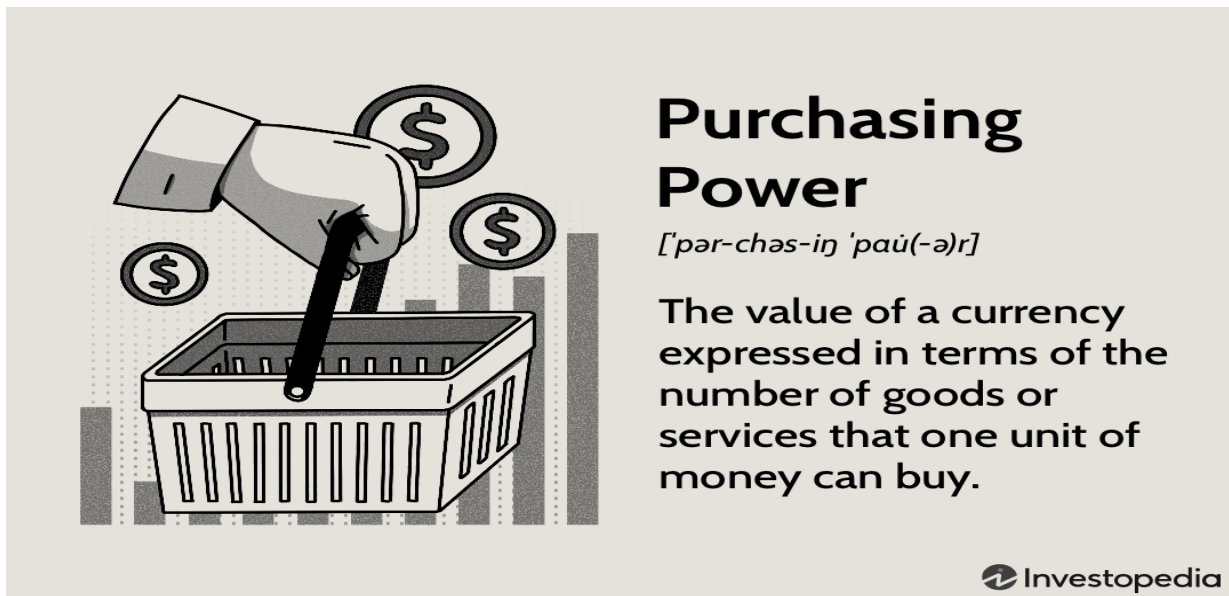


Program Title purchasing and Supply Managment

Level---- II

Based on March, 2022, Curriculum

Version I,



Module Title: Establishment of Purchase need

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Acronyms

RP-- Renewal Point

ToR--- Term of Reference

RFP--Request for Proposal

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Introduction to purchasing and purchase needs

MODULE DESCRIPTION : This module covers the establishment, justification and approval of procurement requirements to achieve required procurement objectives. It includes defining and justifying the need, researching potential impact and risks, and securing organizational support to proceed with procurement activity.

The unit is suitable for any personnel who identify the need for procurement, and would not necessarily apply to procurement specialists whose role would typically begin as a result of procurement need being established and approved (including approval of appropriation)..

Module units

UNIT 1. Introduction to purchasing and purchase needs

UNIT 2. Potential procurement impacts and Risks

UNIT 3. Organizational support for procurement

Training Outcomes

At the end of the module the trainee will be able to:

- **Define and Justify procurement Needs**
- **Perform Potential procurement impact and Risks**
- **Secure organizational support for procurement**

Module Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks
5. Perform Operation Sheets

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Unit one: Introduction to purchasing and purchase needs

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

- 1.1. Overview of procurement need and specification
- 1.2. Alternatives to address procurement needs
- 1.3. Developing specifications in consultation with Stakeholders

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Identify procurement need and specification
- Prepare format that collect the procurement
- Develop specifications
- Write the steps of purchasing process

1.1. Overview of procurement need and specification

Procurement

Procurement (or purchasing) is **the process for an organization to obtain products or services from external parties (market supply) to ensure that production and business activities are smoothly carried out**. Procurement practices can be divided into two parts : Direct Spend and Indirect Spend.

Table 1.1 Evolution of Procurement (or purchasing)

Traditional Orientation	Current Thinking
1. Focus on prices	1. Focus on value
2. Total cost of ownership	2. Total contribution to ownership
3. Process-driver sourcing approach	3. Strategic intent–driver sourcing approach
4. Compatibility objectives	4. Differentiation objectives
5. Involvement in specification definition phase	5. Involvement in strategic decisions
6. Procurement skills	6. Business skills
7. Sourcing as adversarial zero-sum transaction	7. Sourcing aligned and intrinsically linked with business stakeholder

1.1.1 Organizing For Purchasing

In any purchasing organization, two major problems must first be considered. The first issue: Where should the purchasing functions be located in the organization? Second, what level of authority should the purchasing function have? Given the evolution of outsourcing, the purchasing function is expected to gain more authority in the corporate hierarchy.

Centralized Versus decentralized Purchasing

The first issue deals with centralized purchasing of decentralized functions. **Centralized purchasing** involves coordinating all purchasing activities for the entire plant through one central location. That

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purchasing department is the only place in the firm where requisitions are processed and suppliers are selected. In **decentralized purchasing**, authority and responsibility for supply-related functions are dispersed throughout the organization.

Advantages of centralized Purchasing

In most cases, centralized purchasing results in lower costs because of the availability of purchase quantity discounts. If all material uses are coordinated into one major purchase, the supplier will work harder to service the buying firm. Large dollar purchase quantities equal buying power. Most manufacturing firms spend more than 70% of their total revenue on purchasing materials and component parts. Thus, the effectiveness of a centralized organizational design will have a significant impact on profit. As an example, consider a firm that has several departments that use similar components; they could actually compete against each other for scarce material, resulting in higher prices for each department.

Centralized purchasing promotes the effective use of purchasing professionals because it allows the supply manager more authority and credibility. Each buyer can easily become an expert on associated buys (commodities and non commodities). Expertise will be developed when there is a critical mass. GM, Dell, Walmart, and IBM all use centralized purchasing and have in-house expertise ranging from engine parts to rental cars to office equipment to pharmaceuticals.

Centralized purchasing enables the buying firm to do a better job of monitoring various changes throughout the industry. Centralized purchasing also lends itself to periodic

1. reviews of purchasing activities,

(2) evaluation of suppliers, and

(3) development of purchasing training programs. In decentralized purchasing operations, these important strategic activities may not be accomplished.

