

Procurement & Purchasing

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What is procurement?

Act of obtaining/buying goods & services from external source which ensures that buyer receives goods, services at the best possible price.



Objectives of Procurement

Primary purpose is to satisfy the customer needs.

Others are :

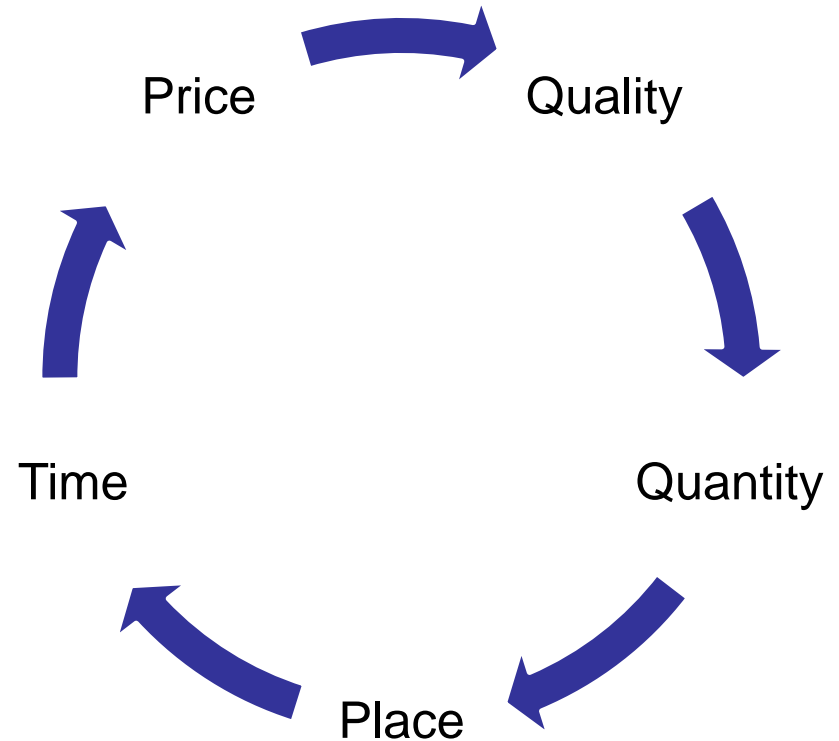
- Pay the right price.
- Save time.
- Avoid overlooking vital steps in the process.
- Minimize the risk of making a costly mistake.

Types of Procurement

Features	Direct Procurement	Indirect Procurement
	Raw material and production goods	Maintenance & repair
Procurement Size	Larger	Smaller
Turnover Rate	Smaller	Larger
Time for Ordering	Larger	Smaller
Accuracy of product information	More	Less
Cost of Product	Less	More

Five rights of Procurement

- Right Quality
- Right Quantity
- Right place
- Right time
- Right price



Right Quality

- Satisfactory quality & fit for their purpose.
- Otherwise may damage production machinery & increase the production cost.

Right Quantity

- Meet demands.
- Lack of stock may cause shutdowns in production, time waste & late delivery.
- Too much stock may cause waste of storage space & risk of deterioration.

Right place

- Delivery to the correct delivery point & ensure their safe arrival.
- Otherwise may cause unnecessary transport and handling costs.

Procurement Chain

Procurement Chain



Conflicting objectives in Procurement

1. In Purchasing

- Stable volume.
- Little variation in mix.
- Large quantities.

2. In Manufacturing

- High quality.
- High productivity.
- Low production cost.

