

**An analysis on Importance of unlocking hidden savings in procurement
process in Private sector in Bangladesh**

Dissertation submitted in partial fulfillment of the
requirements for the Degree of
Masters in Procurement and Supply Management

Submitted by
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Student ID: 15182017

**Masters in Procurement and Supply Management
Spring 2015**



**BRAC Institute of Governance and Development,
BRAC University
November, 2015**

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Under the supervision of
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**BRAC Institute of Governance and Development,
BRAC University
November 01, 2015**

Declaration

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Preface

This research has been carried out during the period of during the period of January, 2015 to October, 2015 in order to fulfill my requirement to complete my requirement for awarding 'Masters in Procurement and Supply Management'

My background knowledge in procurement especially both in manufacturing and development sector inspires me to carry out the research work. Currently, I am working as a 'Procurement Officer' in Crown Agents, Management Consultants and Procurement Agent of Department for International Development, DFID. My working experience in procurement with various projects has inspired me to accomplish the thesis and furthermore, it has saved me considerable amount of time and effort.

In general, officials have their limitations to share information publicly. In that sense, collecting information was the biggest challenge of this thesis. Keeping this into consideration questionnaire is so development that it will not embarrass anyone and at the same time it would fulfill the objective of the thesis.

Hopefully, findings of this research work will help the policy maker to formulate future procurement management policy especially in savings and will act as a tool for further research.



Nahid Nazim, MCIPS

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The questionnaire design and pilot testing would not done so smoothly if I did not get help from some of my classmates Jalaluddin Ahmed, Procurement Specialist, UNDP; Shakhwat Hossain, Supply Chain & IT Director, Aman Group and Wazed Ali Khan, Procurement Specialist, World Bank.

I owe much gratitude to the resource persons, programme advisors and staffs of the BIGD and Chartered Institute of Purchasing and Supply (CIPS), UK for the assistance and tutoring provided for me throughout the coursework during the foundation, advanced and graduate diploma programs.

I also would like to express my sincere thanks to the interviewees for their kind cooperation in terms of sharing confidential information with me for the purpose of the research work. Finally, I would like to thank my family, colleagues, classmates and friends. To all, I say thank you for the prayers, support, words of encouragement and wisdom with which this research work has been made possible. I express also my thanks to all of them whose names are not spelled out here but have helped me in many ways for the successful completion of this dissertation.



Nahid Nazim
November 01, 2015

Abstract

Procurement cost savings are the one deliverable that all procurement professionals understand. While not defending a basic position, the realistic view is that high-quality, well-structured and sustainable cost management is a continuing core competence of procurement that needs continually to be strengthened and the procurement leadership team. Savings should be one of top objectives, while simultaneously pursuing a strong focus on value maximization and risk mitigation. Savings is procurement's contribution to competitive advantage and coordinating the entire supply chain so as to minimise waste and duplication.

The focus of this research is to identify the importance of savings in an organization, critically analyze various phases of savings in the procurement process, and critically analyze the ways of achieving savings in procurement process. To conduct the research both questionnaire survey and interview method was used. Around 50 buyers, 30 clients of the procurement team and 20 suppliers are interviewed on approximately identical questions to find out the variance of their perception. There are inefficiencies in procurement process and lack of expertise in the procurement area. Therefore current procurement practices, cost savings procedure and scope of savings opportunity have been discussed in context of private sector procurement in Bangladesh.

From the findings, it has been observed that organization cannot control all the aspect of procurement process due to variance in demand, weak procurement structure, lack of knowledge, and not using technology etc. From this study two solutions have been proposed, first solution is to introducing new-fangled procurement practices in each stage of the procurement process and the second one is to introducing e-procurement in the organization.

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CHAPTER-1

Introduction

1.1 Terminology in Procurement

In procurement field there are many words describing the same thing. The function and profession alone are referred to as purchasing, procurement, and supply management, just to name a few. These terms are essentially interchangeable.

One term that is often used to define procurement but technically has a much broader meaning is "supply chain management." Though many different and conflicting definitions of supply chain management abound, in definition, procurement is a component of supply chain management. Purchasing deals primarily with managing all aspects related to the inputs to an organization (i.e., purchased goods, materials, and services), while supply chain management deals with inputs, conversion, and outputs.

Procurement and supply chain management (P&SCM) started to develop as an area of significant academic enquiry in the early 1990s. The focus of enquiry and subject matter in this field is extremely diverse and continues to broaden.

Procurement is the process of buying goods and services. It covers everything from identifying a need to developing a business case, selecting a supplier and managing the product or service until either the contracted service has been delivered or the product has reached the end of its useful life or has been disposed of. Procurement activities can lead to significant savings and a number of other benefits. Some can be quantified such as saving money while others are more intangible such as improved service delivery.

The responsibilities of procurement functions are as follows:

Strategic responsibilities	Tactical responsibilities	Operational responsibilities
Developing guidelines and procedures	Preparing specifications	Preparing orders
Developing performance monitoring systems	Preparing value analysis programmes	Expediting
Major sourcing decisions, such as single vs multiple sourcing, reciprocal trading	Selecting and contracting with suppliers	Monitoring and evaluating supplier performance
Major decisions relating to capital investment or make-or-buy	Preparing certification programmes for suppliers	
Establishing long-term partnership and co-makership relations	Agreement on corporate and/or annual supplier agreements	

Figure 1: The responsibilities of a procurement function

There are some things that would happen in an organization if it decided to not have a procurement department:

- The organization would pay too much for the goods and services it buys, which would severely weaken its financial condition
- The organization would get unreliable performance from its suppliers, which would threaten the ability of the organization to do what it exists to do
- The organization would have its personnel performing tasks outside of their most valued specialties – **For example** engineers calling suppliers about late deliveries instead of designing innovative products. It will hamper their core job which leads to weaken the performance of the staff as well as the organization.

- The organization would be incompetently spending the time of its resources, as each person making a purchase would have to figure out how to do it the right way instead of relying on well-defined processes repeatedly executed by well-trained people.
- The organization would risk becoming the subject of a news scandal due to doing business with suppliers who act socially irresponsible by engaging in activities such as using child labor, threatening animal welfare, and engaging in bribery.

Procurement process has been developed to achieve savings for the organization.

1.2 Background:

Many organizations have complex and inefficient procurement processes in place, which are blocking the significant cost savings that can be achieved. Clunky, costly processes do not enable the best deals to be secured with suppliers and they cannot provide vital procurement insight. When measuring the savings/benefits of a procurement process, it is important to differentiate between the sources of savings and its impacts. The organization will get two types of benefits by achieving savings through procurement process. These are:

- ✓ **Budgetary benefits** (also referred to as ‘cashable’, ‘tangible’ or ‘hard’ benefits), such as reduced cost, vendor managed warehouse, additional long term service, extended payment lead time etc.
- ✓ **Non-budgetary benefits** (also referred to as ‘non-cashable’, ‘intangible’ or ‘soft’ benefits), such as cost increases avoided: these represent a procurement benefit but don’t release cash or budget for reallocation. Additional services, satisfied customer and well reputation.

It is also important to differentiate how the savings have been resulting from good procurement practice or from changes in business practice that the new product/service has enabled.

At its simplest level, the savings/benefits from a procurement activity can be calculated as:

Baseline spend – Spend after procurement = Savings/Benefits.

1.3 Aims:

Savings is one of the important motives to creating procurement service for the organization. This research paper will discuss the key benefits of a streamlined and intelligent procurement process and examine how smart procurement can be achieved along with the key tools that can assist. It will also highlight the potential barriers to effective procurement and how these can be overcome by procurement and finance directors which will lead to unlocking the hidden savings within the procurement process. The aim of present study is to identify Importance of unlocking hidden savings in procurement process in Private sector in Bangladesh.

1.4 Specific objectives

- Critically analyze various scopes of savings in the procurement process.
- Critically analyze the ways of achieving savings in procurement process.

1.5 Research Questions

- How the efficient the procurement process in the Organization to achieve savings?
- How to unlock hidden savings in procurement process in Private sector of Bangladesh?

1.6 Research Methodology

The research has been conducted through open ended questionnaire among the procurement professionals, the client of the procurement team and the buyer in private sector of Bangladesh. These professionals have been selected on random basis within the local organization, international organization and multinational organization in Bangladesh. The research question will also be sent to the supplier and the client of the procurement department to know any unrevealed idea and whether they can play a role for achieving savings. The survey has been conducted through email.

1.7 Sampling Method

The sample of respondents for this survey has been selected to their relevance to the focus and purpose of the study. The study population has been selected on the basis of their involvement in private sector procurement.

1.8 Data collection instrument

Given the infancy of the subject in the savings in procurement, I reviewed extensive international literature and publications for procurement and savings activities. A qualitative approach will be used and largely descriptive relying on responses from procurement professionals, project manager, evaluation/procurement committee members, heads of departments, the clients of the procurement team and the relevant stakeholders. The aim is to build theory about savings in procurement in Bangladesh. To collect data, open ended questionnaire will be used as the survey instrument.

The target interviewees of the survey are:

- **Procurement professional / the buyer**
- **The client of the procurement department**
- **The supplier/ the contractor/ the vendor**

Sample Size: Some 100 respondents have been taken for survey using open ended questionnaire. For some interviewee physical questionnaire survey methods have been used.

1.9 Limitation and assumption

Achieving savings through various techniques is not possible in every situation due to nature of the industry. Moreover due to variations in demand sometimes it is not possible to unlock the savings.

Again, a handsome number of samples are always better than a limited number of samples – which is again not possible with the scope of the study. In spite of these, it is expected that the findings of the present study will give a true picture of the need.

Due to time and resource constraint I have taken few private sector organizations. If I can take more organizations under study it might yield better result. However, it is assumed that these organizations will reflect the actual scenario in the procurement systems and its savings procedure.

However, several limitations were faced during the research which justifies further research in this area. The limitations were as follows:

- All types of industry has not been taken – which may be a very potential area of further research;
- Initially it was expected that the face to face interview will be conducted with some personnel at policy making level which actually was not possible because of time constraint;
- Only few months were taken for data collection but it needs at least one and half year for extensive data collection, which is actually beyond the scope of the study;
- Sample size was smaller. A larger sample size could have yielded better results; and
- Fraud and corruption issues are ignored under the study. If it had been considered, it could have added additional dimension to the study;
- The questionnaire was open ended question therefore data analysis through different chart was not possible.

1.10 Outline of the study

The first chapter gives the overall introduction of procurement process and objectives of the study. The second chapter gives the review of existing literature pertaining to the study area. The third chapter gives an overview of procurement practices and savings opportunity in the procurement process. The chapter-4 contains analysis of data and results and finally chapter-5 describes the findings of research questions recommendation and conclusion.