Centralized purchasing is preferred from the suppliers' point of view. The selling firm can easily determine whom to call on. This will improve efficiency for both parties.

According to a recent Center for Advanced Procurement and Supply (CAPS) study, 59% of the firms used a combination centralized–decentralized structure, and 28% used centralized purchasing. Only 13% of the firms responding used decentralized purchasing.

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Disadvantages of centralized Purchasing

There are several arguments against centralization. Most of the resistance is from companies where there are decentralized profit centers. The following three main arguments are given:

a) High engineering involvement in procurement decision-making. At the early stages of product development, engineering needs to be deeply involved with the design, which can be different with remotely located centralized purchasing.

b) High need to coordinate purchased parts with production schedules. This is especially applicable when small amounts are ordered frequently. The supplying firm must be within close geographical proximity or guarantee JIT deliveries. It may not be cost-effective to have centralized purchasing operations in some JIT situations.

c) High need to buy from local community. Sometimes it makes good political sense for firms to make purchases in the community where the plant is located.

Because of the profit-leveraging effect, profit center managers feel the need to control purchasing if they are to be held accountable for profits.

Advantages of decentralized Purchasing

Decentralized purchasing provides for a more streamlined procedure since the department manager's purchasing needs and thus decisions can be made immediately. As an example, if a manager needs to purchase 10 laptops for the business unit, the unit manager can easily make the purchase online or from a local computer store.

Disadvantages of decentralized Purchasing

The disadvantages of decentralized purchasing are duplication of effort in buying, receiving, inspection, and accounts payable. Decentralized purchasing also prevents the buying organization from taking advantage of volume discounts.

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1.1.1 Centralized/decentralized hybrid Purchasing systems

Some organizations adopt a hybrid system that combines both centralized and decentral- ized purchasing. They use centralized purchasing for larger organization-wide contracts, but give individual business units autonomy to make small purchases for their departments or subsidiaries.

TABLE 1.2

The Degree of Centralization Impacts on Purchasing Success

	Decentralized Purchasing System	Hybrid Purchasing System	Centralized Purchasing System
Advantages	Business responsiveness	Business responsive, increased leverage, some processes	Increased cost savings, enhanced talent management, consistent processes
Disadvantages	Loss of leverage, lack of consistent sourcing process	Priority given to business requirements, control and coordinate activities	Significant focus on cost savings, less focus on business requirements
Example organization	Heavy highway construction	Universities	Major retailer, automotive manufacturers, and technology

1.1.2 Important of procurement

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Specification writing is an important and underrated skill. A supplier shouldn't need to make assumptions – a good specification must include all the right information to enable them to cost up goods or services accurately so a customer can compare bids on a like for like basis. Your specification mustn't mislead suppliers or give them false expectations. Mistakes with specifications can result in poor service and a waste of organizational money. You might even breach procurement rules and face legal challenges.

Steps in the purchasing process

Below are the steps of a typical purchasing process:

1. Identify the need

The purchasing process begins when the business recognizes that they have a need for a product, tool or service that will enhance their operations. Team members can help identify needs as they complete their daily work by notifying their supervisors of any challenges they encounter. Once the organization identifies a need, they can begin the purchasing process.

2. Specify the requirement

During this stage, leaders investigate the need further and come up with a plan for exactly what they require. For example, a frequent shortage of printer paper becomes the need for weekly deliveries of 500 sheets of inkjet printer paper to ensure a continuous supply.

3. Find and choose a supplier

Find potential suppliers who can provide the specific product or service you want to purchase. You can conduct your own research online or contact those in your professional network to ask for recommendations. If shipping costs are a factor in your purchase, look for businesses in your local area. During this stage, it is a good idea to consider several suppliers and compare them against one another. When necessary, contact the supplier and request a quote or proposal from them. As you are considering suppliers, consider factors such as cost, reliability and delivery time.

4. Negotiate costs

In many situations, it is possible to negotiate costs with a supplier, especially when placing high-priced orders or orders you expect to recur regularly. Contact the supplier you are considering and ask if they

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are open to negotiating the price. Suppliers may negotiate if it means they can secure a large or long-term contract for their business.

5. Get order approval

Before your business can initiate the transaction, you may need to get approval for the order. This could include working with upper management and the accounting department to ensure there are enough available funds within the budget for the purchase. In some scenarios, the business may also need to establish a line of credit with the supplier. If you haven't already, explain to management why this purchase is necessary and how you achieved a reasonable price from the supplier.

6. Place the order

Once both sides agree to the transaction, you can formally place the order. Have both sides agree to the specific details, such as price, delivery times, fees and installations. Get everything in writing and have representatives from both organizations sign it. Then keep a copy of this agreement in your files for future reference.

7. Receive and approve the order

When the order arrives, check for any issues with the product or anything the supplier failed to deliver on. Timeliness is key because if there are any problems, the supplier should address them before you release the rest of the payment.

8. Review supplier performance

Whether you work with a supplier on a onetime transaction or set up recurring transactions, make it a regular practice to review your suppliers' deliveries for quality and timeliness. A record of these reviews can help you identify and track any issues that might arise later in your contract. Continue relationships with suppliers who continue to meet your business' needs.

1.1.3 Ethics in Procurement Management

Ethics in procurement management is important, particularly because of your relationship with suppliers and vendors, typically to finish a job or a project. There can be many ethical issues in procurement management that arise, but one of them is always dealing with your vendors and suppliers fairly and honestly, and never giving one preference over the other or treating them in a biased fashion.

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As the procurement manager, you may be able to purchase and install procurement software that can help you organize tasks more efficiently so that the bidding process, as well as other procurement processes, are more streamlined, transparent, and fair.

1.1.4 Unethical Situations in Procurement

If you're trying to work on great procurement supplier relationship management, you may want to pull out all the stops to ensure that the relationship stays positive. However, situations may develop that can be uncomfortable and even unethical. Some examples of what you shouldn't do when it comes to ethics in procurement management include:

Accepting gifts from a supplier. Even if it's around the holidays, you shouldn't accept gifts from a supplier. It should always be a completely professional relationship.

Having a conflict of interest. If you or a close family member or friend has something to gain from using that particular supplier, then that is a conflict of interest.

Sharing confidential information. Never share information with a supplier that they should not have access to.

Treating suppliers differently. Your suppliers should always be treated the same.

1.1.5 Specification

In a procurement context, a specification can be defined as a 'statement of needs or requirements'. It provides a detailed description of the goods or services a supplier is expected to supply during the lifetime of the contract. It is also a record against which suppliers can be measured and is legally binding.

It should encourage fair and open competition within the marketplace and help suppliers make informed decisions on whether to bid.

