

# CPSP

**CERTIFIED PROCUREMENT AND SUPPLY  
PROFESSIONAL OF KENYA**

**PART 1**

**PROCUREMENT PLANNING**

**STUDY TEXT**

**SAMPLE NOTES**

## **PL1.03 PROCUREMENT PLANNING**

### **PL1.03.1: Introduction**

This module is intended to equip the trainee with knowledge, skills and attitudes that will enable them accurately plan procurement requirements.

### **PL1.03.2: General objectives of the course**

By the end of the course, the trainee should be able to:

- i. Recognize the role of planning in procurement and supply
- ii. Link procurement planning and budgeting
- iii. Demonstrate an understanding of forecasting techniques for both dependent and independent demand
- iv. Acquire the necessary skills and attitudes that can be used in prioritizing supply planning
- v. Apply the approaches and steps used in demand forecasting

## **PL1.3.01: OVERVIEW OF PROCUREMENT PLANNING**

### **Competence**

The trainees should have the ability to plan in order to facilitate effective and efficient procurement processes within an organization.

### **Content**

#### *Theory*

1. Meaning of terms used in procurement planning
2. Role of procurement planning
3. The factors affecting procurement planning
4. Consequences of failing to involve procurement function in planning
5. Consolidating organizational needs in procurement planning
6. Implementation of procurement plans

#### *Practice*

1. Discussion of the factors affecting procurement planning in a given case.

## **PL1.3.02: ROLE OF MARKET SURVEY IN PROCUREMENT PLANNING**

### **Competence**

The trainee should have the ability to collect and apply market intelligence when planning for requirements in an organization.

### **Content**

#### *Theory*

1. The role of market survey in procurement planning

2. Planning for market survey

*Practice*

1. Discuss the differences between Supply Market Analysis and Procurement Planning

**PL1.3.03: ELEMENTS OF A PROCUREMENT PLAN**

**Competence**

The trainee should have the ability to discuss all the elements of a procurement plan within an organization.

**Content**

*Theory*

1. Types of procurement plans
2. Principles of procurement planning
3. Need identification
4. Consolidation of requirements
5. Specification / description of services, goods and works
6. Quantity, sources of funds, and time as elements of a procurement plan.

*Practice*

1. Discussion of elements of a procurement plan.

**PL1.3.04: PRIORITIES IN PROCUREMENT PLANNING**

**Competence**

The trainee should have the ability to prioritize items in procurement planning

**Content**

*Theory*

1. Supply Positioning Model
  - i. Diagram
  - ii. Examples of purchase item in each quadrant
2. Analysis of purchase expenditure
3. Analysis of the impact of a purchase item in supply planning

*Practice*

1. Application of Supply Positioning Model on procurement planning

**PL1.3.05: PROCUREMENT CYCLE**

**Competence**

The trainee should have the ability to illustrate the procurement cycle

## **Content**

### *Theory*

1. Procurement cycles
2. Stages of the procurement cycle
  - i. Pre-contract stages
  - ii. Post contract stages

### *Practice*

1. Illustration of the procurement cycle

## **PL1.3.06: FORECASTING IN PROCUREMENT PLANNING**

### **Competence**

The trainee should be able to identify factors affecting forecasting

### **Content**

#### *Theory*

1. Meaning of terms used in forecasting
  2. Role of forecasting in procurement planning
  3. The factors affecting forecasting
  4. The challenges in forecasting
  5. Approaches to forecasting
  6. Steps in demand forecasting
- i. Role of forecasting in procurement planning

## **PL1.3.07: CHARACTERISTICS OF DEMAND**

### **Competence**

The trainee should have the ability to identify characteristics of demand

### **Theory**

#### *Content*

1. Characteristics of demand
  - i. Levels of demand
  - ii. Frequency of demand
2. Patterns of demand
  - i. Product life cycle positioning
3. Product classification

#### *Practice*

1. Discussion of the characteristics of demand

### **PL1.3.08: BUDGETING AS AN ELEMENT OF PROCUREMENT PLANNING**

#### **Competence**

The trainee should have the ability to apply budgeting in procurement planning

#### **Content**

##### *Theory*

1. The concept of budgeting in procurement planning
2. Issues involved in budgeting and how this can serve as an important elements in procurement planning for requirements
3. Procurement planning for operational requirements
4. Procurement planning for capital requirements

##### *Practice*

1. Development of procurement plans for operational and capital requirements

### **PL1.3.09: STRATEGIC PROCUREMENT PLANNING (SPP)**

#### **Competence**

The trainee should have the ability to embrace strategic procurement planning concept in practice

#### **Content**

##### *Theory*

1. Preparation of SSP Policy
2. SSP policy
3. Implementation of the SSP Policy
4. Management structure for effective procurement planning
5. Procurement Management Planning
6. Material Requirement Planning (MRP)

##### *Practice*

1. Discussion of Strategic Procurement Planning

### **PL1.3.10: FORECASTING TECHNIQUES FOR DEPENDENT AND INDEPENDENT DEMAND**

#### **Competence**

The trainee should have the ability to discuss the techniques of forecasting dependent and independent demand.