CHAPTER-2

Literature Review

This research will discuss the key benefits of a streamlined and intelligent procurement process and examine how smart procurement can be achieved along with the key tools that can assist, proven solutions which organizations have used to release millions of money in cashable savings. It will also highlight the potential barriers to effective procurement and how these can be overcome by procurement and finance directors which will lead to unlocking the hidden savings within the procurement process.

“How to Achieve Cost Savings from Supply Chain Management: Techniques That Work” (Thomas A. Crimi, and Ralph G. Kauffman) in the study tries to identify and demonstrate proven techniques that achieve real cost savings from supply chain management, and provides information on how to apply these techniques in various business situations. Most supply chain professionals have knowledge of supply chain management, but many find serious challenges in achieving actual cost savings from the concept. This paper provides information on how to achieve cost savings from supply chain management. A Best Practices Framework for Achieving Cost Savings has been proposed.

This report has been focused on the total supply chain management savings process and techniques yet very briefly. They proposed on an integrative approach to managing supply and distribution networks." The key word is "integrative," making the chain work better and at lower cost than would be possible by managing each segment of the chain independently. A cost that exists throughout most supply chains and therefore is often the target of supply chain management is the cost of inventory, managing it and carrying it. They suggested some techniques before the procurement request decision takes place under the whole supply chain management process. It did not say much about the savings technique at the time of each procurement stage. Procurement process is one of the parts of supply chain management and this process itself follows its unique technique to attain savings.

A popular supply chain magazine published an article called “Supply Chain News: When it comes to Calculating Procurement Savings, Many Roads to the Same Goal”. New Data from CAPS Research Shows Wide Variation among Companies to Measure Sourcing Savings; 4.26% as Percent of Total Spend Saved through Procurement Actions on Average. There is only one clear insight from the latest data from CAPS Research on procurement savings measurement - there are about as many answers as there are companies. CAPS Research is an arm of the Institute for Supply Management (of the Purchasing Managers Index fame), which in turn is an arm of Arizona State University. CAPS periodically releases benchmark and topical research on procurement/purchasing subjects. In January, CAPS released a new benchmark report on corporate approaches to measuring savings from procurement. That was based on survey responses from 78 mostly large companies across a variety of industry sectors from across the globe. Respondents ranged from 3M (industrial conglomerate) to General Mills (consumer package goods) to IBM (high tech), Warner Brothers (entertainment), and Price Waterhouse Coopers (professional services). That diversity is important, because non-manufacturing companies obviously have little or no "direct spend" as part of the purchasing mission, somewhat confounding the data. That said, respondents on average reported that the procurement organization controlled or managed 83% of direct materials spending (including a low of 0%, presumably from one or more non-manufacturing companies), 70% of non-direct spend, and 67% of capital goods spending. Nearly all respondents (95%) attempt to measure "cost reduction" savings from procurement activities. A somewhat smaller percentage (70%) attempt to measure the even more challenging area of "cost avoidance." In total, respondents on average said that they were able to connect reductions 4.26% of total spend to the efforts of the procurement organization. The range was wide, however, with just 18% savings on the low end to about 19% on the high end. The median (half above and below) was lower than the average, at just 2.85%. The survey found 40% of companies review their progress against targeted cost savings from procurement monthly, 13.5% quarterly, and 25.4% annually. About 20% of companies account for all savings from a multi-year contract in the first year, versus the 43% that apportion those savings each year across the contract. Many companies use other methods, and much uses multiple approaches. The diversity in terms of how companies manage this

process is evident, starting with who drives setting the financial targets for procurement savings. 35 different distinct titles were cited by the group, and the most common title, Chief Procurement Officer, was listed by just nine of the 78 companies. Chief Financial Officer was the next most popular, at five responses. Others cited included VP of Operations, VP Shared Services, VP of Sourcing, Head of Logistics Services and more, though in reality a number of the titles provided were close enough to each other that they could well have been combined. The diversity of approaches was even clearer on answers to a question about the "methods of setting savings targets," for which as shown in the figure below elicited a wide range of responses. The figure represents just about half of the total responses, which showed similar variation.

In this above article, different types of companies' savings goal have been measured. It focused on the diversity since it is important, because non-manufacturing companies obviously have little or no "direct spend" as part of the purchasing task. It shows savings % of their total spends. It was a great opportunity to learn how these big companies achieve savings but it did not reveal anything about the savings technique.

“Reframing procurement’s strategies, priorities and deliverables, part 2: Accelerating cost down initiatives – unlocking the missing 20%” (Jon Hughes, June 2011). This article is the second of an exclusive five-part series of articles produced for DILForientering during 2011, which position the maximization of value, the minimization of cost and the balancing of risk as guiding propositions for procurement as a driver of change across both the private and public sectors. Throughout this series it advocates a holistic and properly integrated set of strategies closely aligned with organizational goals, metrics and business requirements.

Figure 1 illustrates this as a downward cascade driving the focus of procurement on to value, risk and cost as well as upwards reporting of the deliverables secured through a wide range of procurement initiatives. In this article we will argue that procurement’s maturity can be measured along a continuum spanning three broad scenarios which comprise a wide range of different tools, techniques, value levers and change models. Each of them provides opportunities

for considerable cost down – what we have termed the “missing 20%”. There are still organizations and sectors (most notably in government) that have barely moved forward on the adoption of modern procurement and cost management (“laggards and early improvers”); then there are an encouragingly large number of companies that have built a solid platform for further procurement progress, which are extending and renewing their processes and capabilities (“credible achievers”); and finally the much smaller number pioneering new cost paradigms which call for innovation in operating models, organizational and business structures (“pathfinding innovators”). To bring this to life they have populated this article with real life case studies highlighting the progress being made with various public and private organizations.

It differentiated between Laggards (early improvers), credible achievers (Extending, sustaining and renewing cost management) and Pathfinding innovators (Pioneering new cost paradigms and business structures). It introduced some concepts regardless of any business sectors. But this did not point out the techniques to attain savings.

CIPS stated that A **‘saving’ is an outcome that can reduce budgets**. Outcomes are only savings if they are realized and are quantifiable, for instance an outcome that leads to greater market share, increased profitability, improved cash-flow, reductions in organizational costs or something that the organization’s customer perceives as a real value proposition. **‘Cost avoidance’** is an outcome that attempts to ruin price increases and to keep within budget. **Cost avoidance is not a saving**; whilst it can involve significant procurement activity to negate inflationary pressure for instance, it does not contribute to the financial accounts. CIPS is not suggesting in this practice document that savings are the only, or indeed the most important, contribution from the purchasing and supply management profession. The skills and competencies of a qualified purchasing and supply management professional will deliver enormous value to any organization contributing to its future wellbeing. CIPS encourages purchasing and supply management professionals to promote their overall value add in their organizations and utilize the full range of performance measures to communicate the benefits of professionally executed purchasing and supply management activity (**CIPS Knowledge, 2013**).

This above definition states that cost avoidance is not cost savings. It will not serve the purpose of an organization. Procurement professional needs to concentrate more on savings through their skills and competences. But then again it did not elaborate the required skills and competencies to achieve savings.

“How to Measure Procurement Savings?” (September 6, 2013) under Sourcing Spend analysis categories. It states that irrespective of the industry sector, the size of an enterprise or the maturity of the procurement discipline, realizing cost savings will always be one of the most important objectives of the procurement function. This is hardly a surprise. In most organizations the percentage of revenue that is spent on procurement has grown to 50-70%, depending on the type of business. The most important reason for this growth is the continuing trend of outsourcing tasks that were formerly performed within the organization. Another lasting trend is the procurement function becoming responsible for commodities that were traditionally outside of its compass of responsibility, like business travel, insurances, marketing and communication, professional services, etc. Hence, procurement has a huge impact on the profitability of a company. For large organizations a reduction of maverick buying between 5-10% can easily generate millions of dollars of savings. Cost control is an important shared responsibility of both procurement and finance. Especially in this area, both disciplines must be aware of each other’s frame of reference. Finance professionals are more often than not focused on costs and assume that reported savings translate immediately into a decrease of costs. That may seem like a logical conclusion, but we will see below that this will not always be the case. With procurement savings it is sometimes difficult to distinguish apples from oranges.

The above report discussed some important issues between procurement policies and stakeholders. However this report only focuses of some unseen issues nevertheless did not emphasis on the solutions.

Another supply chain magazine bearing point, Management and Technology Consultants published an article called “Spend Management: Key Elements for Realizing, Cost Savings in Procurement”. Focus on sourcing typically yields significant profits: **a euro in increased sales is**

ten cents in profit while a euro saved in costs is a euro increase in profit. Spend analysis forms a solid foundation for sourcing initiatives. It creates an understanding of the organization's spend structure and enables actions to be based on facts rather than intuition. However, spend analysis does not create a return on investment itself: it just provides the necessary insight for focusing management's attention on the procurement projects that appear to promise the highest return on investment. In this white paper we discuss spend management and the actions that enable realizing the saving potential revealed by spend analysis. We describe leading practices in use today, and present a path for achieving measurable cost savings in procurement. Building key metrics for all spend categories helps to monitor progress and thus ensure success in realizing the cost saving targets and sourcing opportunities.

The above report describes a detailed spend analysis and to achieve saving through this spend analysis. Whereas it hardly talks about the whole procurement process by which savings can be achieved.

Summary:

The above literatures that were reviewed were done on different aspects of savings and savings achieving methodology. None of the above article tried to explore that savings has an impact on the organization in various way. There are limited article found in the context of savings in procurement. Little empirical evidence does exist on the determinants and constraints to effective savings in procurement management based on practitioners' view point. In my research I am going to investigate on Importance of unlocking hidden savings in procurement process in Private sector in Bangladesh from practitioners' view point. Moreover all of these literatures are based on other countries. There is a scope to pick up the current scenario of Bangladesh.