Importance of Specifications

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Specifications are very important because the cost of materials clearly dictates that their selection is an important consideration during product design. The important characteristics of a product are specified when it is designed, prior to its manufacture. These characteristics are called the design specification. After the product has been produced, we can observe the extent to which it conforms to or deviates from the design specifications. The costs of many materials are identified through specification during the design stage. This is the first and sometimes the only point at numerous costs can be reduced and controlled.

It is at the time of original design that the greatest cost saving obtained from both specification and standardization.

Since specifications are important, the activity of engineering, operations, purchasing and quality optimum specifications mainly influence the contribution made by these entire department to the firm's success. A good specification is to satisfy the procurement consideration of clear, concise, and an unambiguous communication.

- It is common for these considerations Preparing specification for a product involves four major considerations:
- Design considerations of function
- Manufacturing consideration of economical production
- Procurement consideration of markets, materials availability, supplier capability and cost.
- Marketing considerations of consumer acceptance

to conflict with one another. But top management must provide the encouragement and direction that will motivate all departments to cooperate and seek a company solution, rather than departmental solutions.

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When specifications conflict arises, final authority for the decision should rest with the departments having responsibility for the product's performance. This is usually the design-engineering department. However this is not a justifiable reason for engineering unnecessarily to subordinate the design considerations of manufacturing, procurement, quality and marketing. From a company viewpoint, the right specifications are those that blend the requirements of all departments only. Such specifications can satisfy the goals of top management i.e. increased sales, decreased costs and the added corporate security which comes with an increasing strong competitive positions.

To develop specifications that properly become product quality characteristics and product cost, management must coordinate the firm's technical and business skills. Four approaches can be used.

- early purchasing and supplier involvement
- the formal committee approach
- the informal approach
- the purchasing coordinator approach

Early purchasing and suppliers involvement

During the early stages of new product development, more and more, progressive firms involve purchasing and potential suppliers. Such early involvement optimizes the development of specifications since the technical and commercial issues are addressed at a point where there is maximum objectivity and flexibility. This can improve product quality and reliability, while compressing development time and reducing total material cost.

As more and more firms embrace the use of cross functional teams in the development of new products, early purchasing and supplier involvement becomes an inherent component of the process that culminates in the development of specifications. Progressive firms find that this approach is an important element in their quest at realistic costs.

The formal committee approach

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This approach recognizes that a good specification is a compromise of basic objectives. A specifications review committee is established, with representatives from design engineering, production engineering, purchasing marketing, operations, quality and standards. When a new product design is proposed, all members of the committee receive copies of all drawings, bills of material and specifications. No design becomes final until it is approved by the committee.

The informal approach

This method emphasizes the concept of a buyers responsibility to “challenge” materials requests. At the same time, top management urges designers to request advice from buyers and work with them on all items that may involve commercial considerations. Emphasis at all times is placed on person to person communication and cooperation between individual buyers and designers. Using this approach, a company oriented, cost-conscious attitude is developed at the lower level through out the organization.

The purchasing coordinator approach

One or more positions are created in the purchasing department for individuals, frequently called material engineers, to serve in a liaison capacity with the design department. Typically, the materials engineers spends most of his or her time in the engineering department reviewing design work as it comes off the drawing boards.

Types of specifications

There are different types of specifications

- a. ***Chemical specifications.*** Explain the nature of material and how it reacts in relation to another materials and environment.
- b. ***Physical specification.*** Explain the size and dimension of the materials such as length, weight, thickness etc.
- c. ***Material specification.*** Explain from what materials the product is made such as wood, plastic, steel etc.

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- d. **Method specification.** It explains the method used to in making a product i.e. manual, mechanical etc.
- e. **Blue prints.** These are special types of specifications used for constitution. Blue prints are usually diagrams and illustrating of building and other construction items.

Types of specifications

There are two main types of specification – the input and the output specification.

Before you start, be clear on which one you are writing.

Input specifications

An input specification sets out exactly what is required.

Typically, the solution required by the contract is set out in full and no (or little) further development is needed. This type of specification gives a clear and rigid framework within which the supplier's performance can be monitored. However, the lack of flexibility means that there is little or no incentive for the supplier to innovate or improve service delivery.

Over-specifying can also add cost to the product or service – make sure that the 'gold-plated' option is what you really need.

Output specifications

Output specifications define only the outcomes (or outputs) that are required by the contract, that is, what the supplier is expected to deliver. Output specifications can offer suppliers greater flexibility for developing innovative solutions. Remember that you do still need to include the relevant standards or legislation, for example health and safety requirements that will apply to the goods or services you are procuring.

1.1.6 Procurement need specification

Ten methods of procurement need specification for business purposes are discussed here: by brand, by brand equivalence, by market grades, by sample, by commercial standards, by performance, by engineering drawing, by physical design, by material and method of manufacture, and by a combination of any of the afore-mentioned methods.

Specification by brand. The brand is the quality ordered. The higher prices paid for branded products are often offset by less preparation for need specification and lower inspection costs. Brand buying is used when:

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- the supplier's production is secret;
- the item is covered by a patent;
- a supplier's workmanship exceeds that of all competitors;
- the quantity of items procured is so small that this renders the formulation of specifications
- unduly costly; or
- the downstream customers/end users have strong preferences in favour of certain branded items,
- Which cannot be swayed when conforming to their requirements.

Specification by brand equivalence. Many types of branded products sell at price premiums, such as certain chemicals (e.g. antiseptics, cleaning compounds, medicines, ointments) and certain vehicle spare Parts. For these products, a generic alternative may be preferable. When these products perform Effectively, substantial savings may be realized. Medical-aid schemes often make it mandatory for members to make use of approved equivalents as opposed to more expensive prescribed medical remedies.

Specification by market grades. Need specification on the basis of market grades is confined mainly to Organic raw materials, i.e. the primary products of agriculture, fishing and forestry. Market grading is a Method of determining the quality of these natural products in unison with defined and generally accepted standards. Inspection to verify desired quality is vital if procurers are to obtain raw materials of the characteristics needed to produce a market-ready product of consistent quality.

Specification by sample. Need specification by sample is the submission of a sample of the needed item; however, this manner of need description is favored only if other methods of need specification are not feasible. Features for which feasible alternative need descriptions often do not exist are (a) colour and texture; (b) printed matter; and (c) appreciation through sense perception.