**Content**

*Theory*

1. Meaning of independent and dependent demand
2. Independent demand
  - i. Fixed order quantity
  - ii. Economic order quantity
  - iii. Periodic review system
3. Demand management tools
  - i. Just In Time (JIT)
  - ii. Material Requirement Planning (MRP)
  - iii. Distribution Requirement Planning
  - iv. Enterprise Resource Planning (ERP)
  - v. Vendor Managed Inventory (VMI)

*Practice*

1. Discussion of techniques used in dependent and independent demand.

**PL1.3.11: PLANNING FOR DISPOSAL OF STORES, EQUIPMENT AND OTHER ASSETS**

**Competence**

The trainee should have the ability to plan for the disposal of stores, equipment and assets.

**Content**

*Theory*

1. Items for disposal
2. Authority to dispose
3. Disposal plan
4. Disposal methods
  - i. Sale by open tender
  - ii. Sale by public Auction
  - iii. Transfer to another public entity
  - iv. Destruction, dumping, burning and burying
  - v. Trade - in
  - vi. Disposal to public servant
  - vii. Cannibalizing

*Practice*

1. Discussion on disposal methods for a given scenario.

**PL1.3.12: EMERGING ISSUES AND TRENDS IN PROCUREMENT PLANNING**

**Competence**

The trainee should have the ability to cope with the emerging issues and trends in the Procurement Planning

**Content**

*Theory*

1. Emerging issues and trends in procurement planning
2. Challenges and opportunities posed by the emerging issues and trends in Procurement Planning
3. Coping with or adopting to the issues and trends in Procurement Planning

*Practice*

1. Discussion of challenges and opportunities posed by the emerging issues and trends in Procurement Planning.

<b>TOPICS</b>	<b>PAGE NUMBER</b>
<b>Topic 1:</b> Overview of procurement planning .....	8
<b>Topic 2:</b> Role of market survey in procurement planning .....	17
<b>Topic 3:</b> Elements of a procurement plan .....	29
<b>Topic 4:</b> Priorities in procurement planning.....	43
<b>Topic 5:</b> Procurement cycle .....	61
<b>Topic 6:</b> Forecasting in procurement planning.....	71
<b>Topic 7:</b> Characteristics of demand.....	82
<b>Topic 8:</b> Budgeting as an element of procurement planning .....	95
<b>Topic 9:</b> Strategic procurement planning (SPP) .....	104
<b>Topic 10:</b> Forecasting techniques for dependent and independent demand.....	107
<b>Topic 11:</b> Planning for disposal of stores, equipment and other assets.....	128
<b>Topic 12:</b> Emerging issues and trends in procurement planning .....	159

**Revised on: September 2017**

## TOPIC 1

### OVERVIEW OF PROCUREMENT PLANNING

**Procurement planning** is the process of deciding what to buy, when and from what source. Procurement planning is the primary function that sets the stage for subsequent procurement activities. A mistake in procurement planning has wide implications for local governance, measured from the two indicators of accountability and participation. The ideals of planning suggest that procurement planning can be implemented in an atmosphere of complete harmony. As a function, procurement planning endeavors to answer the questions of what do you want to procure;

- i. When to procure it;
- ii. Where to procure them from; when the resources be available;
- iii. The methods of procurement to be use; how timely procurement or failure will affect the user of the item(s);
- iv. The procuring and disposing entity; efficient in the procurement process; and the people to be involved in the procurement.

During the procurement planning process the *procurement method* is assigned and the expectations for fulfillment of procurement requirements determined. A good *procurement plan* will go one step further by describing the process one will go through to appoint those suppliers contractually. Whether you are embarking on a project procurement or organizational procurement planning exercise, the steps will be the same. Procurement is thus one part of the commissioning process. It refers to a specific method of purchasing services which involves tendering for a contract. Sometimes it is more appropriate for a public body to fund a service through the provision of a grant, but then it will have less control over the precise outcomes to be delivered.

Procurement must take a thoroughly professional view of its role in business as a whole and that must include planning. Any procurement begins with the planning decision to make the purchase and this will involve in the first place, deciding whether there is a need for the particular goods or services, ensuring that the purchaser has the legal powers to undertake the transaction, obtaining any relevant approvals within the government hierarchy and arranging the necessary funding. The ultimate goal of procurement planning is coordinated and integrated action to fulfill a need for goods, services or works in a timely manner and at a reasonable cost.

