and McDonald's are examples of multinational corporations that maintain formidable global presences. Multinational companies can thrive overseas by making small cultural adjustments to their current brand. For example, in the United States Nike focuses on football and basketball advertisements, but it often rolls out expansive soccer advertising campaigns in Europe.

Smaller investors can enter foreign markets through financial exchanges. These savers can buy shares of stock in multinational firms such as Coca-Cola, or can buy into global mutual fund shares for international exposure.

Foreign exchange facilitates global commerce. Foreign exchange describes the process of trading domestic currency for international banknotes to make and receive payments. Foreign exchange rates describe currency valuations, and they calculate the amount of one currency that is required to trade for one unit of a competing currency.

Consumers prefer higher exchange rates for domestic currency, which increases their buying power for foreign goods. However, businesses want lower domestic exchange rates. At that point, their exported wares become cheaper to overseas buyers, and profits denominated in foreign exchange translate into higher cash flow at home.

PREPARATON OF SPECIFICATION IN INTERNATIONAL PROCUREMENT

Definition of Specifications

A precise description of the physical or functional characteristics of a product, service or combination;

Characteristics of specifications

- Are an accurate, clear, concise and unambiguous description of the product or service including its process and use. This must be written in language that is understood by the target market.
- Must be relevant and objectively support the application or intended use.
- Must provide for maximum acceptable tolerances, enabling fair and equitable competition at both manufacturing and distribution levels.
- Must allow for measurement, performance testing and acceptance or rejection upon delivery or installation.
- Must allow for alternatives within reasonable and acceptable tolerance levels.
- Identify physical, functional, environmental and quality characteristics such as design, size, weight, power capacity, output, or grade of component.
- Identify applicable commercial standards. For example, if using brand name or equivalent, a specific manufacturer's brand name might be cited to describe the standards of quality, performance, etc. needed to meet the requirements of the solicitation. When a brand or make is identified, there must be a model for comparison to an "approved equal" or better.

Types of specification

i. Design/Technical Specification

A good design specification should be clear, consistent and exact. Reasonable tolerances should be included and should be non-restrictive to encourage competition.

A design specification provides explicit information about the requirements for a product and how the product is to be assembled.

Design specifications should list minimum requirements and detail test, sampling and inspection methods that will be used to ensure compliance with the specification.

Design specifications may have to comply with industry standards. For example, many pharmaceutical products are governed by British Pharmacopoeia for the UK and United States Pharmacopoeia for the U.S.

A design specification must include all necessary drawings, dimensions, terms, and definitions of non-standard terms, and the materials used must be described in a manner so that bidders will be able to logically discern cost, process of construction, delivery and implementation of the requirements.

Design specifications should state the desired outcome. These specifications carry a high degree of risk for the buying agency as the buyer will be held responsible for design omissions and related errors in the specifications.

ii. Performance specification

A performance specification describes a product or service that provides a general functional recital of performance characteristics required to achieve an end result or outcome desired.

The specification should be capable of integrating with existing systems and be interchangeable with parts, services or other basic elements of the operation's or product's expected outcome.

Performance specifications provide the specific outcome that is required but not the method to achieve that outcome.

Performance specifications contain output and outcome measures and for this reason are often referred to as outcome or output based specifications. Output measures provide for a series of outputs that deliver a desired outcome. Outcomes should be measurable and define benefits delivered so that corrective deductions may be applied, as applicable, if service levels are not achieved.

International Organisation for Standardization (ISO)

The International Organization for Standardization (ISO) is an international standard-setting body composed of representatives from various national standards organizations.

Founded on 23 February 1947, the organization promotes worldwide proprietary, industrial and commercial standards. It is headquartered in Geneva, Switzerland, and works in 162 countries.

ISO creates documents that provide requirements, specifications, guidelines or characteristics that can be used consistently to ensure that materials, products, processes and services are fit for their purpose.

There are three main reasons why companies adopt an ISO management system:

- To increase success on public and private tenders
- To improve internal efficiency and reduce costs
- Subliminal marketing – being associated with ISO proves to your prospective clients you are credible.

The International Organization for Standardization, is an independent, non-governmental organization, the members of which are the standards organizations of the 162 member countries. It is the world's largest developer of voluntary international standards and facilitates world trade by providing common standards between nations. Over twenty thousand standards have been set covering everything from manufactured products and technology to food safety, agriculture and healthcare.

Use of the standards aids in the creation of products and services that are safe, reliable and of good quality. The standards help businesses increase productivity while minimizing errors and waste. By enabling products from different markets to be directly compared, they facilitate companies in entering new markets and assist in the development of global trade on a fair basis. The standards also serve to safeguard consumers and the end-users of products and services, ensuring that certified products conform to the minimum standards set internationally.

ISO standards are developed by many technical committees. The people who serve on these technical committees come from many national standards organizations. Consequently, ISO standards tend to have worldwide support.

ISO standards help to ensure that products, services, systems, and technologies work properly and are safe and effective. And to help ensure that organizations actually apply these standards, ISO's technical experts have also developed several conformity assessment guides. These guides help organizations to verify that supplies, materials, products, processes, services, systems, tools, equipment, and personnel actually comply with ISO's standards.