Chapter 3

Current procurement practices and the scope of savings in Private sector in Bangladesh

3.1 Introduction:

Procurement processes, however well-structured they might appear can be complex and often hide inefficiencies. Lack of clarity about who is purchasing what, from whom and for what reason, means that organizations are often unable to analyze procurement data. Without deep analysis, opportunities to cut procurement costs are missed. This chapter will briefly discuss about the procurement process and scope of savings opportunity in each stage:

3.2 Procurement Process:

Here are the nine steps of the strategic procurement process:

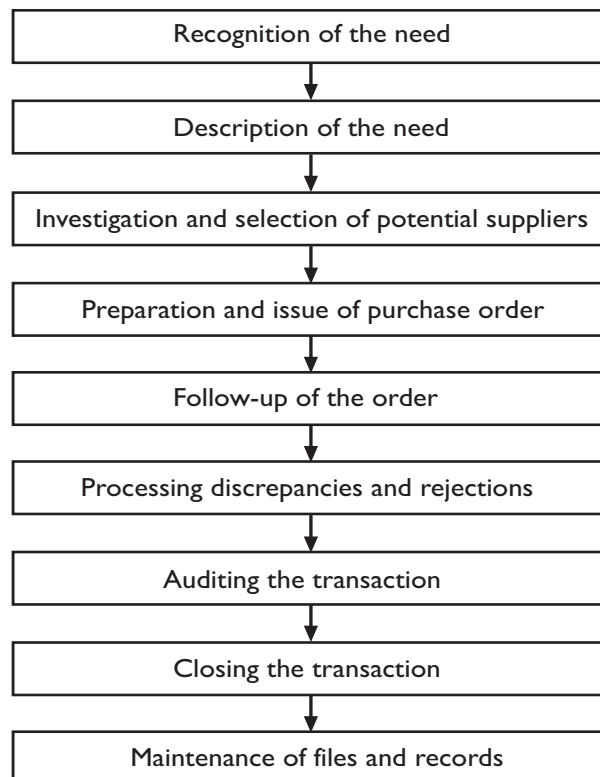


Figure 2: Procurement process

The current procurement process along with the mistakes by the organization has been discussed below:

Step 1: Recognition of the Need

An organization buys the things to fulfill a need. This need can arise from a variety of situations:

- Organization uses materials to manufacture a product and does not have enough materials in stock to produce the anticipated quantities of product.

Example: Flour for a noodles manufacturing company.

- Organization uses products that enable workers to perform their jobs.

Example: Desktop computer, printer, photocopier and scanner etc.

- Organization does not have the internal expertise to perform part of a service that it provides to its customers.

Example: Security service, Pest control service, catering services etc.

- Organization cannot perform a task as efficiently or cost effectively as a service provider.

Example: Carrying and Forwarding service (C& F agent), Courier service etc.

There are plenty of possibilities for how a need can arise, but all have one thing in common – buying a product or service helps organization do what it does.

In the recognition of the need stage, the user/ the client has to decide whether they will go for manufacturing, contracting or outsourcing. If they go for manufacturing then extensive research and business case analysis is required. In this stage procurement professional can give their valuable inputs through providing the guideline, costing details, the legal issues etc. Good Manufacturing Resource Planning (MRP) can save money, time and warehousing costing

without interrupting the production process. The above competencies are lacks in the organizations.

The purchase requester and the buyer both needs to have the idea of the impact of acquiring cost and holding cost. The brief of these costs have been shown in the below table:

Costs of acquiring (producing) stock	Costs of holding stock
Setting up and maintaining an information system for processing orders	Opportunity costs of funds tied up in purchase of large orders
Preparing an order requisition	Owning or renting warehouse or stores space
Selecting a supplier	Employing warehouse or stores staff
Preparing and processing a purchase order	Insuring stock
Preparing and processing a goods received note	Deterioration of stock
Clerical time, stationery, postage or fax charges	Obsolescence of stock
Preparing and processing payment	
Loss of bulk purchase discounts	
Production set-up costs	
Opportunity costs of stock outs	

Figure 3: Description of acquiring and holding costs

In this stage, the client has the scope to identify the savings. These activities are as follows:

- ✓ Identify the need at right time. Sometimes the purchase requester raise the purchase request lately, therefore the buyer fails to achieve savings since he has to process the purchase within short period of time.

- ✓ Purchase requester can proactively involve in the savings. For example, the price of commodity items varies within the year. In that case if they identify their need at least for a year and buy the items in off pick season then they would get the goods half of a price.

However they have to keep in mind the warehouse costing and other maintenance cost. But recently in Bangladesh some large organizations take the lease of whole garden or area for specific time period to avoid any warehousing costing as well as price hiking. This thought is actually out of the box.

In the recognition of the need stage the client has to take decision whether they will outsource or develop contracting. A big chunk of savings lies in this decision. In the current business context even renowned organization outsource maximum of their job except two or few core jobs. Outsourcing directly contributes to the savings and increase the efficiency of the organization. The following types of services have been outsourced: **Security service, Pest control service and catering services etc.**

Now I am picking Catering service to justify. For catering service the main inputs are food items, the cook and the waiters. So, the organization needs a dedicated staff to control this service. There is a human resource cost involved for these staff. Each item needed for the catering service needs to procure buy the procurement team. So management cost involves in buying process. Again the procurement team needs more staff to do this additional job. Otherwise the professional can give their time in more strategic job. Now comes to quality of the works. A catering company has the expertise and it's their core competency. The organization does not have the much expertise on this type of service. Even the cost of the items will be lesser for a professional catering company since it gets the advantage of economies of scale. An organization can take the decision based on the factors. They can also follow the below chart before taking the decision:

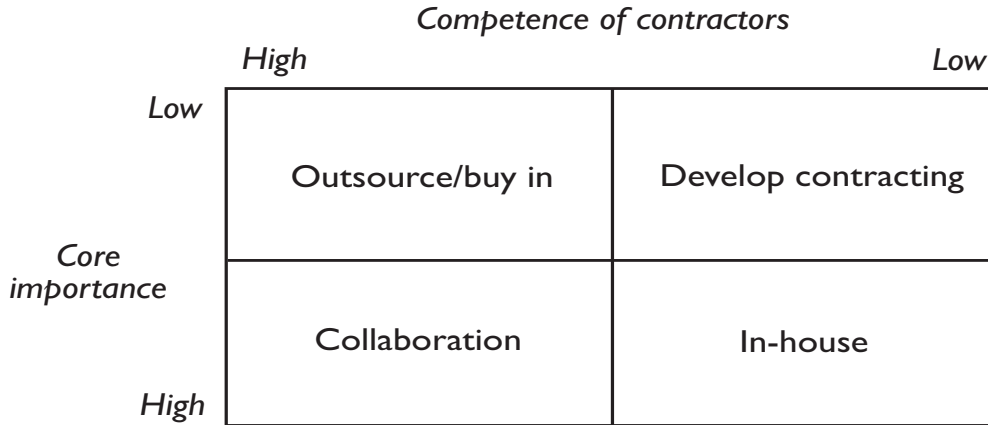


Figure 4: Outsourcing model

These above procurement are being processed through two different categories:

Direct procurement:

Direct procurement is the act of acquiring raw materials and goods for production. These purchases are generally done in large quantities, acquired from a pool of suppliers at the best possible cost, quality and reliability. These purchases are made frequently and are necessary for key business practices, such as a baker acquiring flour to produce bread.

If direct procurement stops functioning or encounters problems, companies are no longer able to manufacture their product and create revenue. Historically, direct procurement stems from manufacturing.

Indirect procurement:

Indirect procurement is the act of purchasing services or supplies required to keep the day to day business alive. One way of classifying indirect procurement is that it does not add to a business's bottom line. This includes things such as repairing equipment, buying office supplies or acquiring services.

Without indirect procurement functions, businesses would not be able to operate in an effective fashion. *Typically, indirect procurement includes somewhere from 15-27% of a company's total revenue.*

Except few organizations in Bangladesh, none of the organization has structured policy and subdivisions within the department for direct and indirect procurement. Their mode of work and supplier is different. As such the team needs to be subdividing as well as the procurement policy. This will lead them to achieve more savings since the employees are more focused on their job.

Financial budget:

Top managers in organizations know that products and services must be purchased to enable the organization to role properly. Therefore, they allocate money towards these purchases in the form of annual budgets. A purchase should not be made unless the expenditure is first authorized in the requester's budget. There are a few different types of budgets related to the purchase of products and services:

- **Direct materials budget** – A direct materials budget is comprised of funds earmarked for materials that are used in the production process. A direct materials budget is usually based on a forecast of sales that indicates the volume of products that must be produced during a given year. In a mature manufacturing environment, the direct materials budget will be similar from year to year.
- **Capital budget** – A capital budget is comprised of funds intended for the purchase of major equipment and construction services. Because these expenditures are large and only brought about by major changes within the organization, the capital budget may vary tremendously from year to year.
- **Operating budget** – That is not directly used in production or a capital purchase is considered a Maintenance, Repair, and Operating (MRO) supply or service. The operating budget, sometimes called an MRO budget, is generally a "catch all" for these types of supplies and services. In many organizations, the MRO budget is the largest chunk of money in the organization.

The budgeting process clearly defines the requisitioning and purchasing authority of employees. The delays in approval in any stage might be the reason for losing savings. It defines the requisitioning, purchasing, receiving, and payment processes. *The main challenge for savings is the payment lead time.* Extended payment lead time leads the supplier to quote high. Therefore

the buyer organization needs to keep the payment period in a standard tolerable limit or make the partial payment for the partial job done.

Ideally, the procurement department will be given enough time to make the purchase. If insufficient time is available, the purchasing department will be less able to develop adequate competition or engage in thorough negotiations activities that can result in a lower cost for the organization.

Reviewing stock levels

Stock left in warehouses is “dead money”. It costs money to store, can deteriorate and become obsolete. **Linking the purchasing system** to the inventory and accounting systems. This not only saves in staffing costs but also cuts down on mistakes. **Centralize warehousing** which can give great real estate and staff savings.

Step 2: Description of the need

When a need is determined, it should be described in writing. A written description of a need is called a specification. Specifications are important because they serve to communicate the requirements for the purchase to both the purchasing department and the supplier. Well-written specifications produce two important benefits:

- When multiple suppliers quote from the same set of specifications, the results provide an equitable or "**apples-to-apples**" comparison. This enables the purchasing department to select the best supplier.
- When specifications are clear, there is a maximum probability that the product or service will perfectly meet the needs of the organization and will not be fraught with quality defects.

Specifications often include acceptance criteria. Acceptance criteria indicate the conditions that the product or service must meet in order to be accepted and paid for. Acceptance criteria may be the measurements of a product, a level of performance of a piece of equipment, or results of a service. There are many different types of specifications, often called "specs." They include:

Performance specs – Performance specs define the result to be achieved by the product or service. For example, a performance spec for a piece of machinery may require that the machinery drill at least 80 holes per minute into 3/16" thick sheets of aluminum. Generally, performance specs allow the supplier complete discretion for determining how to meet the requirement. The risk for conforming performance of the end product is also borne by the supplier.

The risk transfers to the supplier. It opens the opportunity for good number of bids. In other words if the product does not work as expected it is usually the supplier's fault. It increases the power of negotiation from buyer's side since the buyer is getting adequate supplier. The buyer gets the advantage of negotiation as well as making savings.

Design specs – Design specs provide a complete description of the look of the product and indicate how the product is to be made, including the materials to be used.

Design specs usually do not address performance characteristic guarantees. Design specs maximize the buying organization's control of the end result. However, because the supplier is not allowed to deviate from the design specs, the risk for conforming performance of the end product is borne by the buyer. In other words, if the product does not work as expected, it is usually the buying organization's fault.