Procurement planning is undertaken as part of the program/service planning process. The primary concept of procurement is that planning, scheduling and bulk purchasing result in cost savings, efficient business operation, and increased value for money. The public sector is



expected to use procurement planning as an opportunity to evaluate/review the entire procurement process so that sound judgments and good decision making will facilitate the success of the overall project implementation in the procurement of goods, works and services.

## ROLE OF PROCUREMENT PLANNING

Good procurement planning is essential to optimize the contribution of the procurement function towards achieving the overall goals of the organization. It supports:

- Transparency.
- Development of Key Performance Indicators (KPIs) according to milestones and accountabilities set in the procurement plan, and use of the same to monitor performance.
- Effective and timely solicitation of offers, award of contracts and delivery of the goods, services and works required.
- Early requisition to reduce any delays in procurement and timely delivery to project sites.
- Early identification of right commodities and quantities to meet programme needs.
- Sourcing the right suppliers on time to avoid cutting corners under rush procurement to meet deadlines or budget expenditure.
- Effective supply strategy and timely programme and project implementation.
- Avoidance of unnecessary exigencies and urgencies, enabling full competition and full compliance with standard rules and procedures.
- Sufficient time to fully explore alternative procurement approaches, such as joint bidding with other organizations.
- Strengthened procurement power vis-à-vis suppliers.
- Obtaining best prices for aggregate requirements.
- Establishment of criteria to measure effectiveness of the procurement function.
- Systematic and procedurally correct procurements.
- Development of long term agreements

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# TOPIC 3

## ELEMENTS OF A PROCUREMENT PLAN

### INTRODUCTION

A Procurement Plan is a document that sets out the intended strategy for how procurement will be carried out before any significant procurement actions are performed. A Procurement Plan defines the products, services and works that you will obtain from external suppliers. A good Procurement Plan will go one step further by describing the process you will go through to appoint those suppliers contractually. Whether you are embarking on a project procurement or organizational procurement planning exercise, the steps will be the same. First, define the items you need to procure. Next, define the process for acquiring those items. And finally, schedule the timeframes for delivery.

An effective plan provides a framework to guide procurement officers in the achievement of their tasks and duties. Practitioners, who do not plan, have already planned to fail. When individuals use effective procurement plans in the execution of their functions, they are more organized, effective and efficient in effecting positive changes and growth in their organizations. This growth and change exposes the procurement officers relevance and reliability in the achievement of duties and responsibilities assigned to his office, thus, producing the necessary measures which would provide the basis for achieving the spirit and intent of the procurement law of 2005.

### When to use a Procurement Plan

It is advisable to create a Procurement Plan whenever you want to purchase items from suppliers. Using the Procurement Plan template, you can define the procurement requirements, identify potential suppliers, contract those suppliers and manage them to ensure delivery. Project Procurement Planning is critical to the success of any project. This Procurement Plan template helps you to perform these steps quickly and easily.

### Importance a Procurement Plan

1. It lists all requirements expected to be procured over a period of time.
2. From it the procurement schedule is developed, which establishes the timelines for carrying out each step in the procurement process up to contract award and the fulfillment of the requirement.
3. It allows for the consolidation of similar requirements under one contract or the division of a requirement into several contract packages for economies of scale.

4. From the number of requirements on the procurement plan, the procuring entity can determine beforehand any need for additional staffing, including external assistance for the purpose of completing all procurement requirements listed on the procurement plan.
5. It allows for the monitoring of the procuring process to determine how actual performance compares with planned activities, and thus to alert the pertinent departments and adjust the procurement plan accordingly.
6. It enhances the transparency and predictability of the procurement process.

## **TYPES OF PROCUREMENT PLANS**

There are two types of procurement plan:

1. Consolidated procurement plan
2. Individual procurement plan..

### **Consolidated procurement plans**

Consolidated procurement plans are often developed for the whole organization, but depending on the structure and level of decentralization these may be developed at the corporate, divisional, country office or business unit level – or even at a number of these levels.

### **Responsibility**

At the organizational level the responsibility for preparing the plan would normally lie with the authority responsible for procurement policy and planning, but in smaller business units it may lie with the procurement officer. Consolidated procurement plans would normally be prepared annually, but in some environments where the needs are more difficult to define, e.g. because business focus is on emergency relief or on procurement agency services, these may be done more frequently, though not normally more than quarterly.