Specification by commercial standards. A commercial standard is a comprehensive description of an Item that has been standardized. The description covers aspects like quality of materials/ingredients, Workmanship required in manufacture, dimensions, constituent parts/ingredients, tolerances and Containment/packaging required. Recurring needs for the same products have led industry and authorities to develop standards for such products. Components such as nuts, bolts, screws, nails, pipes, wire, cables, fishing line, electrical items and building components (e.g. door and window frames)

that are manufactured to standard specifications can be expected to fit all standard applications regardless of the manufacturer. Material ordered according to standard specifications leaves no doubt on the part of either the procurer or the supplier as to what is needed.

Specification by performance. Performance specification is both application and output oriented. The procurement need is specified in terms of the functionality required of the item, i.e. what it is required to achieve. No mention is made of any design specifications, leaving the supplier with the initiative on how to provide the most effective product. Manufacturers of electronic ware, aircraft, sailing vessels, road vehicles, mechanical handling equipment and machine tools frequently use this method of need specification. There are potentially two primary advantages obtainable through specifying the required quality of output: firstly, ease of formulating desired performance; and secondly, assurance of obtaining this performance. Supplier compliance under this specification is a prerequisite for the procurer to manufacture a product whose functionality testifies to its high level of technological advancement.

Specification by engineering drawing. Specification by engineering drawing particularly applies to construction projects, machine and job shop work, mechanical components, electric and electronic Corporate Board: assemblies, forgings, castings and stampings. Engineering drawings are often supplemented by descriptive text to simplify completion of the required product. Specifying by engineering drawing is the appropriate and most accurate method to describe those subsystems, components and items that require a high level of manufacturing precision.

There are **four main benefits** of specifying by engineering drawing:

- It is both accurate and precise.
- It is the most practical method to specify items that require extremely high tolerances.
- It is amenable to open competition among competent suppliers.
- It establishes definite standards for inspection.

Specification by physical design. Several items and materials required in manufacture are not covered by brands or standard specifications, and procurers prepare their own specifications for these. By developing their own specifications, procurers can avoid the price premiums of branded products, and infringement of patented, copyrighted and proprietary products. This, however, entails risk, therefore

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items or materials procured under this method of need specification normally require special inspection, the cost of which can be high. The method provides definitions of the properties of the materials (the 'recipe's ingredients') that the procurer desires. This method endeavours to state in measurable terms the properties critical for desired use at minimum cost and in line with desired quality. This method of need specification is the opposite of specification by performance. The procurer provides exact chemical, electronic, dimensional or other physical specifications of the product it requires, and assumes full responsibility for the product's performance.

Material and method of manufacture. Under this method of specification, both the material and the method of manufacture (i.e. the complete recipe) are prescribed to potential suppliers. In business this method is used when special needs exist and the procurer is willing to accept responsibility for results. Specifications under this method are costly to prepare, and the ensuing costs of inspection are generally higher than those incurred by other methods of need specification. Consequently relatively little use is made of this form of need specification. It is, however, utilized by large resellers of paint, large retail chains that sell so-called 'no-name brand' products, and large resellers of 'generic' medication and remedies.

Combination of methods of need specification. Businesses often use a combination of the methods described above to specify a need, simply because some needs cannot be sufficiently described by one method alone. A growing number of finished products require more than one method of need specification. For example, curtain manufacture may require specification by commercial standards to describe the cloth, its density and the fire resistance required; specification by physical design to prescribe the length and width of the drops, and whether they should be lined or unlined; and specification by sample to demonstrate the shade of colour desired

1.1.5 Writing specifications

After the design of a product determined, the next step is to translate the individual part and materials specifications into written form. The need for clarity and precision of expression is important in all business communications.

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To meet the needs of all departments, specification must satisfy many requirements.

- Design and marketing requirements for functional characteristics, chemical properties, dimensions, appearance etc.
- Manufacturing requirements for workability of materials and producibility
- Inspection's requirements to test materials for compliance with the specifications.
- Stores requirement to receive, stores, and issue the material economically.
- Purchasing and supply management's requirement to procure material without difficulty and with adequate competition from reliable sources of supply
- Production controls and purchasing requirement to substitute material when such action become necessary.
- Total firm's requirement for suitable quality at the lowest over all cost.

Function and fit specifications

Such purchase descriptions are a variation of performance specifications and are used in early supplier involvement programs. With this approach, the design team describes the function to be performed and the way the item is to fit into the larger system. For example, automobile, computer etc, together with several design objectives such as cost, weight, reliability. As early supplier involvement becomes more common this approach to describing requirements undoubtedly will increase in popularity.

1.2. Alternative Procurement Methods

Alternative Procurement Methods involve the acquisition of Deliverables through methods other than the Standard Procurement Method normally required for the type and value of the required Deliverables.

Alternate sourcing

Alternate sourcing also helps reduce procurement costs, while also evaluating and improving other key parameters such as product quality, lead time and commercial terms.

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Types of alternative method

- Limited Source Bidding.
- Direct Contracting.
- Repeat Order.
- Shopping.
- Negotiated Procurement.

1.2.1 Find suppliers

Trade directories. Looking through business-to-business trade directories is an obvious way to find suppliers. ...

- Trade shows and exhibitions. Trade shows and exhibitions offer opportunities to identify suppliers.
- Social networks. ...
- Trade association. ...
- Recommendations. ...

Utilities.

1.2.2 Golden rule of procurement

Timing: The golden rule is **don't rush**. All too often, procurement is rushed through because existing contracts are coming to a renewal point. RPs should be considering a re-procurement exercise a minimum of twelve months before the deadline to allow for clear strategic thinking before putting pen to paper on the brief. Golden Rules of Procurement Considering the below will give your project the best chance of a successful outcome.

1 – Planning The earlier engagement with procurement takes place, the greater the chance of a successful outcome.

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2– Process You need to be confident on the end to end process and aware of the responsibilities for yourself.

3 – Communications Be proactive in communicating with suppliers procurement on emerging issues and how is progressing. Common understanding of desired outcomes, risks and timescales will help ensure that the procurement delivers the results you need.

4 – Scope Be clear on exactly what you require the supplier to deliver and ensure this is communicated within the tender documentation in language suppliers will easily understand.

5 – Selection Criteria Careful thought needs to be given to the impact that each criteria will have on determining which supplier is chosen. You will need to be confident in your understanding of how price and other criteria are scored. If one criteria is given a high weighting it may mean that the scores of other criteria will not affect the outcome. If you are planning to interview suppliers as part of the evaluation, then interviews must be conducted irrespective of whether the marks awarded will influence the supplier selected.

6 – Advertising Ensure that the channels your sourcing activity will be advertised through will generate a good response from suppliers. Suppliers on a framework will automatically receive notification of new opportunities, while major suppliers will keep an eye on tenders advertised in the European Journal.