By preparing the design specs organization secures its cost and can make sure that no additional cost would be required.

Functional specs – A functional spec can be thought of as a description of things that a piece of equipment or software should do in various situations from a user's perspective. Functional specs may also outline a problem to be solved. Progress is measured by determining whether the equipment or software performs the tasks as described in the functional spec or whether the problem has been solved or not. When the equipment or software performs exactly as indicated on the functional spec, an evaluator or team of evaluators often signs off indicating the compliance of the equipment or software with the functional spec.

By issuing functional spec there is a chance to lose savings. The supplier can offer very high ended products with high price since this performs as per need. Whereas other low ended products available in the market with right price which functions as per need.

Blueprints/drawings – Blueprints and drawings provide a visual guide for how a product is to be made, including descriptions of the various parts that comprise the product.

It restricts the creative offers from the supplier as well as high price. It would be easier for the buyer to compare the price.

Trade name or brand specs – Often times, a requisitioner will describe a needed product by its brand name. Many times, this level of specificity is not beneficial. Brand name specs limit the options that a purchaser has.

The fewer options, or less competition, available to a purchaser usually results in overpriced products or services. For example, if organization had to buy Nokia branded mobile phone only, the organization may not be able to take advantage of savings that would be available if they could buy other brands. One strategy to ensure the quality associated with a brand name while also increasing competition is to include several acceptable brand names in the specification (e.g., Nokia/ Samsung/HTC). However sometimes specific brand name saves the time and meet the requirement in best possible way.

Physical/Chemical specs – Physical/Chemical specs describe the scientific attributes of the materials to be purchased.

It restricts the creative offers from the supplier as well as high price. It would be easier for the buyer to compare the price.

So how does the specification development process work?

Specifications are usually initiated internally within the organization. They can be developed formally, with technical experts using a designed procedure method, or informally, where the requisitioner simply documents his or her requirements.

Occasionally, when an organization does not possess the internal expertise necessary to draft an adequate specification, it will seek the input of other individuals or groups. These individuals and groups include:

- **Suppliers:** Suppliers work with various customers' requirements and know better than anyone what is feasible, reasonable, and understandable. As such, purchasing organizations often knock this expertise in the specification development process. This should be done carefully.

However buyer needs to make sure that:

- ✓ They do not share one supplier's proprietary information with another supplier
 - ✓ They do not make a supplier do an excessive amount of work with no compensation
 - ✓ They have a trusted relationship with the supplier if they are not seeking the input of another supplier, and
 - ✓ The input of one supplier does not make any future competitive bidding unfair or less than fully competitive.
- **Consultants:** Consultants who have successfully specified a product in the past are a good resource for purchasing organizations that have never specified the product and have not learned what the pitfalls are.
 - **Other Organizations:** Organizations who have successfully specified a product before may be willing to assist an organization who is specifying a product for the first time.
 - **Professional Purchasing Organizations/ Agent:** Some purchasing organizations have been compiling specifications to share among their members.

Organization need to be very careful in specification preparation stage. If they can prepare it perfectly it will achieve savings by increasing negotiation power of the buyer and restricts unnecessary over specifications. Moreover it will help to reduce the chance of unsuccessful procurement activity.

There are a variety of downsides associated with specifications. Here are just a few:

- **Absence of standards** – Instead of designing a new product to make use of parts used in other products, a specification writer will require the use of non-identical parts. Failing to make use of standard parts eliminates the purchaser's ability to consolidate volume, thereby lowering prices. In addition, more inventory must be held, which represents additional cost to the organization.
- **Over-specification** – Specifications can be complex than they need to be. This often results in less competition and higher costs.
- **Under-specification** – The flip-side of over-specification is under-specification. It is where the specification writer was not specific enough. Under-specification is characterized by the omission of key details and/or overly loose limits on key parameters. Under-specification typically results in continual quality problems. Items may meet specifications but do not work in the desired application.
- **Out-Of-Date/Obsolete Specs** – Specs that worked in the past may not necessarily work in the present or future. A variety of things can change from the availability of new materials, to government regulations, to the end product in which a component is installed. Therefore, re-used specifications should always be reviewed for current relevance prior to release. **For example** now people are moving to smart phone from Java operating phone. So if the organization buys the java phone for its' business purpose due to low cost or it serves the purpose of talk, then the procurement might come into a worst ending.
- **Standards differences between countries** – A purchaser should be careful when releasing specifications to suppliers in other countries as standards and measurements may differ. In Bangladesh if we specify for British Standards in the specification, then there is a chance to not get adequate proposal. Moreover any British company might offer

with high price since they have to include duty costs. But in reality British Standard was not required.

- **Biased/Slanting specs** – Slanting specs are specifications that unnecessarily exclude otherwise acceptable products or suppliers. Because slanting specs reduce competition, the purchasing organization will probably pay higher prices for it's' needs. **For example** a specification for a tablet computer that requires compatibility with apps downloaded from iTunes.

This will also be the cause of dissatisfaction for the bidder since they found it biased specification. On the other hand the right bidder will quote high since he knows that he is the only one to quote.

Scope of work (SoW)

While a description of a service is often referred to as a specification, it also can be called a Scope of work or Terms of Reference (ToR). There are some special considerations with Scope of work.

Scope of work (SOWs) state what is to be done, when it is to be done, and what constitutes an acceptable result. Statements of work may feature details such as inspector evaluations, testing, quality, paperwork, upkeep, and more. Generally speaking, **Scope of works (SoW)** includes:

- Objectives
- Background information such as the history of the problem, why it needs to be solved, possible limitations etc.
- Project requirements such as what needs to be done, quality standards, division of responsibilities etc.
- Work breakdown structure – a division of the service into distinct segments
- Schedule (Time period)
- Deliverables – specific, tangible, and measurable tasks that must be accomplished

- Hold points or milestones – Points in time where the purchaser and supplier can assess the quality and timeliness of the most recently completed segment and the project as a whole. Often times hold points and milestones are used to give the option to the buyer to terminate the services or withhold payment until the work is performed satisfactorily.
- Reporting requirements
- Performance evaluation factors and acceptance criteria

Poorly written SOWs result in services that fail to meet quality expectations, financial and time loss, unfavorable costs and disagreements and litigation.

Well-written SOW Promotes proper scheduling, forecasting, and coordination of resources, leads to proposals that are both comparable and aggressive in terms of good pricing and other attributes and reduce, if not eliminate, confusion.

The next step is reviewing the need and makes a procurement plan. Without a realistic procurement plan, it is almost impossible to perform procurement activities within planned time and budget.

“Good planning before undertaking a procurement process (and documentation of these planning efforts) is a key contributor to project success” (Andrea Deme, 2009).

“ Significant procurement planning and development of sound procurement strategies lead to consistently better value for money; higher quality project and service delivery; improved opportunities for sustainable procurement; and reduced risks to the agency” (Procurement Transformation Division, Queensland Government, April 2014).

The buyer can review the specification of purchased products. He/she can raise a question that is it possible to buy a lower spec that will do the same job?

Review replacement strategies

Renew items only when necessary and not as a routine replacement. Take care to factor in the cost of waiting for a replacement. So it is necessary to replace an important machinery part on a regular basis but it is not necessary to replace most lights before they fail.

Most of the savings opportunity missed due to lack in procurement plan and lack of standardization of specifications.

Step 3: Investigation and Selection of Potential supplier

In this third phase the main task of the buyer is to identify the possible appropriate bidder. Before starting the procurement process the buyer has to find out that which supplier they are going to approach. Good market research, rich vendor profile, supplier development program can help to identify the right supplier. Professional buyer should always prefer the manufacturer or its authorized distributor. Sometimes it would be wise decision to go to distributor instead of the original manufacturer. Since local authorized distributor can give better service. On the other hand the buyer might be a nuisance for the manufacturer due to low value purchase. So, the buyer has to keep in mind in which box they are in as per supplier preference model:

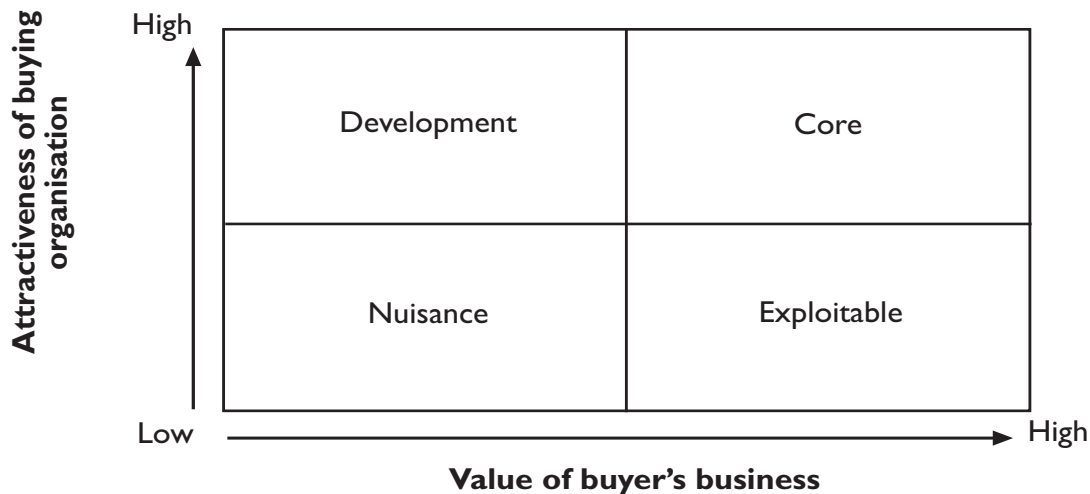


Figure 5: The supplier preferencing model

If there is a chance to get the economies of scale then the buyer should go straight to the manufacturer to get best discounted price.

Again there is difference between large organizations vs. medium/ small organization. For any customized products large organizations decline to quote since they have ongoing products in the

pipeline. Minimum order quantity is much then the buyer's need. In that case small/ medium is the best option for buyer.

Buyers can circular **Expression of Interest (EOI)** or **Pre-qualification Questionnaire (PQQ)** at the beginning to get the most appropriate supplier. It saves time in the main procurement process since through this process the buyer will only get the eligible suppliers' quote. Sometimes, especially for critical goods or services, identification of potential bidder or short-listing of bidder becomes evident before floating of bids.

Preparation of bidding documents is a critical process and it actually laid the foundation of five rights (supply of right goods and/or services at right place, at right time, and at right quantity from the right supplier/service provider). A bidding document should be transparent, clear, meaningful and free from any ambiguity and biasness. Contract management policy guideline should be incorporated in bidding document. Organization can arrange a **pre-bid meeting** where the procuring entity extensively discusses the purpose of the bid/assignment; seeking opinion from the potential bidders; and finally the entity makes some modifications on their requirements.