The procurement plan is always based on estimates of procurement operations to be carried out in the specified period. Some procurement needs cannot be anticipated, and the plans can therefore never be accurate. However, a procurement plan based on estimates is still better than no procurement plan.

### **Information sources**

The information for the procurement plan should be collected by the responsible person from a variety of sources depending on the particular organization. In some cases the information can be collected by asking requisitioners and clients to complete questionnaires, while in other cases

the information can be collected through Management Information Systems or ERPs. Typically the information is collected from requisitioners, clients, project plans, forecasting systems etc. Data collected varies from organization to organization, but as a minimum would include:

- Requirement for goods/services/works
- Quantities
- Delivery time requirements
- Estimated budget.

### **Consolidation**

Once this data has been collected from all the appropriate sources it should be consolidated into the overall procurement plan. Analysis of the plan provides an opportunity to identify potential consolidation of procurements to achieve economies of scale, to better utilize resources, and to provide an overview of the magnitude of the procurement activity. In addition, when used as a management tool, plans can identify periods of time in which a large percentage of procurement actions are required. This information can assist in planning and distribution of workload between various projects and operational units.

### **Good practice**

It is good practice to publish these consolidated procurement plans, for example on the organization's website. This provides advance information to the outside world of upcoming procurement activities and advances the key principle of transparency in procurement.

### **Individual procurement plan**

Once a requisition or project plan is received determining an actual requirement, the procurement officer is then responsible for developing the individual procurement plan. The scope of the individual procurement plan will depend on the complexity of the requirement. While it is good practice to always make a plan, in the case of low risk/low spend requirements the plan should be simple, but should include an overview of the necessary steps of the process and associated timeline. At the other end of the scale, managing the procurement of an extremely high risk/high spend requirement is in fact project management and should entail a thorough and comprehensive planning process.

### **Responsibility**

It is the responsibility of the procurement officer to ensure that an appropriate level of procurement planning is conducted depending on the particular requirement.

## Significant purchases

Particular focus needs to be made in developing plans for “significant purchases”. Significant purchases are those goods, services or works that have been identified as being of high relative expenditure and/or are difficult to secure. An example of a significant purchase could be one annual purchase valued at Millions of US dollars, such as a complex consulting assignment. Alternatively it could be a large number of low value purchases within one year, which could be more economically addressed.

## KEY STEPS IN THE PROCUREMENT PLANNING PROCESS

### Forecasting

Forecasting is the first, and arguably the most important step in the procurement process because it provides the opportunity to link the procurement plan to the overall business strategy and objectives of the ministry/project and the national budget. When forecasting, consideration should be given to the following:

- Defining your procurement requirements;
- Assessing the capacity for implementation;
- Determining the time frame of project implementation;
- Presenting realistic three-year budget forecast (external/counterpart funds) for project implementation;
- Seeking approval at the Ministerial levels and the Ministry of Finance financing
- Identifying all items that have to be procured;
- Creating sound financial justification for procurement.

### Initiating the procurement process

- Prioritize the procurement/work plan.
- Conduct market analysis to gain awareness of the products/services that are available for procurement.
- Perform a make vs. buy analysis.
- Estimate investment costs of the Procurement Plan.
- Set clear and reasonable timelines for delivery or implementation.
- Based on the Procurement Plan, obtain authorization to proceed from appropriate levels of approval authority (e.g., CEO or accounting Officer, Procurement, Finance, IT, etc.). At this Step the appropriate Project Plan approvals for a Project should be obtained (e.g., ensure that sufficient funds are available and approved for the project and that agency management officially supports and or approves the project)

- Prepare Statement of Work (SOW) which clearly identifies and documents the details of the work to be performed. The SOW should contain the following characteristics:
  - ✓ A detailed statement of the purpose, objective or goals to be undertaken by the contractor.
  - ✓ The job classification or approximate skill level of the personnel to be made available by the contractor.
  - ✓ An identification of all significant material to be developed by the contractor and delivered to the client.
  - ✓ An identification of all significant materials to be delivered by the client to the contractor.
  - ✓ An estimated time schedule for the provision of these services by the contractor.
  - ✓ Completion criteria for the work to be performed.
  - ✓ The name or identification of the contractor's personnel to be assigned.
  - ✓ The contractor's work hours required to accomplish the purpose, objective or goals.
  - ✓ The contractor's billing rates per work hour (as provided in the contract documentation).
  - ✓ Contractor's total cost.

