PROCUREMENT OF GOODS, SERVICES AND WORKS

Publisher Information

Published by: **Kindle Direct Publishing**
An Amazon.com, Inc. Company

This book has been independently published through Kindle Direct Publishing (KDP) by Synapse Global Institute and Evans Langat MSC/BCOM.

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PREFACE

The procurement of goods, services, and works plays a pivotal role in the operational efficiency and success of any organization. As markets evolve and the global business environment becomes increasingly interconnected, the landscape of procurement has also undergone significant transformations. With emerging trends and challenges—ranging from technological advancements and socio-cultural shifts to environmental concerns and regulatory changes—procurement professionals must be equipped with the knowledge and skills to navigate these complexities and optimize the procurement process.

This book provides a comprehensive exploration of the key principles, practices, and emerging issues in the procurement of goods, services, and works. Aimed at students and professionals pursuing a course in Supply Chain Management, it offers practical insights into the evolving world of procurement, grounded in both theory and real-world applications.

Chapters delve into various aspects of procurement, including the development of specifications, the procurement cycle, procurement methods, risk management, contract management, and the inspection and acceptance of goods and services. Special emphasis is placed on understanding the impact of socio-cultural, technological, economic, and environmental factors on procurement decisions. Additionally, the book discusses response mechanisms to these emerging trends, helping practitioners and students alike adapt to the fast-changing landscape of procurement.

Through clear explanations, case studies, and practical examples, this book aims to equip readers with the tools and knowledge necessary to make informed, strategic decisions in procurement and supply chain management. Whether you are a student preparing for exams or a professional looking to enhance your skills, this resource will serve as a valuable guide to mastering the intricacies of modern procurement.

The rapidly evolving procurement field demands not only technical expertise but also the ability to think critically and adapt to new trends. This book will guide you in mastering both, ensuring that you are well-prepared to meet the demands of today's dynamic procurement environment.

Evans Langat, MSC, BCOM
Synapse Global Institute
2025

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CHAPTER 1: INTRODUCTION TO PROCUREMENT OF GOODS, SERVICES AND WORKS

1.1 Definition of Goods, Services, and Works

Procurement is a critical process in supply chain management, as it involves acquiring the goods, services, and works that an organization needs to operate effectively. Understanding what each of these terms means is fundamental for students studying procurement, especially those pursuing the APS-K Diploma in Supply Chain Management. Below are the definitions of goods, services, and works.

1. **Goods**

   Goods refer to tangible items or products that are bought and sold. These items can be physically touched, moved, and stored. Goods are often standardized and can be measured in terms of quantity, weight, or volume. Common examples of goods include:

   - Office supplies (pens, paper, staplers)
   - Raw materials (steel, wood, fabrics)
   - Consumer products (electronics, food items, clothing)

   Key Characteristics of Goods:

   - Tangible (can be seen and touched)
   - Can be stored or inventoried
   - Can be transported and delivered
   - Generally, have a fixed price per unit

2. **Services**

   Services are intangible offerings that are provided to meet the needs of individuals or organizations. Unlike goods, services cannot be physically touched or stored, and they are consumed at the point of delivery. Services are typically provided by skilled professionals or service providers and can be customized depending on the customer's requirements. Examples of services include:

   - Consulting services (business advice, legal counsel)
   - Maintenance and repair services (vehicle servicing, equipment repairs)
   - Transportation services (delivery, logistics)
   - Educational services (training, tutoring)

Key Characteristics of Services:

- Intangible (cannot be touched or stored)
- Cannot be inventoried
- Delivered and consumed simultaneously
- Often customized based on client needs
- Quality may vary depending on the provider

3. **Works**

Works refer to physical or construction-related activities that require a skilled workforce and materials. It generally involves building, constructing, or altering a physical structure or facility. This category includes large projects such as the construction of roads, buildings, bridges, and infrastructure. Works can also include specialized tasks like installation, repairs, or civil engineering projects.