3. In Warehousing

- Low inventory
- Reduced transportation costs

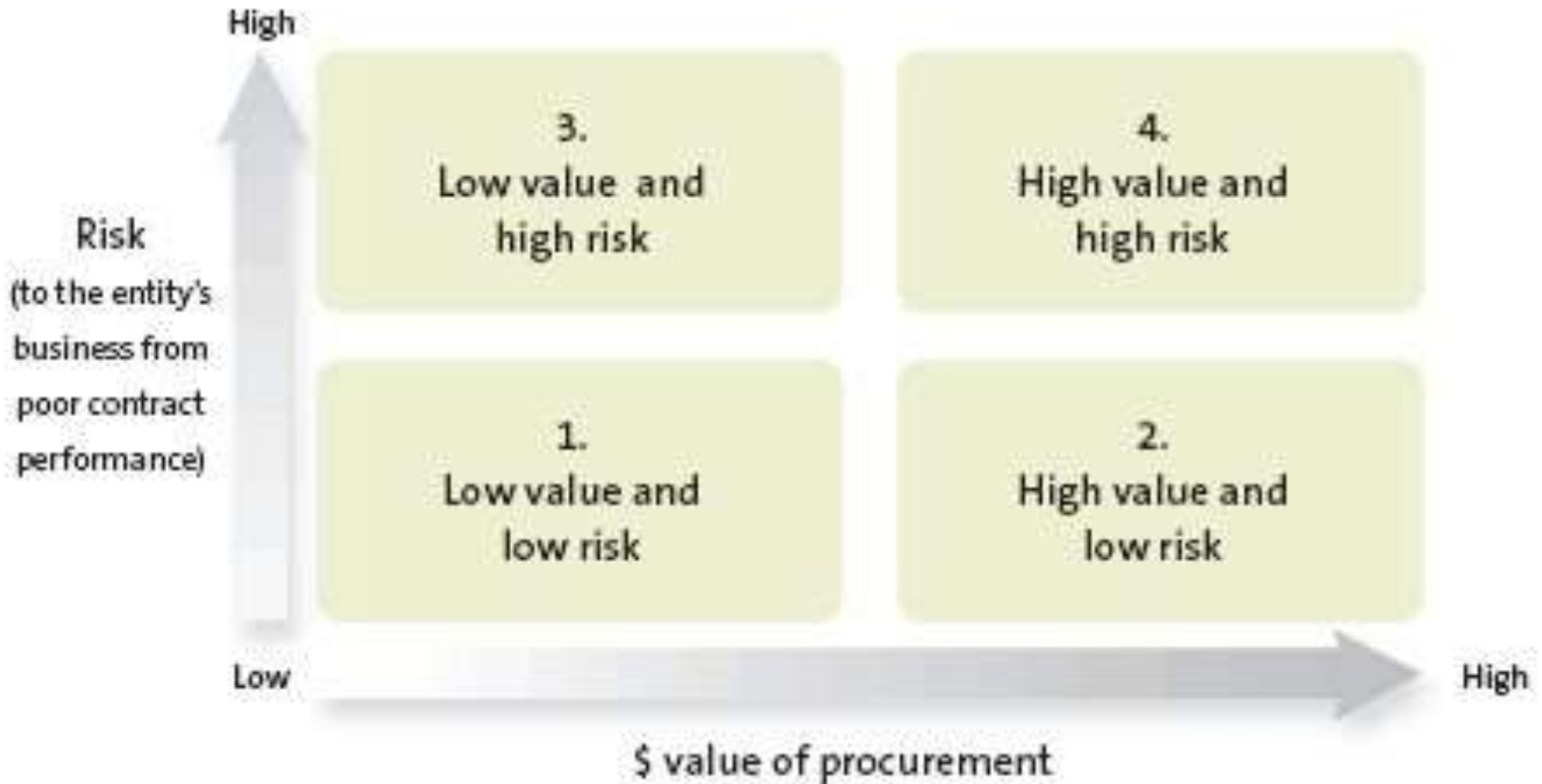
4. For Customers

- Enormous variety of products
- Low prices

Why should procurement be a challenging problem?

- Procurement chain network is often very complex.
- Procurement chain partners have conflicting objectives.
- Consequently, making everyone to agree is not an easy task.

Procurement strategy



Low value and low risk (Quadrant 1)

Goods or services in this category are usually low value. These goods or services can be routinely procured or procured as required.

The skills required for these types of transactions are generally administrative.

Keep procurement in this quadrant relatively simple to minimise procurement and transaction costs.

Document the administrative procedures for procuring goods or services in the entity's procurement policies and procedures.

High value and low risk (Quadrant 2)

Goods or services in this category are generally widely used by public entities, they have no special quality, safety, reliability, or environmental implications, they are simple to specify, and they have common standards.

However, high level procurement skills are required to establish and manage these arrangements (for example, setting up travel arrangements).

Aim to ensure that total costs, including the costs of processing large numbers of low value transactions, are reduced.

Consider if there is a need to address environmental issues about disposal, waste management recycling, handling, or storage.

Low value and high risk (Quadrant 3)

Goods or services in this category are usually highly specialised (for example, high-tech medical equipment).

There are often very few potential suppliers.

High-level procurement and technical skills are required to establish and manage these arrangements.

Price may not be the principal factor in the procurement.

Reduce exposure to limited sources of supply. This can be done through actively identifying alternative sources of supply and/ or changing the demand requirements of the public entity.

Prepare individual strategies or procurement plans for each procurement project in this category.

High value and high risk (Quadrant 4)

Goods or services in this category are often a complex “bundle” or “package” of services and associated goods that are critical to the service delivery of the public entity.

Long-term relationships with suppliers are common. Supplier attitudes to the public entity as a customer are often critical to the value the entity will derive from the delivery of the goods and/or services.

Focus on ensuring that the successful supplier has the ability, availability, and resources needed to work with the public entity.

Manage the relationship with the supplier to obtain value for money.