## ***2. Requisition Step***

- Verify that necessary specifications have been provided.
- Establish evaluation criteria. Write clear, concise definitions for each criterion to facilitate a good understanding of its meaning.
- Develop a detailed, mathematically sound scoring plan that explains how proposals will be evaluated, and provides specific meaning of the scoring methodology. (For example, if a certain criteria is worth X points, a description should follow of what the points mean.)
- Determine if pre-solicitation conference will be used.
- Develop a change request management plan.
- Develop a vendor payment plan.
- Prepare solicitation package.
- Utilize standard solicitation documents;
- Review by procurement team and, with final approval of the RFP by the responsible approval authority, send solicitation to the respective Donor or Approval Board for review and approval

## ***3. Solicitation - Selection Step***

- Issue the Request for Proposal document (RFP) via advertisement or through selective tendering.
- Answer questions received from vendors in a public forum.
- If necessary, prepare for vendor product demonstrations, or oral presentations.

- Form an Evaluation Team.
- Receive and evaluate Technical Proposals (by Evaluation Team)
- The Evaluation Team Should:
  - Gather the facts,
  - Develop objectives (min-max positions);
  - Seller minimum willingness to accept,
  - Buyer maximum willingness to pay.
  - Evaluate each vendors competitive position,
  - Define your strategy and tactics,
  - Perform a complete cost analysis,
- Receive and evaluate financial proposals using scoring method to select Best Value.
- Make selection recommendation to the responsible Procurement Officer.
- Procurement Officer reviews recommendation and drafts contract then forwards to the respective Donor or relevant authority for review and approval.
- Agency awards and signs contract, then issues procurement order once the requisite approval is obtained.

#### ***4. Contract Administration Step***

The purpose of the Contract Administration Step is to ensure that the contractor (vendor) and the products or services delivered comply with the contract requirements. Each project should be assigned a Contract Administrator, who will perform the following functions:

- Interpret specifications.
- Ensure that quality of the product or service is maintained
- Manage product warranties.
- Manage sub-contractors (if required by the contract).
- Direct change management:
  - Administrative changes,
  - Budgetary changes,
  - Contract modification (if necessary) and associated change order (get proper approvals),
  - Manage smaller, incidental contracts for work associated with the project.
- Resolve contract disputes:
  - Part of the work may be accepted, or
  - All of the work may be rejected, or
  - Work may be accepted with provisions for corrections in the future.
- Completion of the project:
  - Ensure that all project requirements are complete per contract,
  - Product is technologically out of date (contract language should guarantee current technology),

- Terminate the contract:
  - Default of contract:
    - Contractor fails to perform any provision of the contract including:
      - Failure to deliver by scheduled date,
      - Failure to make progress (endangers performance of the contract).
    - Termination for Convenience (e.g., project canceled)
    - Document contract problems and file formal vendor complaint with Agency Procurement Office, e.g., liquidated damages, opportunity cost, etc. (if necessary).
  - Manage contract risk associated with the project.

### **5. Contract Closeout Step**

- Verify product and services meet acceptance criteria.
- Complete fiscal activities:
  - Approve final payment (notify appropriate accounts payable office),
  - Update project and activity records,
  - Close procurement order (notify appropriate procurement office),
  - Update contract file.
- Archive contract file (include completed Procurement Plan with Project Plan).

### **Contents of a procurement plan**

The procurement plan shall include but not be limited to the following information:

- Detailed breakdown of the goods, works, consultancy es and services required;
- A schedule of the planned delivery, implementation or completion dates for all goods, works, consultancies and services required;
- Estimate of the value of each procurement package of goods, works, consultancies and services and the source of funding, if different from other packages;
- Source of funding;
- Indication of items or sections of the services, consultancies or works that can be



# TOPIC 5

## PROCUREMENT CYCLE

### INTRODUCTION

The Procurement cycle is the cyclical process of key steps when procuring goods or services, from identification of a need and conducting market analysis through to the process of selecting the supplier, managing their performance and reviewing lessons learnt.

Potential suppliers should:

- 1) Have capacity to deliver.
- 2) Have financial capabilities.
- 3) References from previous work.
- 4) Workforce i.e. skilled labour.
- 5) If suppliers is socially and environmental friendly.
- 6) Uses best practices(ethical)

Appraisal of Suppliers.

- 1) Supplier visits.
- 2) Questionnaires.
- 3) Financial statements.
- 4) Request for demonstration or sampling.

Generic Procurement Cycle.

1. Define the need. (specification)
2. Develop contract terms.
3. Source the market. (Identify potential suppliers)
4. Appraise selected suppliers.
5. Invite quotations (R.F.Q) or tenders (ITT)
6. Analyze quotation and select most promising supplier.
7. Negotiate best value (where appropriate)
8. Award the contract.
9. Need identification.
10. Contact administration/supplier management (monitor, review and maintain performance)

The procurement cycle is a series of steps that must take place to supply a production line or to replenish stock in a distribution centre.