Another important consideration in preparing bidding document is setting **evaluation criteria**. It is frequently observed that some of the goods with low initial cost has high maintenance cost and conversely those with high initial cost has low maintenance costs. **For example**, a car with low purchasing value might have high fuel requirement and high expenditure against spare parts than that with high purchasing cost resulting in higher cost during its lifetime. For this reason, Life Cycle Costing (LCC) or Total Cost of Ownership (TCO) is becoming popular day by day. Inclusion of LCC as an evaluation criteria will provide *“an excellent tool for making a selection among the competing contractors; useful in reducing the total cost”* (Dillon, 2013).

However, life cycle costing or other criteria for evaluation should be incorporated in the bidding document and should be matched with the specification included the bidding documents. All these activities demands high level of expertise in procurement. There is always a misconception from the supplier site that is the supplier has been selected based on the lower cost but this is not

the true fact always. In the evaluation criteria mark has been given based on the product quality design sometimes aesthetic point of view, delivery lead time and other cost etc.

When a buyer evaluates the bid of supplier he should have a solid idea about the cost component, the hidden costs and the legal issues. Due to achieve savings sometimes the buyer ignore the safety issues which threaten the organizations' reputation and even existence.

The main risk factor lies in the evaluation process. The buyer has to think about not only value for money but also Great Value for Money. The buyer has to forecast and predict the future.

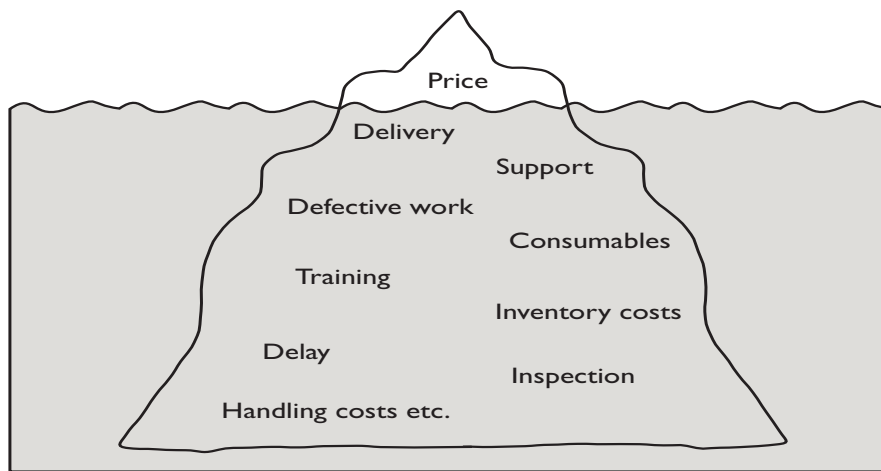


Figure 6: Price iceberg

In procurement, there is an **evaluation committee** which performs evaluation of bids. There is a very little scope to show elegance in evaluation process. The smart evaluation is that evaluation which conforms all terms and conditions as outlined in the bidding documents and also within the legal framework under which the organization operates.

However, *“In principle, the evaluation process should include not only the analysis of the potential supplier’s response to the main subject matter of the requirement set out in the ITT, such as price, delivery, quality, methodology, for example but also, most importantly, the quality of the bidder’s offer”* (Else, 2007).

Negotiation is an art, and it demands extensive knowledge on procurement environment which is generally not sufficient at institutional level. *“Even well-intentioned negotiators can make the*

following three mistakes: failing to negotiate when they should, or negotiating when they should not, or negotiating when they should but choosing an inappropriate strategy” (Lewicki et. al., 2007).

There is a misunderstanding regarding savings that savings can only be achieved through negotiation. Therefore sometimes vendor decline to attend for negotiation meeting since they cannot lower down their price. In the negotiation table the buyer should not only focus on price only. To achieve savings there are other ways like partial delivery, vendor managed warehouse, after sales service, attainable service level agreements, extended warranty periods, additional facility, inspection cost bear by the supplier, extended or partial payment, legal issues, information sharing, dedicated team allotment, priority customer etc. **For example:** In Bangladesh Standard Chartered Bank opened an exclusive branch of United Nations.

Step 4: Preparation and issue of Purchase Order/ Contract/ Framework Agreement

After selecting the supplier now it turns to issue contract. The contract should be accomplished in accordance with terms and conditions that have settled in bids and negotiation.

The buyer should issue purchase order as soon as the agreement settled down among the bidder, the client and the purchasing team. Otherwise the offer validity might expire and there is chance of price hiking in the market which is unavoidable. The supplier should acknowledge the contract as soon as he gets and arrange the necessary activity.

The purchase order and contract are the same term, a legal document by which the buying organization gives order to the supplier for a specific delivery in exchange of value. But Framework Agreement (FA) is a different term. By which organization agrees to buy estimated quantity for same years. FA helps to achieve savings in two ways which is cost and time. Due to economic of scales and for a long secured business the supplier offers better price. If it is subject to stock the risk lies to the vendor since the buyer only receive the goods through call off contract against FA. For a longer period the buyer does not have to run the full tendering process which saves the time and management cost. Duplication of the works also has been minimized.

However the buyer needs to review the price in each year or after a specific time. Due to material or input cost the price might be decreased and the buyer might lose savings if he pays the same price. In the other part there is a risk of increase in the material price or input price. So bearing in mind, the supplier will quote high to avoid any financial lose in future. In that case if they see the opportunity to review the price then each year they would provide competitive price.

Again buyer should issue Framework Agreement more than one supplier to avoid any risk of unavailability. This also ensures healthy competition within the contractor and organization can achieve savings without investing much time.

Step 5: Follow up the order

Contract management is a crucial stage for successful implementation of work, delivery of goods or completion of assignment. However, contract management is generally guided by the terms & conditions outlined in the contract documents. This again reminds us the necessity of a good bidding document – the crucial task of procurement experts.

For some specific works contract management is the most important task to get the best results. For example, software program, training program, refurbishment works and promotional field works etc. The buyer has to follow up with the supplier regularly. In some cases supplier approval and intervention is must. For example, for refurbishment works some furniture and IT equipments are needed. The main supplier has to buy the goods for the buyer. In that case the main buyer can suggest some good vendors to get the better price. Since the cost will be bear by the buyer, so it contributes in the savings. Again if supplier delays their work, the additional hidden cost has to be bear by the buyer. So by managing the contract effectively the buyer can control the cost and can bring some savings.

Step 6: Processing discrepancies and rejections

After completions of the delivery the buyer moderator the goods whether the delivery is as per contract or not. Some organizations arrange pre/ post delivery inspections. If the buyer arranges pre-delivery inspection and receives the goods after receiving the release note then it is safer for

buyer and he does not have to bear any additional cost. If he receives the goods with non-compliance it will cost since he has to arrange reverse logistics.

Good negotiation is compulsory for any discrepancy. If the supplier fails in the first inspection due to non-compliance and the supplier can correct this fault, then the supplier needs to bear the additional inspection cost.

For delay in supply, the supplier has to offer a backup plan. Suppose the supplier is contracted to deliver 100 laptops but these goods are stuck in the port. The buyers' staff is in the need of laptops. In this scenario the supplier can offer 100 alternative laptops for the time being. Since this is suppliers' end fault. This type of strategic negotiation can help to reduce the cost as well as achieve savings.

For any inefficient service done by the service provider, can be a cause to dissatisfaction. Since the job is done with no achievement the buyer can seek for a discount from the service provider. Buyer can claim additional service since their performance did not meet the objectives. Or supplier can work for additional time with no extra cost.

Step 7&8: Auditing the transactions & Closing the transactions

After completion of the above mentioned stage the buyer process the payment. At the time of payment the buyer audit the whole transactions whether the supplier provides the goods/ service according to the contract or not. After receiving final confirmation from the client, they release the payment.

For some service or works, the buyer holds few percentage of payment as retention money. This ensures the liability from the supplier side as well as secures the buyer. Of course holding money has an impact in the fund.

Step 9: maintenance of files and records

Closing of contract is a very straight forward step and normally done by the organization. However, the procurement department can gather some lessons from all steps and provide constructive feedbacks to the organization.

The buyer can share their experience and the achievement of this procurement in their internal web portal. They can show the figure of the savings as well as how they achieved. This will be a learning part for the other staff to achieve savings in the future. Moreover it will act as inspiration for the staff.

CHAPTER-4

Analysis of survey results

4.1 Introduction

This chapter analyzes the result based on open ended questionnaires. Results are presented less in graphical rather it is descriptive. Conversations with senior business and leaders show lack of action is not an option. Executives across both the public and private sectors are under intense pressure to reduce costs. In an era of greater economic seriousness, no organization can afford to turn a blind eye to waste through buying of it products, services and assets.

4.2 Nature of field level study

Throughout the chapter 3 procurement cycle and the area where an organization can concentrate to achieve savings has been discussed. Three different open ended questionnaires have been developed to get the views of procurement practitioner, the client of the procurement team and the vendor. To know the way of achieving savings a field level survey is essential. Questionnaires for field survey are attached in Annexure-I, II &III.

As mentioned earlier, the aim of the research is to identify various scopes of savings in the procurement process and the ways of achieving savings in procurement process. In this context, the questionnaire was developed in such a way that it will provide the view and suggestion from each stakeholder of the procurement. Since the client initiates the procurement request, they can contribute in savings in various ways (for details please see Annexure-I). The vendor can directly help to achieve savings in many ways (for details please see Annexure-II) and the experienced procurement professional can suggest a lot of ways (for details please see Annexure-III).

In relation to chapter 3, the scope of savings lies in each stage not only with the procurement team but also with the relevant stakeholders therefore all of their view was needed.

4.3 Summary of findings:

4.3.1 Introducing new-fangled procurement practices:

There are many opportunities to achieve cost savings from the procurement process. But the big benefits are likely to only be achieved through a change in the cultural mindset of the organization. Workforces need to fully understand that they cannot simply order what they want in an ad-hoc manner. Successful and efficient procurement requires a structure. And that structure will help the business to unlock the benefits associated with smarter purchasing. Before starting the procurement process organization have to keep in mind the following issues to achieve savings as well as work efficiently:

✓ Avoiding maverick spending:

Organizations' procurement processes needs to be efficient and include sufficient controls to ensure that **maverick spending**¹ is eliminated or kept to a minimal.

As per the survey 73% respondent suggested to keep a minimal limit for maverick spending until it mandatory for urgent issue. The client also prefers to avoid maverick spending since it kills their time for their core job. Rather then they prefer to involve in the evaluation stage or in the specification preparation stage. Cross Functional Team (CFT) is a great motivation for the client.