Importance of Specifications

Specifications are very important because the cost of materials clearly dictates that their selection is an important consideration during product design. The important characteristics of a product are specified when it is designed, prior to its manufacture. These characteristics are called the design specification. After the product has been produced, we can observe the extent to which it conforms to or deviates from the design specifications. The costs of many materials are identified through specification during the design stage. This is the first and sometimes the only point at numerous costs can be reduced and controlled.

It is at the time of original design that the greatest cost saving obtained from both specification and standardization. Since specifications are important, the activity of engineering, operations, purchasing and quality optimum specifications mainly influence the contribution made by these entire department to

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the firm's success. A good specification is to satisfy the procurement consideration of clear, concise, and an unambiguous communication.

Preparing specification for a product involves four major considerations:

- Design considerations of function
- Manufacturing consideration of economical production
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- Marketing considerations of consumer acceptance

It is common for these considerations to conflict with one another. But top management must provide the encouragement and direction that will motivate all departments to cooperate and seek a company solution, rather than departmental solutions.

When specifications conflict arises, final authority for the decision should rest with the departments having responsibility for the product's performance. This is usually the design-engineering department. However this is not a justifiable reason for engineering unnecessarily to subordinate the design considerations of manufacturing, procurement, quality and marketing. From a company viewpoint, the right specifications are those that blend the requirements of all departments only. Such specifications can satisfy the goals of top management i.e. increased sales, decreased costs and the added corporate security which comes with an increasing strong competitive positions.

To develop specifications that properly become product quality characteristics and product cost, management must coordinate the firm's technical and business skills. Four approaches can be used.

- early purchasing and supplier involvement
- the formal committee approach
- the informal approach
- the purchasing coordinator approach

Early purchasing and suppliers' involvement

During the early stages of new product development, more and more, progressive firms involve purchasing and potential suppliers. Such early involvement optimizes the development of specifications

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since the technical and commercial issues are addressed at a point where there is maximum objectivity and flexibility. This can improve product quality and reliability, while compressing development time and reducing total material cost.

As more and more firms embrace the use of cross functional teams in the development of new products, early purchasing and supplier involvement becomes an inherent component of the process that culminates in the development of specifications. Progressive firms find that this approach is an important element in their quest at realistic costs.

The formal committee approach

This approach recognizes that a good specification is a compromise of basic objectives. A specifications review committee is established, with representatives from design engineering, production engineering, purchasing marketing, operations, quality and standards. When a new product design is proposed, all members of the committee receive copies of all drawings, bills of material and specifications. No design becomes final until it is approved by the committee.

The informal approach

This method emphasizes the concept of a buyer's responsibility to "challenge" materials requests. At the same time, top management urges designers to request advice from buyers and work with them on all items that may involve commercial considerations. Emphasis at all times is placed on person to person communication and cooperation between individual buyers and designers. Using this approach, a company oriented, cost-conscious attitude is developed at the lower level throughout the organization.

The purchasing coordinator approach

One or more positions are created in the purchasing department for individuals, frequently called material engineers, to serve in a liaison capacity with the design department. Typically, the materials engineers spends most of his or her time in the engineering department reviewing design work as it comes off the drawing boards.

1.3. Developing specifications in consultation with Stakeholders

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In a procurement context, a specification can be defined as a statement of needs. It defines what the procurer wants to buy and, consequently, what the supplier is required to provide. Specifications can be simple or complex depending on the need.

The success of the procurement activity relies on the specification being a true and accurate statement of the buyer's requirements. Apart from being a means of identifying the goods or services required, a specification will form part of any future contract that might result from offers received.

1.3.1 A good specification should:

- State the requirement clearly, concisely and logically in functional and performance terms unless specific technical requirements are needed
- For goods, state what the item will be used for
- Contain enough information for offerors to decide and cost the goods or services they will offer and at what level of quality
- Permit offered goods or services to be evaluated against defined criteria by examination, trial, test or documentation • state the criteria for acceptance of goods or services by examination, trial, test or documentation
- Provide equal opportunity for all potential suppliers to offer goods or services which satisfies the needs of the user, including goods or services incorporating alternative solutions
- Form the fundamental basis of the contract between buyer and seller
- Not over-specify requirements
- Not contain features that directly or indirectly discriminate against people with disability, but allows optimal access and inclusion
- Not contain features that directly or indirectly discriminate against Australian and New Zealand suppliers
- For procurements covered under either the Australia-United States or Australia-Chile Free Trade Agreements, contain features that directly or indirectly discriminate against suppliers from a participating country or are otherwise contrary to the Agreements.

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1.3.2 Types of specifications

There are three types of specifications.

Functional specifications

These are specifications that define the function, duty or role of the goods or services. It nominates what the goods or services are broadly required to do. Functional specifications define the task or desired result by focusing on what is to be achieved rather than how it is to be done. They do not describe the method of achieving the intended result. This enables suppliers to provide solutions to defined problems. For example, a specification for “an accessible device capable of conveying children from their school to their homes” does not limit responses to bus operators alone.

Performance specifications

These are specifications that define the purpose of the goods or services in terms of how effectively it will perform, that is, in capability or performance terms. Performance is a logical extension of function. Performance specifications define the task or desired result by focusing on what is to be achieved. They do not describe the method of achieving the desired result. This enables suppliers to provide solutions to defined problems.

Who is involved in developing the specification

Users of the procured goods or services should be involved in defining their requirements together with appropriate project officers, technical officers (for example, information technology) and procurement officers.

A good specification

A well-structured specification should:

- foster supplier interest
- better engage with the market
- facilitate a competitive environment
- encourage innovation
- apply a high standard in the delivery of requirements
- be clear and simple and avoid onerous or unnecessary requirements

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1.3.3 The process of developing the specification step

Step 1: Planning and analysis

The foundation of a good specification is in the planning and analyses which are undertaken before writing begins. Key people who can help such as procurement staff, technical officers, project officers and managers, disability representatives and end users need to be involved. Planning and analysis will provide a better understanding of the requirement(s) and may reveal alternative solutions. Planning and analysis are particularly important when developing complex requirements

Step 2: Consultation and information gathering

Developing specifications requires consultation and can be perceived as an evolutionary process involving close and continuous liaison between the end-user, technical officers, project officers/managers, procurement officers and the specification writer. Valuable information and advice relating to the requirement can be obtained by discussing it with procurement officers, technical officers and other users of similar goods or services within the department/agency. Procurement officers should be involved from the start of the process (that is, the information gathering and design stages).