- Construction of buildings (offices, houses)
- Roadworks (paving roads, building highways)
- Installations (electricity systems, plumbing systems)
- Renovation or refurbishment of structures

Key Characteristics of Works:

- Involves construction or alteration of physical assets
- Usually a project-based activity with a specific timeline
- Requires specialized labor and materials
- Often subject to regulatory standards and approval

1.2 Objectives of Procurement

The objectives of procurement guide how the process is managed and ensure that it delivers the desired results. These objectives can be divided into two main categories: **General Objectives** and **Operational Objectives**. Both categories play a vital role in ensuring that procurement is efficient, cost-effective, and aligned with the overall goals of an organization.

i) General Objectives

The general objectives of procurement are broader and focus on the strategic role that procurement plays within an organization. These objectives typically align with the organization's overall goals and contribute to its long-term success. Key general objectives include:

1. **Ensuring Value for Money**
   The primary goal of procurement is to acquire goods, services, and works at the best possible value. This does not necessarily mean the cheapest option, but rather finding a balance between cost, quality, and service delivery. Procurement should aim to maximize the value that the organization gets for the resources spent.
2. **Supporting Organizational Strategy**
   Procurement decisions should align with and support the organization's overall business strategy. This includes acquiring goods and services that help the organization achieve its operational goals, maintain competitiveness, and drive growth. Procurement must ensure that resources are available when needed to support strategic initiatives.
3. **Risk Management**
   Procurement should aim to minimize risks by sourcing from reliable suppliers, ensuring quality control, and addressing potential supply chain disruptions. This may include managing supply chain risks, financial risks, and legal or regulatory risks.
4. **Ensuring Compliance**
   Procurement must be carried out in compliance with relevant laws, regulations, and organizational policies. This ensures that the organization avoids legal penalties, upholds ethical standards, and adheres to industry best practices.
5. **Building Strong Supplier Relationships**
   Establishing and maintaining good relationships with suppliers is essential for long-

term procurement success. Collaborative relationships with suppliers can lead to better terms, reliable supply, and improved innovation and quality.

ii) Operational Objectives

Operational objectives focus on the day-to-day activities involved in the procurement process. These objectives ensure that procurement is carried out efficiently, on time, and within budget. Key operational objectives include:

1. **Timely Delivery of Goods, Services, and Works**
   One of the key objectives of procurement is to ensure that the right goods, services, and works are delivered to the organization on time. Delays can disrupt operations and lead to increased costs. Procurement should aim to maintain a consistent and reliable flow of supplies to meet operational requirements.
2. **Cost Control**
   Procurement must ensure that costs are controlled and that purchasing decisions are made within the allocated budget. Operational objectives include negotiating competitive prices, managing supplier payments efficiently, and avoiding unnecessary expenditures.
3. **Quality Assurance**
   Ensuring the quality of goods, services, and works is a critical objective. Procurement must source products and services that meet the required specifications and standards. This may involve inspecting and testing products, establishing quality control measures, and monitoring supplier performance.
4. **Effective Supplier Management**
   Procurement involves selecting, managing, and evaluating suppliers to ensure they meet performance standards. Operational objectives include conducting supplier assessments, managing contracts, and ensuring suppliers adhere to agreed terms and conditions.
5. **Efficient Procurement Processes**
   The procurement process itself must be efficient. This includes streamlining the steps involved in identifying needs, selecting suppliers, issuing purchase orders, receiving deliveries, and processing payments. Procurement should aim to eliminate inefficiencies and reduce administrative burden.
6. **Inventory Management**
   Proper inventory management is essential to avoid stockouts or overstocking. Procurement needs to ensure that there is a sufficient and timely supply of goods without tying up excessive capital in inventory. This involves accurate demand forecasting, stock monitoring, and inventory control.

1.3 Types of Procurement

Procurement can be categorized into different types based on the nature of the goods, services, or works being acquired and the purpose for which they are purchased. Understanding these types helps organizations plan, execute, and manage procurement activities more effectively. The main types of procurement include **Service Procurement**, **Capital Procurement**, and **Operational Expenditure** procurement. Each type serves a distinct purpose within an organization's operations.

i) Service Procurement

Service procurement involves the acquisition of services rather than tangible goods. Services can range from professional advice and consultancy to maintenance and support services. This type of procurement is essential for organizations that rely on external expertise, specialized skills, or ongoing support to carry out their operations. Key characteristics of service procurement include:

- **Nature**: Services are intangible and are often customized according to the needs of the organization.
- **Examples**:
    - Consulting services (e.g., business, financial, legal advice)
    - IT support and software development
    - Maintenance services (e.g., machinery or building maintenance)
    - Marketing and advertising services
    - Training and development services

Key Considerations in Service Procurement:

- **Quality assurance**: Services need to meet specific performance standards and expectations.
- **Contract management**: Service procurement often involves negotiated contracts with clear service level agreements (SLAs).
- **Continuous evaluation**: Since services are ongoing, it's essential to monitor performance to ensure the provider meets agreed-upon terms.

ii) Capital Procurement

Capital procurement refers to the acquisition of long-term assets that are expected to provide value to the organization for several years. This type of procurement is focused on acquiring significant assets that are necessary for expansion, production, or infrastructure development. These assets are usually high-value items or investments that contribute to the organization's long-term capacity and productivity.

- **Nature**: Capital procurement typically involves larger investments that are often capitalized on the organization's balance sheet.

- **Examples**:
    - Purchase of machinery, vehicles, and equipment
    - Construction or acquisition of buildings and infrastructure
    - Acquisition of land or property
    - Large-scale IT infrastructure, such as servers or data centres

Key Considerations in Capital Procurement:

- **Investment evaluation**: Since these purchases are significant, detailed assessments such as return on investment (ROI), cost-benefit analysis, and life cycle costs are essential before making the acquisition.
- **Long-term impact**: The decision to invest in capital assets should align with the organization's strategic goals and future plans.
- **Funding**: Capital procurement often requires external funding (e.g., loans, equity) or internal capital allocation.

iii) Operational Expenditure (Opex) Procurement

Operational expenditure procurement focuses on the day-to-day expenses that an organization incurs to maintain its ongoing operations. These expenses are typically shorter-term and are essential to ensure that the organization functions smoothly on a daily basis. Opex procurement is crucial for maintaining the organization's regular activities and does not contribute directly to long-term asset growth, but ensures that resources are available for day-to-day operations.

- **Nature**: These are recurring expenses required for the organization's daily operations. They are usually consumed within a short period.
- **Examples**:
    - Purchase of raw materials for production (e.g., components, consumables)
    - Utilities such as electricity, water, and gas
    - Office supplies (e.g., stationery, cleaning materials)
    - Salaries and wages (although not traditionally thought of as procurement, they are a regular cost)
    - Maintenance and repair services for equipment and facilities
    - Travel and transportation costs

Key Considerations in Opex Procurement:

- **Efficiency**: Opex procurement should aim to get the best value at the most competitive prices, given the recurring nature of the purchases.
- **Budget management**: Since these are ongoing expenses, it's essential to manage the budget effectively and avoid over-expenditure.
- **Supply reliability**: Ensuring the consistent supply of goods and services to prevent disruptions in daily operations is crucial.

1.4 Characteristics of Goods, Services, and Works

In procurement, the characteristics of goods, services, and works are critical to understanding how they should be acquired, managed, and delivered. Each category has its own set of unique characteristics that influence the procurement process. Understanding these characteristics helps procurement professionals make better decisions in sourcing, managing suppliers, and ensuring that the required outputs meet organizational needs.

1. Goods: Characteristics

Goods are tangible items that can be physically touched, moved, and stored. They are usually produced in bulk or standardized, and their quality can be measured, tested, and inspected. The key characteristics of goods include:

1. **Tangibility**:
   Goods are physical, tangible items that can be touched, seen, and measured. For example, machinery, furniture, and raw materials are tangible goods.
2. **Storability**:
   Goods can be stored in warehouses or inventory. They are often kept in stock and can be transported or distributed as needed. For example, raw materials like steel or finished products like electronics can be stored until required.
3. **Measurability**:
   Goods can be measured by quantity, weight, volume, or other physical dimensions. This makes it easier to define the quantity required for procurement and to set appropriate pricing.
4. **Standardization**:
   Many goods are standardized, meaning they come in specific sizes, colors, and specifications. For example, a laptop model with specific memory size and processor speed is a standardized product.
5. **Ownership Transfer**:
   When goods are delivered, ownership of the items typically transfers from the supplier to the buyer. The buyer is free to use, sell, or dispose of the goods as they wish.
6. **Fixed Pricing**:
   The price of goods is generally fixed and determined based on the quantity and quality.

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