Identifying the items that must be procured and determining the necessary quantities is the first step. This information is used to generate a requisition which is sent to the purchasing department. The assigned buyer requests bids and awards the purchase order to a vendor/supplier.

When the ordered items arrive they are entered into the inventory system. The parameters for a procurement cycle may be set by a known production schedule or vary based on consumer demand or other factors.

The procurement cycle follows specific steps for identifying a requirement or need for the company or organization through the final step of the award of the product or contract.

Responsible management of public and corporate funds is vital when handling these necessary processes whether in strong or weak economic markets.

The procurement process is repetitive, although most steps are fairly easy to remember missing or forgetting small things can lead to misinterpretation of your actions as a procurement practitioner and public official. Given that this is a step by step process it is better to use checklists rather than rely on your memory to ensure all steps are covered.

This is especially important because in public procurement, any mistake could be misinterpreted as intentional action on your part to favour a particular bidder and this is something you want to avoid at all costs because not only will it put your credibility in question but will also the public perception of your integrity of the procuring entity and the government.

Developing and using checklists can be a great help to increase your understanding of the procurement process and to lessen mistakes you can make if you forget certain steps.

### **STAGES OF PUBLIC PROCUREMENT CYCLE AS PER PPRA.**

1. Preparation of procurement plan(s)
2. Preparation of procurement specification and initiation of the procurement process.
3. Preparation of pre-qualification/tender/bid documents.
4. Advertisement/initiation of bids e.g. print media, online, website.
5. Receiving and opening of bids.
6. Evaluation of bids.
7. Adjudication and contract award.
8. Notification of contract award both winner and losers.
9. Negotiations (where applicable)
10. Preparation and signing of procurement contract.
11. Contract administration/performance.

12. Receipt, inspection and acceptance of goods, works, services or consulting services.
13. Storage and inventory. (Disposal)

**NB:** Each stage must be approved by the designed authority.

**Factors to Consider:**

1. Budget process
2. Commitment control.
3. Finance and expenditure management and audit.

**PRE-CONTRACT AND POST-CONTRACT**

**Background**

Contract activities can be split into two distinct but interdependent phases: pre-contract award/renewal and post-contract management. Contract management is command and control of the activities spanning both phases, but the potential value adding outcomes of post contract management will not be realized unless effective pre-contract management has resulted in a contract that addresses all stakeholders' needs with the utmost professional skill. A failure in pre-contract management will result in post-contract management time and effort being wasted on trying to resolve and correct omissions and failures of the earlier phase. The following are typical pre-contract activities:

- Assembling/analyzing the views of stakeholders
- Market and Spend analyses
- Developing a supply strategy (including a risk assessment/exit strategy)
- Drafting specifications and agreed requirements
- Pre-qualification of potential suppliers if appropriate
- Drafting and circulating the Invitation to Tender documentation
- Evaluating tenders and possible supplier audits/post-tender meetings

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## TOPIC 7

# CHARACTERISTICS OF DEMAND

### What is 'Demand'

Demand is an economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service. Holding all other factors constant, the price of a good or service increases as its demand increases and vice versa.

Businesses often spend a considerable amount of money in order to determine the amount of demand that the public has for its products and services. Incorrect estimations will either result in money left on the table if it's underestimated or losses if it's overestimate

### CHARACTERISTICS OF DEMAND

There are thus *three main characteristic's of demand* in economics.

1. **Willingness and ability to pay.** Demand is the amount of a commodity for which a consumer has the willingness and also the ability to buy.
2. **Demand is always at a price.** If we talk of demand without reference to price, it will be meaningless. The consumer must know both the price and the commodity. He will then be able to tell the quantity demanded by him.
3. **Demand is always per unit of time.** The time may be a day, a week, a month, or a year.

### Procurement Definition of Demand

Demand is the quantity of a good or service that consumers are willing and able to buy at a given price in a given time period. Each of us has an individual demand for particular goods and services and our demand at each price, reflects the value that we place on a product linked usually to the enjoyment or usefulness that we expel from consuming it. This is known as utility.

According to the law of demand, there is an inverse relationship between the price of a good and demand,

- i. As prices fall we see an expansion of demand.
- ii. If prices rise, there will be a contraction of demand.

## TYPES/LEVELS OF DEMAND

There are mainly 8 types of demands which have to be taken into consideration during demand forecasting. The various types of demands, and how to tackle the challenges for marketers in these various demands, is discussed below.