Step 3: Writing the specification

- Use simple, clear language without jargon (to minimize misinterpretation)
- Define terms, symbols and acronyms (include a “Glossary of Terms”)
- Be concise
- Do not explain the same requirement in more than one section
- Define each aspect of the requirement in one or two paragraphs where possible
- Adopt a user-friendly format
- Number the sections and paragraphs
- Seek feedback from someone unfamiliar with the requirement
- Discuss the draft and refine it.

There are no fixed rules on formats and structures because each specification reflects a different requirement or need. A specification should list the functional, performance and technical characteristics separately.

You may get some ideas for structure if you:

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- Plan and analyze your needs
- Arrange the components of the requirement into a logical form
- Discuss the requirement with colleagues, other users and procurement officers.

Step 4: Vetting the specification and obtaining approvals

After writing the specification, ask a colleague who is unfamiliar with the requirement to critique it from a potential supplier's view.

Try to identify improvements by considering:

- Readability
- Simplicity of meaning
- Clarity
- Logic.

Seek approval from the appropriate financial or procurement delegates in the department/agency after vetting the specification but before issuing it.

Step 5: Issuing the specification

The specification should be included as part of the “Invitation to Offer” document.

Step 6: Managing amendments to the specification

Should a need arise to amend the specification during the “Invitation to Offer” process, the amendment should be authorized by the project manager. The amended specification should be noted in the project files and all offerors or potential offerors must be given a reasonable opportunity to offer to the new specification.

Step 7: Revising and storing the specification

The specification should be reviewed at the end of the procurement activity to ensure that it effectively defined the goods or services that were actually bought. If areas for improvement are identified, revise the specification with the benefit of hindsight. When the review of the specification has been completed and if it relates to goods or services that are likely to be procured frequently, keep it on file. Before each procurement, review the specification to ensure that it reflects your department's/agency's needs at that time. Alternatively, institute a program to review specifications on a regular basis.

1.3.4 The Importance of Communicating Stakeholders

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Understanding your stakeholders is vital in modern-day business. This includes listening to the views and beliefs of stakeholders as well as seeking their feedback. After all, these are the people who will shape and influence future successes (or failures).

A stakeholder is anyone with an interest in the business, either having an effect on the business or being affected by it. Typically, stakeholders can be categorized into two groups; internal and external stakeholders. Examples of internal stakeholders are employees, managers and directors. External stakeholders include customers, suppliers, shareholders and funders. Keeping every stakeholder on-side can be difficult, but can be hugely beneficial.

1.3.5 Benefits of Stakeholder Communication

Stakeholders are the people and organizations whose attitudes and actions have an impact on the success of your project or your company. Your stakeholders include employees, labor unions, suppliers, customers, business partners, investors and shareholders, the local community, government authorities and regulators. Different stakeholders have different interests, attitudes and priorities. Effective communication ensures that they receive information that is relevant to their needs and builds positive attitudes to your company or project.

1.3.6 Know Your Stakeholders

All businesses have stakeholders. Stakeholders can be anyone who your business communicates with or associates with. It may be the local community around you, the government around you, your staff members, your customers, your competitors, or everyone that interacts with you and your business! Stakeholders are extremely important for businesses to optimize their marketing and communication strategies. By identifying your stakeholders, you find out who is engaged and interested in your business, what kind of financial or emotional investment they will provide for your business and what reputation your business has. This allows businesses to promote, communicate and sell their products/services to the right people who are actively in need of them.

Brainstorming with your staff members and writing down each group, person or organization that influences the business in any way.

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These can be:

- People who will impact your business financially, physically or visually
- People who will be impacted by your business
- People who have power over your business
- Separating internal and external stakeholders
- Segmenting and determining key target markets

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Self-check-1

Directions: Choose the best answer

1. While also evaluating and improving other key parameters such as product quality, lead time and commercial terms.

A. Method B. procurement C. Alternative D. Suppliers

2. All types of alternative method except

A. Repeat Order B. Shopping C. Delivery D. Negotiated Procurement.

3. Trade directories is an obvious way to find the right -----

A. buyers B. suppliers C. procurement D. B and D

4. In a procurement context, a ----- can be defined as a statement of needs.

A. specification B. stakeholders C. method D. all

5. ----- can be anyone who your business communicates with or associates with.

A. specification B. stakeholder C. procurement D. buyer

Directions: Answer all the questions listed below.

What is a specification?

What types of specifications are there?

Why is it important to get it right?

Write types of alternative method?

Write types of specifications?

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UNIT 2. Potential procurement impacts and Risks

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

- 2.1 Risk management and Procurement
- 2.2 Organizational policies and procedures
- 2.3 Terms of Reference

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Understand Organizational policies and procedure
- Follow Organizational policies and procedures
- Justify policies and procedure
- Perform policies and procedure

2.1 Risk management and Procurement

Procurement risk management is **the process of identifying both internal and external risks to your supply chain**. Effective risk management demands eliminating situations that put your organization at unnecessary, increased risk.

Definitions within the context of risk management and purchasing Risk management and purchasing can be brought together, because in purchasing there are also risks that are needed to be managed. “Objectives of risk management can be eliminating, reducing, controlling

Risks in purchasing

The sources for risks in purchasing are: supply risks, environmental risks, internal operational risks and demand risks. Reviewing the literature on purchasing risks, the first thing that becomes clear is the great diversity in different types of risks. Based on many possible nuances, one can declare a new

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category; all depending on both the author's perspective as well as on the perspectives of others, like survey respondents or interviewees.

Risk	Example(s)
Price risks	Supplier raising prices after being selected.
Inventory related risks	Stock being stolen, destroyed or prices drops.
Accuracy of deliveries	Goods being delivered after and before intended.
Risks	
Quality risks	Delivered products are of lesser quality than
Availability risks	The risk of a supplier not being able to deliver
Communication & information delivery risks	Miscommunication of order details.
Conflicts about intellectual property rights	Starts producing a competitive product, based on your IP
Reputation risks	The public knowing your products are produced
Dependency on suppliers	Based on an unfavorable power balance a Supplier can try to renegotiate parts of the deal
Outsourcing	Loss of flexibility and competences, vendor

2.1.1 Risk Management

Risk management is critical for all firms, including small- and medium-sized practices (SMPs). This is both in terms of protecting the assets, finances and operations of the firm and contributing to satisfactory

legal compliance, corporate governance and due diligence. Effective risk management will protect the reputation, credibility and status of the firm.

Guide to Practice Management for Small- and Medium-Sized Practices, which includes a whole module on risk management, including professionalism and ethics, client engagement, quality control and business continuity planning and disaster recovery.