In short, ISO helps make things safer, simpler, and better. It helps all organisations to be more productive and prosperous.

Businesses that want to compete as world-class companies are increasingly expected to have *ISO 9000 Certification* at various levels. To gain certification in this family of quality standards, businesses must undergo a rigorous assessment by outside auditors to determine whether they meet ISO requirements. Increasingly, the ISO stamp of approval is viewed as a necessity in international business; the ISO certification provides customers with an assurance that a set of solid quality standards and processes are in place.

Process of sourcing potential suppliers in International Procurement

Global product sourcing refers to a procurement strategy through which an enterprise works to identify the most cost-effective location for product manufacturing, even if that location may be in a foreign country.

For instance, a cement manufacturing company may find that the costs of raw materials and manufacturing are lower in some foreign country because manpower is cheaper there. The company would therefore opt to shut down its domestic operations and set up a plant in that foreign country.

The general sourcing process can be divided into the following 5 stages, explained below.

Stage 1: Preliminary Research – Investigation and Tendering

At this stage, the enterprise identifies the core and non-core operational activities, analyzes customer and market requirements and identifies competitors. The idea is to develop the firm's business objectives, prospective markets and brand positioning.

The strategic sourcing scope is also outlined through a business plan developed by the executive and the sourcing specialist, and the preliminary work strategy and baseline for measuring performance is established and documented as a procurement process plan.

Stage 2: Market and Supplier Evaluation

At this stage, the enterprise develops a detailed list of supplier selection benchmarks, which is used to select the most appropriate suppliers that fit the requirements. Based on the findings of the process, the sourcing strategy may be tweaked further and a final costing model is released.

The operational and economic benefits of the project will then be estimated. RFIs will then be sent out to the shortlisted suppliers.

Stage 3: Selection of the Supplier (Sourcing Event)

Based on the results of the RFI dispatch, a final list of suppliers is selected and negotiation for products is carried out, culminating in a supply agreement. Technical assessment of final supply candidates is conducted to come up with the savings estimates for each. Finally, an implementation schedule outlining timelines for various suppliers is developed.

Stage 4: Implementation

A performance analysis schedule should be developed, outlining all activities in the implementation process. The implementation team should be constituted by the procurement agent and the schedule and strategy should be published. Agreements related to shared supply, resources and logistical arrangements are developed.

At this stage, expected internal and external results from the suppliers should be documented. Periodic measurement and reporting of actual performance should be carried out.

Stage 5: Performance Monitoring

Performance of suppliers is measured, both independently and in relation to the resources and processes applied by supply partners. This should be carried out routinely and reported accordingly. In-depth evaluation of the efficacy of collaborative efforts with each supplier is obtained, and the partners involved continuously isolate problems and find out ways these can be solved for improved performance.

The objective of performance monitoring is to maintain the most efficient procurement process, one that is flexible and dynamic, easily adapting to a changing market environment.

Sources of information about overseas suppliers

- Professional contacts: Professional contact of the purchasing staff can facilitate an evaluation of specific suppliers capability
- Trade journals: Trade journals are published regularly by different industries in various countries and provide vital information on suppliers
- Directories: Directories are good sources of information and are often printed by an organised industry in a particular country

- Trading companies: Japan frequently uses this marketing channel which provides advantages of convenience, efficiency and assurance of supply to international buyers.
- Import brokers: They offer a buying and forwarding service in exporting country and often become very knowledgeable about the products
- Internet: This is global system of inter connected computer networks that use the standard internet protocol suite (TCP/IP) to serve billions of users worldwide. It enables business people to search relevant suppliers across the globe.

Quality Certification of Goods in International Procurement

Certification can be a useful tool to add credibility, by demonstrating that your product or service meets the expectations of your customers. For some industries, certification is a legal or contractual requirement.

Certification to ISO 9001:2015

Checking that the system works is a vital part of ISO 9001:2015. It is recommended that an organization performs internal audits to check how its quality management system is working. An organization may decide to invite an independent certification body to verify that it is in conformity to the standard, but there is no requirement for this.

At ISO, we develop International Standards, such as ISO 9001 and ISO 14001, but we are not involved in their certification, and do not issue certificates. This is performed by external certification bodies, thus a company or organization cannot be certified by ISO.

The **ISO 9000** family of quality management systems standards is designed to help organizations ensure that they meet the needs of customers and other stakeholders while meeting statutory and regulatory requirements related to a product or service. ISO 9000 deals with the fundamentals of quality management systems, including the seven quality management principles upon which the family of standards is based. ISO 9001 deals with the requirements that organizations wishing to meet the standard must fulfill.

The global adoption of ISO 9001 may be attributable to a number of factors. In the early days, the ISO 9001 (9002 and 9003) requirements were intended to be used by procuring organizations, as the basis of contractual arrangements with their suppliers. This helped reduce the need for "supplier development" by establishing basic requirements for a supplier to assure