✓ Merge similar orders for better pricing:

Some organizations' procurement processes are ad hoc and lack transparency. Ad-hoc purchasing is never the best way to buy goods or services. Prices can vary depending on which individual is purchasing from which organization. Organizations that look to move away from this ad-hoc approach and to consolidate similar orders can start to achieve better pricing.

¹ **Maverick spending** is purchases made without the involvement of procurement, and typically without complying with contracts or existing processes.

Smartly-designed Procurement ensures single orders across the organization are made at the same time.

90% buyer stated that getting the procurement plans on time from each department help them for to make better procurement planning. Introducing of e-Procurement will ease this process, since the user can share their data maintaining a specific standard and the buyer can categorize this based on specification. However this is not practically possible for different types of organization and projects.

✓ **Encourage to issue Framework Agreement based on the procurement master plan:**

Employees can buy the products and services they need from pre-agreed suppliers. The approach creates an online shop window, maximizing compliance and ensuring that the best value from negotiated contracts really is achieved. Based on the forecasted plan, the buyer will issue **Framework Agreement (FA)²/ Long Term Agreement** with the agreed supplier. Then the end user will issue call-off contract against the Framework Agreement. There is a risk that sometimes the supplier will be unable to deliver the service/ goods on time. In that case the buyer needs to issue FA with more than one supplier to avoid the risk of unavailability.

However despite the critical work of the buyer, there is no guarantee those different end users within the organization will definitely buy from the agreed source. Individuals within the organization might choose to purchase products from their own preferred source. There is an opportunity here to use technology to guide users to the best deals that have been negotiated on their behalf.

As per survey results 80% buyer, client and the vendor prefer Long Term Agreement.

² An agreement or other arrangement between one or more contracting authorities and one or more economic operators which establishes the terms (in particular the terms as to price and, where appropriate, quantity) under which the economic operator will enter into one or more contracts with a contracting authority in the period during which the **framework agreement** applies.

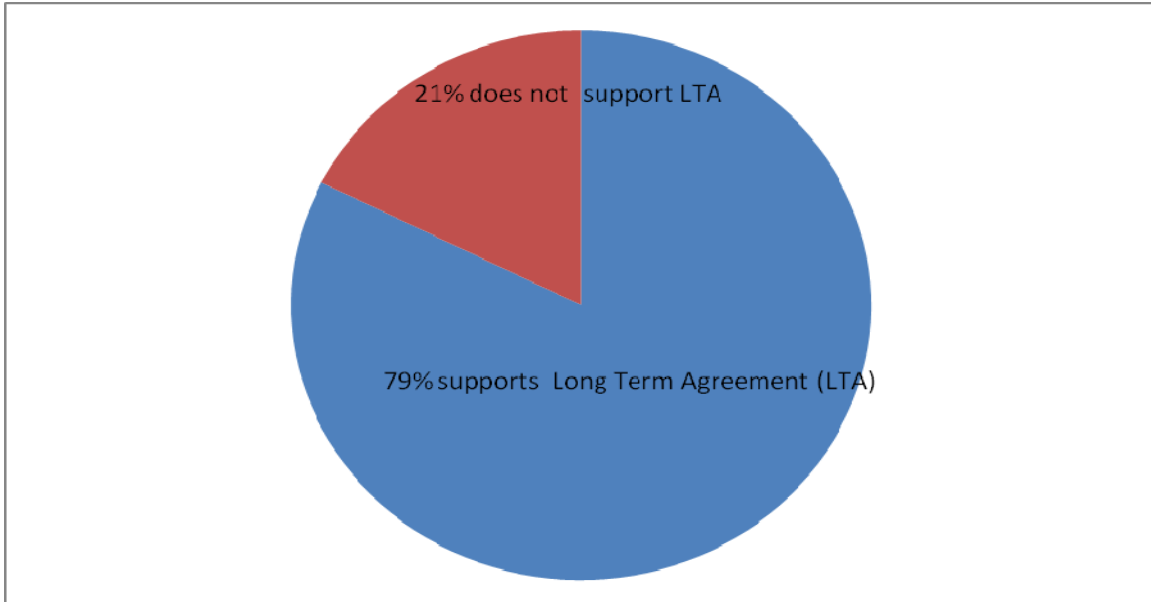


Chart 1: Long Term Agreement preference

LTA may not be that much effective tool as price factor may not be possible to keep static due to change on technology and subsequent add on cost. For capital investment where supply objective is to ensure best value for money, one off contract is more applicable. Long term contracts with the options of exit clause with the supplier financially benefits the buyer. The buyer needs to lock the supplier for the supply commitment and the price in the uncertain environment. For the products with higher level of uncertainty in volume & price will give more financial benefit than that of stable demand products. If the demand falls or price decreases drastically than that of expected, then long term contract would have threat of losing financially. In that case buyer needs to exercise the exit clauses if the agreement was done with keeping provision for that. It depends from product to product and services to services.

For the routine products might not be needing any long term contracts, for the services like transport, IT, security services, etc. could be better for long term contracts with renewal (Auto or conditional).

✓ **Category Management:**

By building and investing in high-performance procurement teams, focusing on improving category management and enhancing suppliers' capability, the leading procurement organizations have also continued to boost their performance. Many companies have not improved their procurement performance because the function is not given responsibility to take the lead for major spend categories nor consider broader opportunities to create value.

As per the survey results except large manufacturing none of the organization has developed this.

✓ **Create specialists to manage categories:**

Sometimes procurement professional feels purchasing something that was outside area of their expertise. Many organizations allow non-experts to purchase resources. The alternative is to enhance their category management and to get specialists within each category to purchase on behalf of the organization. Procurement team can then be used to route requisitions across the organization to these specialist category buyers. *The result is the right products at the right price.*

Procurers are in effect **sourcing specialists**. They typically negotiate contracts to create the best possible deal for the organization. *This activity is most applicable for service contract and in capital expenditure.*

✓ **Introducing Spend analytics**

Top-quality spend analytics technology aggregates purchasing data and provides executives with insight into savings opportunities and compliance concerns.

However at the same time, spend analytics is often the unfairly overlooked tier of procurement. Without quality analytics, the organization will not have access to the type of knowledge that helps trusted workers go out to tender for the most competitive bids. Spend analytics provides detailed information on suppliers that allows organization to go out and tender jointly across the organization, potentially generating even more in terms of cost savings. By comparing all

purchasing across the organization, procurement professional will be able to see when its people are spending more on specific items in each department. Analytics allows business to act together and become stronger. With increased knowledge of spending comes the ability to create a single pricing structure for the business. **Spend analytics is in short the final piece of the procurement jigsaw.**

✓ **Share performance data within the organization:**

Weak strategic and organizational links to the rest of the business and difficulty communicating the function's return on investment also affect the function's success. Leading procurement organizations communicate what the function delivers to the company in the terms that the business can understand, typically by using finance organization language to measure and share performance data.

Both the buyer and the client interested to know the previous data of the purchase like what product has been purchased, the procedure, savings information, availability etc. Therefore organization can share this data in their intranet or web portal for their staff. This is easily possible through e-procurement System. New staff or the other part of the organization can learn.

✓ **Supplier tiring (Rationalize suppliers, increase per supplier spend and negotiate better prices):**

Most organizations will source products from thousands of suppliers. The key question for organizations drawing on such a large pool of suppliers is which firms are really important? For many organizations, the question will be too difficult to answer. Thousands of suppliers can be rationalized into a top selection of preferred or strategic suppliers, with whom organizations can start to automate the purchasing process and increase per suppliers', spend. Enabling top suppliers in such a manner helps to create a virtuous circle, where return spending with the same suppliers allows buyers to negotiate far better prices and more control in the main task. It also reduces the risk of breach of contract for the supplier in the second tier. It also lowers down the job of the procurement professional. Thus lead them to work strategic job perfectly. A chart has been included to understand the layer as follows:

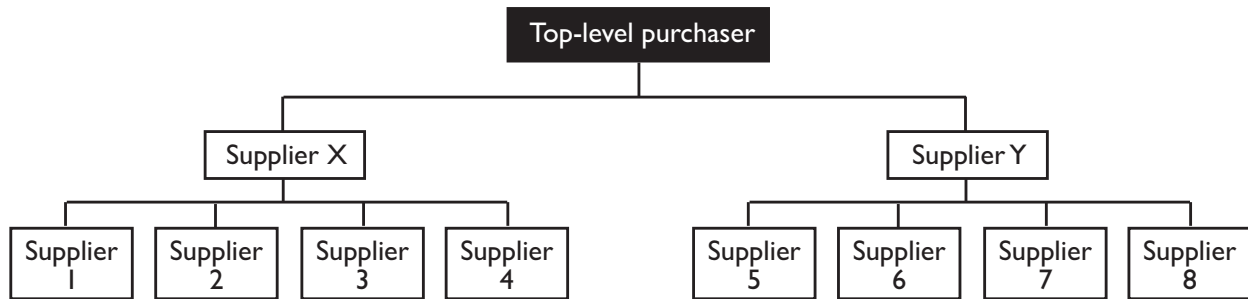


Figure 7: Supplier tiering

The buyer should focus on the main supplier X and Y. This would reduce the procurement cost, administration cost and other financial risk.

✓ **Ensure sourcing from the most cost-effective suppliers:**

Great employees will treat their organizations' cash as if were their own. Comprehensive contract control, as a form of great business procedure, is fundamental to realizing administrative savings and providing the platform for ongoing savings. But to give employees the opportunity to effectively control sourcing costs, buyer will need the right type of tools to help staff manage the pounds and the pence. An integrated procurement tool that helps workers ensure the business is sourcing from the most cost effective suppliers.

To ensure this cost effective suppliers the buyer sometimes prefers distributor over manufacturer. It depends on the distribution network design structure of the Supply Chain for the specific product. Few products sold directly from the manufacturer to the customer and few flows through supplier → manufacturer → Distributor → retailers → Customers. **For example**, basic raw materials is sourced directly from the manufacturer bypassing the distributor – because of the customized products, and the distributor might carry only the off the shelf products. In most of the cases it is a bit cheaper to get the goods directly from the manufacturer but disadvantage is longer lead time and complexity in the return logistics. Most advantage is the price and quality assurance and manufacturer gets the economies of scale and to reduce the lead time of the direct

sourcing need to give better forecast so that manufacturer can produce against the forecast and can reduce the lead time.

On the other hand for Dyes & Chemical – as most of the dyes are generic dyes and the suppliers are mostly in Europe, it takes very long lead time and high stock holding to source directly from the manufacturer. In that case the buyer can purchase locally or regionally (Asia) from it reduces the lead time and reduces the inventory carrying costs. But buying from the distributor might require additional cost which should be traded off with the reduction in the inventory carrying cost.