Implementing a risk management program provides many benefits, including:

- More effective strategic planning;
 - Better cost control through enhanced workflows, client evaluation and engagement processes;
 - Increased profitability through better client and job controls;
 - Reduced risks of litigation as a consequence of processes and contingency plans;
 - Increased knowledge and understanding of exposure to risk;
 - A systematic, well-informed and thorough method of decision-making;
 - Less disruption and less rework through better understanding of process by all staff in the firm;
- and
- Setting the scene for continual improvement within the firm.

2.1.2 Establishing a Risk Management Program

The steps to establishing a risk management program are:

1. Implement a Risk Management Framework based on the Risk Policy

When developing the firm's risk management framework, consideration should be given to the services offered, marketing and communication, staff and human resources issues, information and resource management, regulatory obligations, IT issues and security, succession planning, acceptance and continuance of clients and cash flow management.

2. Establish the Context

Consider the goals and objectives of the firm and the environment in which it operates (e.g. cultural, legal and operational). Identify internal and external stakeholders (e.g. clients, personnel, consultants, agents, internal systems, third parties, suppliers, etc.).

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3. Identify Risks

Identify existing and potential risks as well as existing controls. The potential risks can be categorized as services performed, contract risk, acceptance or continuance risk and performance risk.

4. Analyze and Evaluate Risks

Analyze and evaluate the risks on a continuing basis. This involves a comparison of exposure levels against a predetermined tolerance level, the degree of control, potential or actual losses and benefits and opportunities presented by the risk. One of the simplest models to identify the cost of the controls and their adequacy is to consider the likelihood of occurrence of an event and the consequences of that event e.g. Risk = Likelihood x Consequence.

In assessing the level of the risk and identifying high and low risks, the process should include the firm's existing and anticipated areas of practice; the composition, experience and expertise of the firm; the management and internal control procedures; the likelihood of being sued and the process to assess new and existing clients.

When assessing the kind of risks the firm is exposed to, it is important to consider both the internal risks and the external risks. Internal risks may include staff, the business premises and location, threats to goodwill and reputation and information technology. External risks may include clients and both current and potential competitors.

5. Treat and Manage Risks

Develop strategies to manage the identified risk. Options can include accepting, avoiding, transfer (in part or full), reducing the likelihood and/or consequence and retaining the risk. Action plans can be developed based on the current levels of risk exposure, benefits from actions/ controls, the duration of time to implement actions and the available budget.

In areas identified as high risk, actions may include reconsidering that area and its development, retraining staff and reviewing the engagement with clients. Risk management procedures can include: Clarity on the terms of the engagement;

- Obtaining adequate insurance and controlling claims once they have occurred;

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- Maintaining accurate documentation;
- Ensuring timeliness of action and diary systems;
- Only practicing in those areas where there is sufficient expertise; and
- Implementing strict selection criteria for clients and consultants or agents used.

6. **Communicate and Consult** Communicate and consult with all parts of the firm, as well as outside parties, to ensure that all are kept well informed. For example, to avoid having to assume responsibility for the client's risk-taking, advise the client in writing of relevant dates and consequences in the event of failure by the client to act. This will transfer the risk of noncompliance back to the client to act and/or follow-up.

7. **Monitor and Review**

Monitor and review the risk management strategies on an ongoing basis. Over time, new risks are created, existing risks are increased or decreased, risks no longer exist, the priority of risk may change or the risk treatment strategies may no longer be effective. Monitoring should comprise: monitoring existing risks, identifying new risks, identifying any trouble spots and evaluating the effectiveness of current risk treatment strategies.

Monitoring ensures that new measures are introduced to control new risks as these emerge. Ongoing review is required to ensure that strategies remain relevant, and that the overall risk control position is relative to the potential costs of the risk.

8. **Record**

Keep a written record of all policies and procedures, including documentation of the assessment process, major risks identified and the measures designed to reduce the impact of these major risks. Failure to document policies can lead to breaches in performance due to misunderstanding or misinterpretation. A written set of policy statements supplied by documented procedures provides a constant reference, a guide to action and a framework for checking that the operations are conducted in the manner intended by the firm.

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2.2 Organizational policies and procedures

2.2.1 Procurement Policies

Your procurement policy outlines the overarching principles and standards used to set direction and influence decisions. It guides employee decision-making under a given set of circumstances within the framework of objectives and goals established by senior management.

One example would be a Competitive Bidding Policy that states any procurement over a certain dollar amount must be competitively bid through either a price quote or a request for proposal.

The policy is written as a guideline to follow but is not prescriptive about how to go about performing a competitive bid. That is where the procedure comes into play.

2.2.2 Procurement Procedures

Your procurement procedures define the ‘how’ of implementing your policies. They spell out the series of steps employees will follow, in a consistent and repetitive approach or cycle, with the goal of accomplishing an end result.

A set of procedures would also be developed to implement the Competitive Bidding Policy. If, for example, a buyer was procuring consulting services that were expected to exceed the dollar threshold requiring competitive bids, they might follow procedures like this:

- Create clear requirements in a statement of work for the product or service you are procuring
- Develop and approve the Request for Proposal (RFP) following RFP standards to get great proposals and reduce risk
- Create scoring workbook to support proposal evaluation
- Identify prospective vendors
- Distribute RFP to prospective vendors
- Respond to vendor questions
- Receive, evaluate and score proposals
- Down-select vendors and conduct interviews/demos
- Perform a pre-contract risk assessment and due diligence on the finalist

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- Negotiate and award the contract

Also, in most cases, an organization would have forms, templates, checklists and other tools that would be used to support the consistent implementation of these procedures. These might include an RFP template, a proposal evaluation scorecard and a contract checklist.

2.3 Terms of Reference

Terms of reference (TOR) define the purpose and structures of Project, committee, meeting, negotiation, or any similar collection of people who have agreed to work together to accomplish a shared goal.

Terms of reference show how the object in question will be defined, developed, and verified. They should also provide a documented basis for making future decisions and for confirming or developing a common understanding of the scope among stakeholders. In order to meet these criteria, success factors/risks and constraints are fundamental. They define the:

- vision, objectives, scope and deliverables (i.e. what has to be achieved)
- stakeholders, roles and responsibilities (i.e. who will take part in it)
- resource, financial and quality plans (i.e. how it will be achieved)
- work breakdown structure and schedule (i.e. when it will be achieved)

2.3.1 How do you write ToR

ToRs can be detailed and specific or general. A good ToR should be written in simple plain language and should be agreed upon by the evaluation commissioners, managers and users prior to the final agreement with the evaluators.