Have a detailed understanding of what is required, how the arrangement should be managed, and the market characteristics

Quantifying drug requirements

Critical issues in quantification

- Preparing an action plan for quantification.
- Using centralized or Decentralized quantification.
- Using manual or Computerized methods for Quantification.
- Estimating the Time required.
- Developing the drug list.
- Estimating Total procurement Cost.

Good pharmaceutical procurement practices

- Procurement Limited to Formulary List
- Order Quantities Based on Reliable Estimate of Actual Need
- Reliable payment and Good Financial Management
- Transparency and Written Procedures
- Product Quality Assurance
- Regular reporting on Procurement performance

What is a Purchasing System

- A method used by organization to buy products and services.
- A purchasing system manages the entire acquisition process, from requisition, to purchase order, to product receipt, to payment.
- Purchasing systems are a key component of effective inventory management in that they monitor existing stock and help companies determine what to buy, how much to buy and when to buy it.

Difference between purchasing and procurement

“Procurement” is the overall function that describes the activities and processes to acquire goods and services. Importantly, and distinct from “purchasing”, procurement involves the activities involved in establishing fundamental requirements, sourcing activities such as market research and vendor evaluation and negotiation of contracts. It can also include the purchasing activities required to order and receive goods.

“Purchasing” refers to the process of ordering and receiving goods and services. It is a subset of the wider procurement process. Generally, purchasing refers to the process involved in ordering goods such as request, approval, creation of a purchase order record and the receipting of goods.

Goals of Purchasing

- The goal of purchasing is not only to procure raw materials at the lowest price, but to reduce the cost of the final product. For ensuring this, there are a large number of well known parameters.

Goals of Purchasing

- Right price
 - It is the primary concern of any organization, but right price doesn't have to be lowest price.
 - The objective should be to identify the lowest 'responsible' bidder and not the lowest bidder.
 - The technique of 'learning curve' also helps the purchase agent to determine the price of items.
 - Price negotiation also helps to determine the right prices.

Goals of Purchasing

- **Right time**

- This covers the entire duration of the materials cycle and consists of lead time. The buyer also has to consider emergency situations like floods, strikes, etc. and prepare his plans according to it.

- **Right source**

- The source from which the material is procured should be dependable and capable of supplying items of uniform quality. Source selection, source development and vendor rating play an important role in buyer-seller relationships.

Goals of Purchasing

- Right material

- Techniques, such as, value analysis will enable the buyer to locate the right material.

- Right mode of transport

- Right mode of transportation have to be identified as this forms a critical segment in the cost profile of an item.

Goals of Purchasing

- Right attitude

- Developing the right attitude, too, is necessary.
- The purchase manager should be innovative and his long-term objective should be to minimize the cost of the ultimate product.
- He will be able to achieve this if he aims himself with techniques, such as, value analysis, purchases research, SWOT analysis, purchase budget lead time analysis, etc.

Types of Purchasing

- Personal Purchasing
- Mercantile purchasing
- Industrial purchasing
- Institutionalized or government purchasing

Types of Purchasing

- **Personal Purchasing:** If the Consumers purchase for personal use, then they fall into this category.
- **Mercantile purchasing:** This type of purchasing is done for resale and facilitated by middlemen. Agents,wholesalers and retailers come under this category providing their own channels of distribution to the consumer.
- **Industrial purchasing:** The purchaser is buying raw materials to convert into finished goods and product.
- **Institutionalized or government purchasing:** Under this group come governmental agencies and institutions who buy for public utilities. They form an important group of purchasers because they purchase in bulk.

Function of Purchasing

1. Formulating Effective Buying Policies.
2. Determining the Demands and Desires of the Patrons.
3. Source of Supply.
4. Determining the Terms of Purchase.
5. Receiving, marking and stocking merchandise.
6. Transferring the title of the goods.

1. Formulating effective buying policies

- There are two considerations in formulating buying policies:
 1. Buying policies should be compatible with the general objectives of the pharmacy which in turn are determined by the **type of pharmacy** and **location**.



Increasing merchandise lines and more assortment with each line

Location: If the pharmacy is located in an area where there are few targeted customers, then its buying policy will vary

2. Determining the demands and desires of customers

- It is primarily determined by prescriber's preferences

- Prevalence of a certain disease
- The drugs available to treat certain disease
- Promotional efforts of the producers

- The buying policies should reflect basic changes in demographic factors such as age distribution, young families with children and purchase preference and buying habits caused by both demographic and economic factors.