✓ **Strong due diligence process/ Vendor enlistment process exemption criteria:**

Most of the organization has vendor enlistment process. Some of the organization called it Due Diligence process. The newly established organization or small and cottage industry sometimes fails to meet the criteria of this enlistment process. But their product has the good quality and they can offer better price compare to the other established company. Their running cost is lesser than the big companies. Moreover they are subsidized by the local government in terms of taxation. In that case organization's enlistment policy can be flexible for this type of organizations with some exemption. This would ensure better service with better price. The buying organization would be the priority customer for them. On the other hand the buying organization would be nuisance to the big established organization.

From the survey it has been found that most of the organization has the complex vendor enlistment process which sometimes flexible for one off purchase. Though this complex process ensures the competent vendor but does not ensures savings. The interviewee accepts that they had to lose some right vendor for this complex process.

✓ **Combination of Centralized and decentralized procurement:**

Centralize disparate purchasing functionalities, which allows for savings in staff, processes and technology. But sometimes some items purchasing should be decentralized according to the local needs. **For example**, a food company manufactured honey flavored foods. Most of its'

ingredients procure through international Framework Agreement which cost additional duty and other costs. Honey is much cheaper in Bangladesh and easy to get. In that case it would be perfect through procured from Bangladesh through decentralized procurement. So according to the need and benefits the organization should take decision that whether they would go for centralized and decentralized which gives them better price.

✓ **Regular Training for staff**

The organization can arrange quarterly or half yearly training program on savings. This must include the buyer as well as the client of the procurement team since the need is recognized by them. The senior staff will share their experience as well as new idea should be welcomed. The other organization can be invited or expertise can be invited for knowledge sharing.

As per the survey result the buyer suggested some training facility for the relevant employee will help to focus more on the process and therefore savings could be achieved. These training includes: Negotiation, Warehouse Management, Vendor Management, the product knowledge etc.

✓ **Cultural mindset of the organization and its employee:**

There is a perception problem surrounding procurement. Unlike other operational business concerns, such as human resources and facilities management, procurement is viewed as the low-level act of simply purchasing ‘things’ that the business needs. This view is misguided, not least because these ‘things’ rather than simply being stamps and pens include high-ticket items, such as capital projects. **Organizations that only look at the small elements associated with procurement are failing to understand the total picture.**

Just like some of the abovementioned operational business concerns, procurement really is a higher-level concern that plays organization. Some executives believe that procurement is not related to strategic activities, like category management and supplier relations. But procurement is actually directly related to such activities. Effective cost management across the organization will ensure that tools and policies are adopted which help to create an integrated view of information across the organization.

Lastly much of the success related to unlocking the hidden savings from procurement will rely on significant cultural and behavioral change. Businesses looking to tackle micro-level procurement concerns will need to ensure that all employees are up for the challenge. There is no point attempting to drive transformation if some individuals are not engaged in the project. **Good procurement is everyone's responsibility.** Start to tackle the macro-level issues of perception, strategy and culture will be ready to start unveiling the hidden savings of procurement.

✓ **Demand reduction in each level:**

Some procurement activity reduces the demand for a particular product/service. For example, new video-conferencing technology negates the need for travel, fleet and other expenses. If the buyer can demonstrate that there is no negative impact on productivity or service, the difference between the cost of the original and new demand levels. **For example** flight is a tangible saving.

✓ **Introducing Cross-functional team:**

Introducing Cross Functional Team (CFT) in the procurement plan, specification preparation stage and in evaluation stage opens the opportunity of knowledge sharing. Therefore the team member can share their point of view which prevents a wrong procurement and the buyer can more efficiently contribute in savings.

For example, buyer can suggest the client regarding product and time schedule. Therefore the client can request for the right product instead of costly one. If the client involves in evaluation stage they can omit some parts if they find it not required.

From the survey it has been found that less than 40 % organization has CFT and the client is no longer involves in the procurement process.

4.3.2 Introducing e- procurement in the organization:

Organizations are failing to improve procurement for a range of reasons. Micro reasons around poor data, processes and coding structures are persistent concern which has been discussed below:

Poor data:

Procurement activity is typically driven through the financial system. While this common practice is not necessarily wrong, such a process can mean procurement plays second hoax to accounting concerns. Such errors must be avoided. A full picture of organizational spend will require accounting and procurement to be treated as equal and integrated partners. Part of the move towards authority is about ensuring payment information is stored and classified in a way that allows people to do their jobs properly. Companies must prioritize education about the impact of poor data and the importance of good data. There is a subtle and crucial difference between classification and coding. Organizations will at the most basic level create codes in their procurement databases that allow deeper dives into spending on particular products, such as pencils and paper.

But organizations must be careful not to over-code few executives are going to want to know the specific spend on pencils; keeping track on a specific category - such as office supplies - will help identify hidden procurement savings. **Coding is important but categorization will provide the real wins.**

Poor processes:

When it comes to automating procurement, an error is often made. People try to simply repeat existing manual processes in an IT system. Once that error is made, payback will always be tough to receive. Too many organizations fail to analyze the nature of organizational transactions before system implementation. Buyer will need to do micro-level homework before they start tinkering with the technology. That means no more ad-hoc purchasing, where individuals react to

specific requirements rather than strategic purchasing needs. Buyer's homework should also focus on rationalization, ensuring multiple sources for potential suppliers are focused around a core set of common products and firms.

Therefore the organization can take a big move by shifting into e-procurement policy. The right E-procurement tool creates a shopping style approach to requisitioning, allowing employees to purchase online from a series of approved suppliers. Authorization and routing must be provided as standard, helping organizations to become fully automated. Automating the buying of items means that more information is available to the business. The more purchases that are put through an electronic procurement system, the greater the ability of the organization to view where money is being spent and the greater the opportunity to increase spending control, providing visibility and transparency.

E-procurement also provides transaction cost savings. As large parts of the electronic data associated to each invoice can be retained in the system, the amount of time allocated to the re-keying of information can be slashed, sometimes by as much as 70 % or 80 %. And once purchasing is automated, it is easier to ensure employees only buy from approved suppliers. The result is a reduction in maverick spending and impressive unit cost savings. The responses from the respondent regarding supporting of E-procurement as shown below:

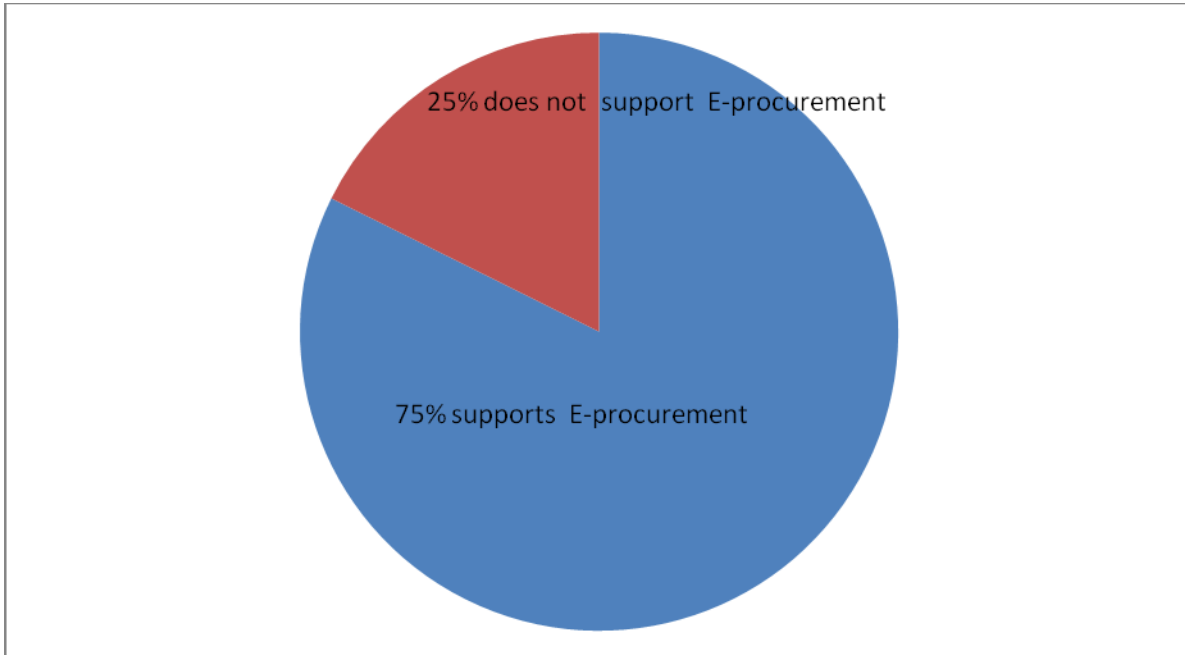


Chart 2: E-procurement preference

Under E-procurement organization needs to introduce E-purchasing and E-Invoicing to get the maximum result of this technology. The way and benefits has been discussed below:

eSourcing

An eSourcing tool covers the entire tender management process, from design and estimates to the final contract award and on-going contract management. The technology is designed to be easily integrated with back-office systems, using standard technologies such as web services and XML. A flexible and highly configurable tool, it offers full compliance with recent EU procurement directives. The web-based solution, quite simply, improves the exchange and management of information, ensuring workers is able to work collaboratively and to create effective procurement strategies across the business.

eInvoicing

Manual invoicing is a laborious task. From accounts received to accounts payable, an invoice passes along a production line of tasks, including printing, sorting and registration. eInvoicing is all about using technology to make manual processes redundant. That change can sound concerning to a supplier, who fears they might need to modernize traditional invoicing processes. In fact, cloud invoicing means suppliers only need to email their PDF invoice to the buyer. Advanced Cloud Invoicing manages the email inbox on behalf of the buyer, where invoices are automatically converted into an electronic format for use by employees across the organisation. The result is more time - once invoice data is in the cloud, there is no longer a need to enter data for each task in the organization. *Workers are then free to work on other, more valuable processes.*

If some of suppliers are technical laggards, do not assume they will not want to comply. It is also in their interests to become more automated. Rather than creating obstacles, buyer can help the suppliers to go electronic for those that cannot create PDF invoices; invoice receipt team can provide a service to create documents in the right format. Outsourced paper handling uses, expert assistance to ensure all paper invoices are scanned and stored in an electronic format that allows for the automation of procurement processes. Once everything is electronic, organization will be able to implement document management technology to really drive improvements in search. Presenting all data in the same searchable format means employees across the firm can look up previous orders, deliveries and supplier invoices to ensure the best results are always achieved.

4.3.3 There are some ways to count savings. These are:

- ✓ **Cost increase avoidance** – Where a price increase or above-budget initial tender is reduced so that it's closer to budget, or a cost increase (including the retail price index or above) is reduced or negated. The difference between the agreed and offered prices is the cost increase avoided. If the agreed price goes below the offered price, there is a price-

reduction saving in addition to the cost increase avoidance. Note cost increase avoidance is not a tangible cash-releasing benefit.