**Negative Demand** – Negative demand is a type of demand which is created if the product is disliked in general. The product might be beneficial but the customer does not want it. For example – Dental work where people don't want problems with their teeth and use preventive measures to avoid the same. Insurance, which people should have but they delay buying an insurance policy. Similarly, people would like to avoid heart attacks and hence may pay for a full body check up where the results might be negative, but still the customer has to pay. The marketer has to solve the issue of no demand by analyzing why the market dislikes the product and then counter acting with the right marketing tactics.

**Unwholesome demand** – Unwholesome demand is the other side of Negative demand. In negative type of demands, customer does not want the product even though product might be necessary for the customer. But in unwholesome demand, the customer should not desire the product, yet the customer wants the product badly. Best example of unwholesome demand are cigarettes, alcohol, pirated movies, guns etc.

**No demands** – Certain products face the challenge of no demand. The best example for the same can be education courses where there is very low demand or no demand at all. Such cases are very hard to counter.

**Latent Demand** – Latent demand is, as the name suggests, a demand which the customer realizes later. Thus, while buying the product, he might not desire some features. But later on, he might think about those features and buy the product. The best example of latent demand are normal phones vs smart phones. People nowadays want more and more features in the smartphone. They might settle for a normal phone, but then later on they get the itch to buy a smart phone. Similarly, people might buy a petrol car. But most likely their second car will be a diesel car. A marketing managers job is to find out the features which people might be looking for later and market them to the customer in such a manner that he immediately wants them.

**Declining demand** – Declining demand is when demand for a product is declining. For example, when CD players were introduced and IPOD came in the market, the demand for walkman went down. Although there was still a demand for the product, the demand was a

declining demand. A marketer's job in such a case is to think of ways to revive the product so that the demand is not declining.

**Irregular demand** – Irregular demand is demand which is not consistent. The best example of irregular demand is seasonal products like umbrellas, air conditioners or resorts. These products sell irregularly and sell more during peak season whereas their demand is very low during non-seasons. The best way to counter irregular demand is to introduce incentives for the customer to buy the product.

**Full demand** – In an ideal environment, a company should always have full demand. Full demand means that the demand is meeting the supply potential of the company. It also means that the markets are happy with the products of the company and that people want to buy from the same company. The marketing challenge in this type of demand is to maintain the same level of interest in the product and the company.

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## TOPIC 9

# STRATEGIC PROCUREMENT PLANNING (SPP)

### Introduction

**Strategic Procurement Planning** is the transformation of an organization's mission, goals, and objectives into measurable activities to be used to plan, budget, and manage the procurement function within the organization. The ultimate goal is to bring about positive change in organizational culture, systems, and operational processes.

**Strategic planning** is the process of creating alignment and consistency of action that results in documents that establish the long-range objectives and overall strategy or course of action by which an organization fulfills its mission.

### Background

The strategic planning process for procurement is divided into two parts. The first part is developing the strategic plan which allows the procurement department to align goals, programs, activities, and resources with the mission of the organization. The second part allows procurement to determine how it is going to accomplish the elements set forth in the strategic

plan. Ultimately, the goal of strategic procurement planning is to effectuate positive change in organizational culture, systems, and operational processes.

Without a strategic planning process, there will be miscorrelation between the procurement department's functions and the overarching needs of the organization.

Public procurement should understand its purpose in relation to the organization and constituency that it serves. The purpose should be clearly stated, in written format, through the development of a Mission, Vision, and Values statement that is specific to the procurement function.

Procurement should then develop a strategic plan that aligns goals and objectives in accordance with the Mission, Vision and Values, while fulfilling the obligation to meet the needs of the organization and the public. The plan should be reviewed and/ or updated annually.

### **Element 1: Mission Statement:**

Strategic procurement planning should begin with a Mission Statement. The Mission Statement should be:

- Specific to the procurement entity's purpose and role within the organization
- A short statement of the reasons for the existence of the procurement entity which should reflect the Values of Public Procurement.<sup>4</sup>

### **Element 2: Vision Statement:**

Strategic procurement planning should include a Vision Statement. The Vision Statement should:

- Identify where the organization wants to be in the future.
- Develop possible improvement paths that may be linked to the goals.

### **Element 3: Setting Goals:**

Strategic procurement planning should have clearly defined goals. The goals for public procurement will vary based on external and internal factors, and will change overtime; thereby requiring constant monitoring, review, and revision as needed. At a minimum goal should be:

- Aligned with the goals of the organization that the procurement entity serves.
- Prioritized and aligned with the procurement entity's Vision, Mission, and Values.
- Expressed in a communication medium (i.e. written or electronic) that is available to applicable stakeholders.
- Prioritized and aligned to meet the expressed needs of the community, key stakeholders, and government.
- Designed proactively with the involvement of all levels and units of government

- Referenced when making resource allocation decisions.
- Specific enough to define the necessary outcome, avoiding ambiguous language, so that the goal is easily clearly communicated, and makes sense to those inside and outside of the procurement organization.