3. Selecting the sources of supply

A. Exchange functions

- Buying
- Selling

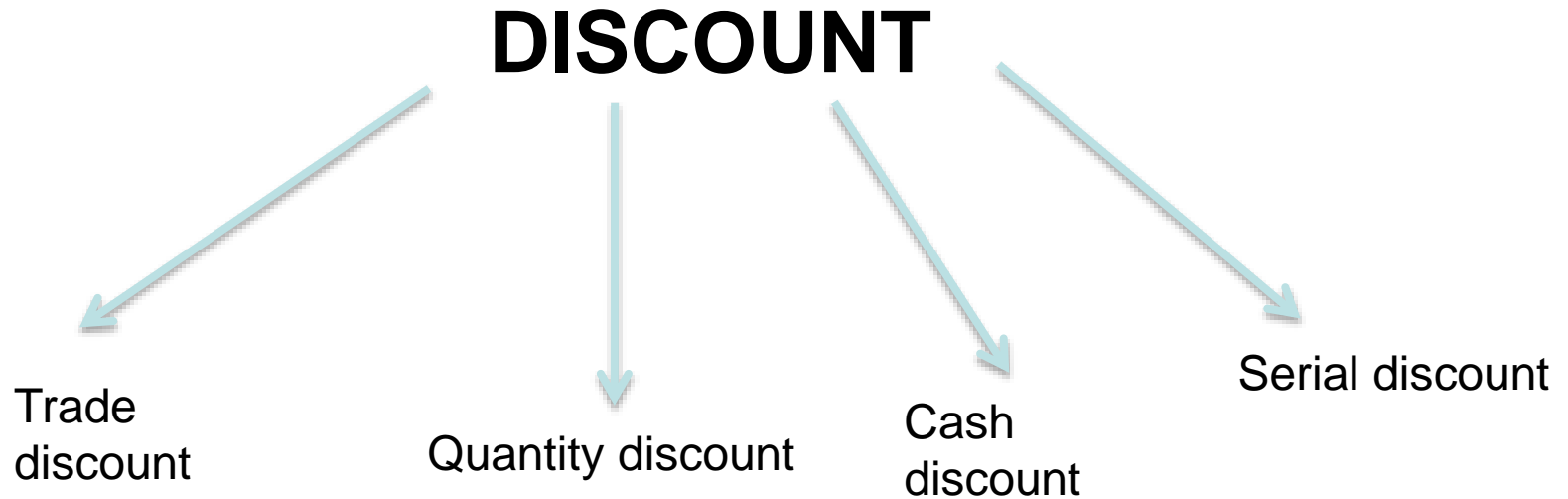
B. Physical supply functions

- Storage
- Transportation

C. Ancillary functions

- Standardization and grading
- Financing
- Risk-bearing
- Market information and research and related service

4. Determining the terms of purchase



Trade discount(T.D)

- Trade discount is given to a firm for performing a level of set of marketing activities such as wholesalers and retailers.
- Wholesaler- 15 to 20%
- Pharmacy- 30 to 50%

Example:

Company A sells 100 tablets at retail price of \$10
T.D of pharmacy- 40% and T.D of wholesaler- 20%

Quantity discount(Q.D)

- Quantity discount basically given when a designated quantity is purchased at one time or within a certain period of time.
- Percentage of discount varies on the popularity of drug.(more popular, less discount)

EXAMPLE

A pharmacist deducts T.D of 15% from a \$100 product and obtained \$85

Then he separately deducts Q.D of 5% from previous \$85 and obtained \$80.75 .

Cash discount (C.D)

- It is the smallest discount and given to a buyer for payment within a certain period of time.
- The discount is normally 1-2% of the net amount.

EXAMPLE

- A buyer will get 2% of discount if he pays within 10 days. After 10 days, no discount will be offered.

Serial discount (S.D)

- Serial discount typically maintains a series of all discounts(trade ,quantity and cash discounts).
- Each discount is calculated and then multiplied by the net amount of product's retail price.
- Calculation is done by multiple steps.

5. Receiving, Marketing and Stocking Goods

- Receiving the ordered material at the right time is most important for an org.
- Invoices received from suppliers are checked and verified with order specification
- Invoice should be checked for the appropriateness, quality and quantity of the merchandise.
- After checking goods should be marked properly and include the cost code ,the source ,the date, and quantity received.

There are hundreds of cost codes among them two will be indicated.

The first one is called latter code which is the best known of all cost codes ,is an aberration of the spelling of pharmacist.

P H A R M A C I S T
1 2 3 4 5 6 7 8 9 0

The second one is a simple system of straight lines in two planes or direction.

6. Transferring the title of the goods, including payment in time to receive maximum discounts

- Transfer of the title to goods basically means the transfer of the ownership of the goods from the supplier to the purchaser.
- If the pharmacist receives merchandise in good conditions through freight prepaid, the goods become his responsibility.
- However, if the goods are delivered in consignment, they remain the property of the supplier. The pharmacist has to pay for only the amount he sells.

Conclusion

- Buyers and sellers should strive for a mutually beneficial relationship
- Many different types of purchasing exist
- Developing a policies and procedures manual is important
- Evaluating suppliers and maintaining ethical standards key for success

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