2.3.2 How to Use Tor

To access the privacy and security features of Tor, you need to install the Tor browser. For that, you need an Internet connection and a compatible operating system.

You can download Tor at the Tor website.

Follow the instructions to install the browser just like you would any other application on your device.

You can then watch tutorials within Tor that explain how to navigate the browser.

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Tor lets users customize their privacy settings, although the standard settings are considered to be sufficiently private for average users. Customizing Tor to be the most secure can affect your ability to use certain websites.

2.3.3 Who Uses Tor and Why

Though Tor is best known for its illicit uses, many Internet users can have different, valid reasons for accessing the Internet via Tor.

Let's take a closer look at who uses Tor and why:

- **Government agencies:** Tor can protect and securely share sensitive government information.
- **For-profit enterprises:** Companies that use Tor can benefit from increased data privacy and security.
- **Illicit organizations:** Criminals sometimes use Tor to shield their online activity.
- **Private individuals:** Anyone wishing for more online privacy and better cybersecurity can benefit from the Tor browser. Journalists, activists, and people facing censorship may choose to interact online via Tor.

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Self-check-2

1. Choose the best answer

1. One of the following is not sources for risks in purchasing

- A. price B. quality C. Inventory D. production

2. We are avoid any risks

- A. True B. False

3. The ----- is written as a guideline to follow but is not prescriptive about how to go about performing a competitive bid.

- A. policy B. Procedure C. method D. Principle

4. ----- show how the object in question will be defined, developed, and verified.

- A. Procedure B. Terms of reference C. Inventory D. quantity

UNIT 3. Organizational support for procurement

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

3.1 Approval of procurement needs and specifications

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Justify how to approve
- Tell responsibility of approval
- Perform automated approval

3.1 Approval of procurement needs and specifications

A critical component of any successful procurement department is a solid, well-designed and well-communicated procurement approval system.

An organization's procurement function must ensure purchasing costs are kept low and all requisite goods/products are on hand at all times. But purchasing, particularly in large corporations, is a nuanced, layered process:

3.1.1 An approval process

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Work often needs to be approved by managers and directors in every organization before it can formally begin or move to the next step. Approval processes are standardized within companies to dictate how the submitted work should be approved and rejected.

However, these processes are slow and filled with delays when they are not created and optimized accurately. While most organizations are starting to digitize approval processes, they still aren't actively automating these processes, which can lead to decreased productivity and efficiency.

An approval process is a type of business process that includes steps to formally approve work from different levels of the organization. The work can include budgets, invoices, project outlines, marketing initiatives, or any other items that need a series of approvals from different departments.

3.1.1.1 Approval Process Elements

An act or instance of approving something: approbation. The change is subject to the committee's approval. Phrases. On approval. : Subject to a prospective buyer's acceptance or refusal.

A standard approval process has the following elements:

Submission documents

The submission documents can be anything that needs to be approved, whether it's an invoice, a purchase quote, or any other internal document.

Approvers

The approvers are the ones who decide whether the submitted documents should be approved or rejected. In case your process has various levels of approval, then it's important to decide who approves the documents first.

Permission levels

To maintain security throughout the organization, it's crucial to set different permission levels for each user so that you can control who can view, edit, reject, or approve the submitted documents.

Due dates

Just like any other business process, approval processes should also have set deadlines so that they can be initiated and completed in a timely manner.

Logs

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Recording every step of the approval process is just as important not only to maintain transparency throughout the organization, but also to easily view and track all the actions in case of a discrepancy.

3.1.1.2 Examples of approval processes used by organizations

With the right approval processes in place, you can quickly review each deliverable and get approvals more quickly. The type of approval process you create will depend on the deliverables and the departments you are dealing with.

Let's take a look at 4 approval process examples:

1. Invoices Approvals

Before approving an invoice, the accounting department needs to verify a series of parameters. In this case, the approval process can have a checklist that can be used to make sure all the necessary parameters including invoice number, price, date, and payment terms are reviewed before the invoice is cleared. The form may go through a workflow including the purchasing, finance, and those actually receiving the goods or services.

2. Budget Approvals

Managing operational budgets are an important part of the company's function. Once the budget proposal is completed, it needs to be vetted by a series of executives before being accepted and implemented. A budget approval involves passing the budget through various filters, departments, and approvers, making the appropriate changes, and ensuring the budget aligns with the objectives and demands of the organization.

3. Design Approvals

Design is probably the first thing customers notice when interacting with a brand. Marketing teams need to ensure their logos, graphics, ads, merchandise, and everything else is designed and packaged properly in accordance to the design standards and guidelines. A design approval encapsulates every stage a design goes through from initial drafting, change management, brand scrutiny, marketing approvals, and final management vetting.

This is a sophisticated process since every iteration requires the graphic designer to rework the product and reinitiate approvals.

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4. Creative approvals

As compared to invoice approvals, creative approvals have a more complicated process. For instance, you may need multiple steps to include content writing, graphic designers, and web technicians, each with conditional approvals after the work is completed.

With these approval parameters in place, the designers can be assured that their workload won't suddenly grow and they also wouldn't have to worry about client responsiveness.

3.1.1.3 Benefits of automating your approval process

Manual approval processes take a longer time to complete and they are also more prone to errors. On the other hand, automating approval processes can give you more control, transparency, and allow your team members to get approvals quickly.

3.1.2 An Approval System

An approval system is a structured process that helps an organization streamline any approval within a given workflow. An example of an approval system is the outlined step that concerns the approval of reimbursement.

3.1.3 An approval management

Approval management is the process component of a workflow that requires an approver (or supervisor) to authenticate and approve a step or task to push the request along the defined path. Approval management is key to ensuring increased transparency and accountability.

3.1.4 How to use approval for request management

Approvals play an integral role in request management - by adding a layer of approval, decision-makers can keep an eye on quality as well as take contextual decisions on whether the request meets certain criteria, thereby triggering the request to go forward along the workflow path or backwards for additional action.

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Self-check-3

Directions: Answer all the questions listed below.

1. Write elements approval process?
2. What is approval?
3. Discusses Budget Approvals ?
4. Compare and contrast manual and automating approval

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Developers Profile

Developers Profile

No	Name	Qualification (Level)	Field of Study	Organization/ Institution	Mobile number	E-mail
1	Teshome Kabe	First degree	Purchasing and Supply Management	Harar Polytechnic College	0915756581	Kabeteshome7@gmail.com
2	Hagos Gebre	MA Degree	Logistics and Supply chain management	Entoto Polytechnic College	0910309390	Rial.12brge@gmail.com