#### **Element.4:Establishing Objectives:**

Once goals are prioritized, clear objectives should be established to aid in the attainment of the goal; considering all external and internal factors. Objectives should:

- Result in the attainment of the goal upon completion.
- Be assigned to an individual or group for action.

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SAMPLENOTES



- Have clearly defined time frames for accomplishment.
- Be measurable.
- Be tracked to monitor progress. (See Standard of Practice: Performance Management)
- Be specific.
- Be relevant.
- Be ambitious but achievable

## TOPIC 11

# PLANNING FOR DISPOSAL OF STORES, EQUIPMENT AND OTHER ASSETS

### INTRODUCTION

Disposal is a critical element of the stores, equipment and other assets management of a Procuring Entity. When any equipment is obsolete, its keeping, through maintenance costs, storage, parking, insurance, etc., may well exceed the returns that can be derived from that piece of equipment and the investment of additional monies. When stores are perishable, keeping them run risks of misuse, using shelf space unduly and not signaling requirements for what may be life savings products. Disposal is thus one of the elements of managing procurement and supply and distribution. It focuses on safeguarding assets and on sending information for decision making.

Disposing is thus a function that is necessary to guarantee that public monies are not applied to useless or obsolete equipment and assets and that when stores are disposed of, they are sold at the best achievable value in the market.

Disposal may be considered as the third life of any items acquired by a Procuring Entity;

- i. First, it is procured and accepted (the procurement cycle);
- ii. Second it is utilized by the Procuring Entity in the discharge of its duties (the usage life cycle, often referred to as life cycle);
- iii. Third and finally, it has then to be disposed off (the disposal cycle). Because disposal involves residual values that may be received and can contribute to the cost of renewal, it involves deciding when to dispose of a certain item and may involve health and safety standards issues. It has to be regulated and managed as provided for by the Act and the Regulations.

### ITEMS FOR DISPOSAL

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Regulations define “Asset” as movable and immovable property, tangible and intangible, including immovable property stores, equipment, shares, intellectual rights vested in the state or proprietary rights.

## PROCUREMENT PLANNING

It is here therefore clarified that disposal of assets which are not stores or equipment shall not be disposed of under this part although the disposal procedure or method provided in the part may be adopted. For greater clarity where fixed assets like buildings are condemned and are to be disposed of, they shall be disposed of under this part but the land on which they stand is not to be disposed off.

For further clarification, land, shares and rights are not to be disposed of under this part. Where a procuring entity has a problem in deciding whether any of its asset or property is disposable under this part, the PPOA shall be consulted.

It also here clarified that items which are sold by a procuring entity in its normal business should not be treated as disposal e.g. sale of meat by the Kenya Meat Commission or furniture and farm produce by the Kenya Prisons Services.

## AUTHORITY TO DISPOSE

The Accounting Officer of a Public Entity shall be primarily responsible for ensuring that the Procuring Entity fulfills its obligations under the Act, the Regulations and the Public Procurement and Disposal Manual (2009).

The user department shall have the responsibility of identification of items to be disposed off.

The disposal committee shall recommend the disposal including the disposal method.

The accounting officer has the final authority of accepting or rejecting the recommendations of the disposal committee. Where items become unserviceable for reasons other than normal wear and tear such as through accidents or expiry the set procedure for handling losses shall be followed before the disposal process.

Obsolescence should be avoided by procuring entities by disposal of items as surplus before they become obsolete. The causes of having excess surplus items in the stores shall also Require to be investigated and justified.

## DISPOSAL PLAN

The head or the user department shall be responsible for identifying any items which are due for disposal and where possible assemble them together. It shall be expected that a proper inventory record shall be maintained by every user department. The head of stores shall be responsible for identification of stocked items which are candidates for disposal. The lists of all items identified for disposal shall be submitted to the head of procurement unit or the head of the assets

management unit depending on the internal organization of the procuring entity. These submissions shall form the basis of the annual disposal plan.

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## PROCUREMENT PLANNING

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Where a procuring entity has departments which are also located in different parts of the country, disposal may be arranged at the stations with different disposal committees being appointed to conduct the exercise. Where it is possible procuring entities are encouraged to establish disposal of stores and yards.

The procuring entity should design a disposal form which shall contain the following information: -

- i. Item No.
- ii. Description of item
- iii. Unit of issue
- iv. Quantity
- v. Date of purchase
- vi. Purchase unit price
- vii. Total purchase price
- viii. General condition
- ix. Disposal recommendation of the disposal committee
- x. Estimated current value
- xi. Decision of the Accounting Officer

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