- ✓ **Added value (Better terms on warranties/guarantees)** – where an improvement in terms leads to a more-for-less or more-for-the-same situation. **For example**, a warranty might be included for the same price as that for which the product alone was historically purchased. This is only a tangible cash-releasing benefit if it can be demonstrated that the warranty or maintenance was being paid for previously.
- ✓ **Inventory management** – where improvements in inventory management lead to less inventory held. The buyer can claim a one-time cashable saving for the current contracted value of reduced inventory.
- ✓ **Procurement-effort avoidance** – where the use of an existing collaborative contract/agreement means the buyer does not need to undertake procurement activity. The buyer can claim a cashable saving for the pro-rata reduction in staff time (the value of staff time based on full costs and overheads, or 1.5 x staff members' salaries).

- ✓ Savings and benefits typically result from three broad types of procurement:
 - **Renewal** – where the term of a contract (or agreement) has ended and it's renewed through a procurement activity. A renewal activity often has a strong historic baseline that buyer can use to compare and quantify the savings/benefits the activity creates. However, any specification changes should be identified and considered in the comparison. **For example**, in property maintenance contract the buildings involved might have changed, or a contract for new vehicles might have different safety specifications from the original.
 - **New** – for procuring products/services for the first time, outsourcing existing services or undertaking a one-off procurement activity. New procurement also requires an appropriate baseline for comparison, such as the budget in the original business case (as long as it is realistic).

- **Renegotiation or improvement of terms** – an interaction with an existing supplier that results in savings to the business without a formal procurement process. The savings/benefits might be simple to quantify, such as those that result from reduced delivery costs, or bulk ordering that leads to supplier discounts or rebates.

4.3.4 Remember to consider when calculating savings:

- ✓ Whether the new arrangement includes any new components or categories
- ✓ Whether the new arrangement has higher or lower service levels
- ✓ Any supplier-imposed volume commitments that could limit buyer's potential savings (for example, if auditor has quoted a discounted rate if commit to a specific number of audits)
- ✓ The savings timeframe. This measurement process assumes that savings will be identified and reported upfront for the entire life of a contract, agreement or procurement activity. If procurement activity creates a saving that's not associated with any term, a full-year (12-month) effect should be reported unless otherwise agreed
- ✓ Currency fluctuations if a product/service has been negotiated in a foreign currency. Any fluctuations will be a treasury gain/loss, not a procurement benefit/increase
- ✓ The 'time value of money'. comparing current and predicted costs/savings over multiple years, and depending on the expenditure amount, finance team might require to define each year's cash flows in terms of their 'present value', using what's known as Present Value analysis.

The savings from a procurement activity are generally predictive using a baseline of historic practices, pricing and volumes – and for some agencies, that's enough to report the forecast savings. However, it's also good practice to report on the savings achieved throughout the contract and at its closure. Reporting on savings during the contract wherever possible, track the 'actual' delivered savings throughout the contract, taking into account any price variances. Buyer should also consider variations in volume (up or down), but exclude them when calculating procurement savings. Using this information, buyer can benchmark and compare service improvements or time efficiencies within organization and with other agencies. This should link

to ongoing performance and relationship management in conjunction with relevant supplier information. Reporting on savings at contract end Reporting on procurement savings at the end of a contract will help to learn from previous practice.

CHAPTER-5

Recommendation and Conclusion

5.1 Recommendation:

Procurement professional can take small steps towards greater purchasing efficiency. Executives looking for continuous improvement in the area of procurement can now turn to expert advice and specialist technologies, many of which are outlined in this paper. Some improvements around straightforward purchase requisitions and orders, for example can be implemented without significant process change. Other improvements might require a more significant overhaul of processes first. Spend analytics; for example can only be implemented successfully once purchases are coded and accepted standards for buying created. A concentration on the many brushstrokes that represent smarter procurement will help the organization to visualize the bigger picture around hidden savings.

After a long term analysis from the findings two solutions have been proposed as follows:

- ✓ The first solution is to introducing new-fangled procurement practices in each stage of the procurement process.
- ✓ The second one is to introducing e-procurement in the organization.

5.2 Scope of further study

There is huge scope of further study in savings in various organizations. This study has been conducted with a limited sample size and discussions with experts and the relevant stakeholders. An extensive study can be conducted in future based on the individual industry. Only a few types of private organization have been taken under this study.

5.3 Conclusion:

Any organization, no matter what the sector, can still identify and capture in excess of 20% cost down if they are prepared to redefine procurement's business structures, Operating models, processes, skills, tools and techniques. Procurement should be recognized as a bottom-line driven activity contributing through reductions in end products' costs and finding suppliers with new innovations.

In fact, it is not uncommon for an organization to be able to deliver up to 15% cashable savings in their current procurement spend through more effective negotiation, improved contract management and smarter engagement with suppliers and markets. Some of the complexities and issues involved with procurement might sound familiar.

Approach to procurement needs to be improved. No system, of course, is perfect. An organization has improved its procurement processes to near perfection; there will be techniques tools and approaches to create further improvements.

Finally, do not spend too much time on the details. Instead, work out the big ticket items that really account for procurement, with some estimates suggesting that 80% of transactions actually represent less than 5% of the spending associated with the business.

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Annexure I
Questionnaires for Client

A Field Level Survey

for

An analysis on Importance of unlocking hidden savings in procurement process in Private sector in Bangladesh

Dear Respondent,

A very good day to you. I have been doing a research titled “**An analysis on Importance of unlocking hidden savings in procurement process in Private sector in Bangladesh**”. This research is a part of requirement of ‘Masters in Procurement’ program under BRAC University.

The information you provide will be used absolutely for academic purpose. Participation in this study is voluntary, and, you are free to withdraw at any stage. Furthermore, all information you provide is confidential, and, in no way will personally identifiable information be made available without your knowledge and consent. If you have any questions regarding this research, please contact by the under-mentioned phone number.

For any question regarding the research please contact:

Mobile: +880-1817641113

Thank you for your participation

Nahid Nazim

Name:	
Designation:	
Department:	
Organization:	

How you involve in procurement activity:

Purchase requester: Yes/ No

Member of Evaluation Committee: Yes/ No

Member of Approval Committee: Yes/ No

Question 1: Is there any scope for the user/client to identify savings opportunity at the time of specification/ Scope of Works preparation stage? Please explain your opinion.

Answer:

Question 2:

A. Can client/ user work with the procurement team to achieve savings?

Answer:

A. Does your organization involve the client to achieve savings in procurement activity? If NO what constraints the organization to do so?

Answer:

Question 3: Are you comfortable with e-procurement and e-purchasing? Does it save organizations' money in any ways? Please explain.

Answer:

Question 4: Do you think that by the name of Savings you are not getting the right product/ service? If YES, please explain.

Answer:

Question 5: Did you notice that your procurement team is not focusing in some areas where there is a scope to achieve savings? Please name this area and explain the reason.

Answer:

Other comments:

Annexure II
Questionnaires for vendor

A Field Level Survey

for

An analysis on Importance of unlocking hidden savings in procurement process in Private sector in Bangladesh

Dear Respondent,

A very good day to you. I have been doing a research titled “**An analysis on Importance of unlocking hidden savings in procurement process in Private sector in Bangladesh**”. This research is a part of requirement of ‘Masters in Procurement’ program under BRAC University.

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For any question regarding the research please contact:

Mobile: +880-1817641113

Thank you for your participation

Nahid Nazim

Name:	
Designation:	
Department:	
Organization:	
Type of your organization	

Question 1: Does long term agreement with buyer financially benefits your organization or not?

Explain how.

Answer:

Question 2:

A. Are you comfortable with e-procurement and e-invoicing for your client?

Answer:

B. What is your observation regarding e-procurement? Does it beneficial or costly for you?

Answer:

Question 3: In your opinion what leads you to quote high for the client? Kindly explain elaborately.

Answer:

Question 4: What leads you to quote low for the client? Kindly explain elaborately.

Answer:

Question 5: Other then discounted price, what additional benefits you offer to your client in the name of value addition? Why you offer this service to your client?

Answer:

Question 6: Discuss how you can help your client to achieve savings in the procurement activity?

Answer:

Other comments:

Annexure III
Questionnaires for Buyer

A Field Level Survey

An analysis on Importance of unlocking hidden savings in procurement process in Private sector in Bangladesh

Dear respondent,

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The information you provide will be used absolutely for academic purpose. Participation in this study is voluntary, and, you are free to withdraw at any stage. Furthermore, all information you provide is confidential, and, in no way will personally identifiable information be made available without your knowledge and consent. If you have any questions regarding this research, please contact by the under-mentioned phone number.

For any question regarding the research please contact:

Mobile: +880-1817641113

Email: nahid_shawon@hotmail.com

Thank you for your participation

Nahid Nazim

Name:

Designation:

Department:

Organization Name:

Professional experience in procurement activity (In year):

Question 1: A. What kind of contract modality (E.g: One off contract, renew, Framework Agreement etc.) do you prefer for your organization? Kindly explain why you prefer this mode of contract?

Answer:

B. Does long term agreement with the supplier financially benefits the buyer? If YES, explain how.

Answer:

C. What could be the potential threat of issuing long term Agreement with the supplier?

Answer:

Question 2: To what extent your organization use Supplier Relationship Management/ Supplier Development Program? Do you think this kind of program benefits an organization?

Answer:

Question 3: In your opinion to what extent the client and the supplier are comfortable with **E-procurement** process? Does it save organizations' money in any ways? Please explain.

Answer:

Question 4: How an organization can attain a considerable amount of savings by outsourcing the job? Have you been benefitted by outsourcing or found it's a risk?

Answer:

Question 5: What are the advantages and disadvantages of choosing distributor over manufacturer and vice versa? Please explain.

Answer:

Question 6: Did you notice that your procurement team is not focusing on some areas where there is a scope to achieve savings? Please name this area and explain the reason.

Answer:

Question 7: In your opinion what lead the vendor to quote high? And what lead the vendor to quote low?

Answer:

Question 8: Do you believe that complex vendor enlistment process restricts small and medium industry to work with your organization? In your opinion how flexible the enlistment process should be and in which situation?

Answer:

Question 9: A. Is there any scope for the user/client to identify savings opportunity at the time of specification/ Scope of Works preparation stage? Please explain.

Answer:

B. In your organization do you involve the Cross functional team to achieve savings in procurement activity? If YES, how you are getting benefits from this cross functional activity?

Answer:

C. If the above answer is NO, What constraints the organization to do so?

Answer:

Question 10: In your opinion how buyer can contribute to financial savings for the organization?

Answer: