



Towards strategic procurement Operations (SP, henceforth)

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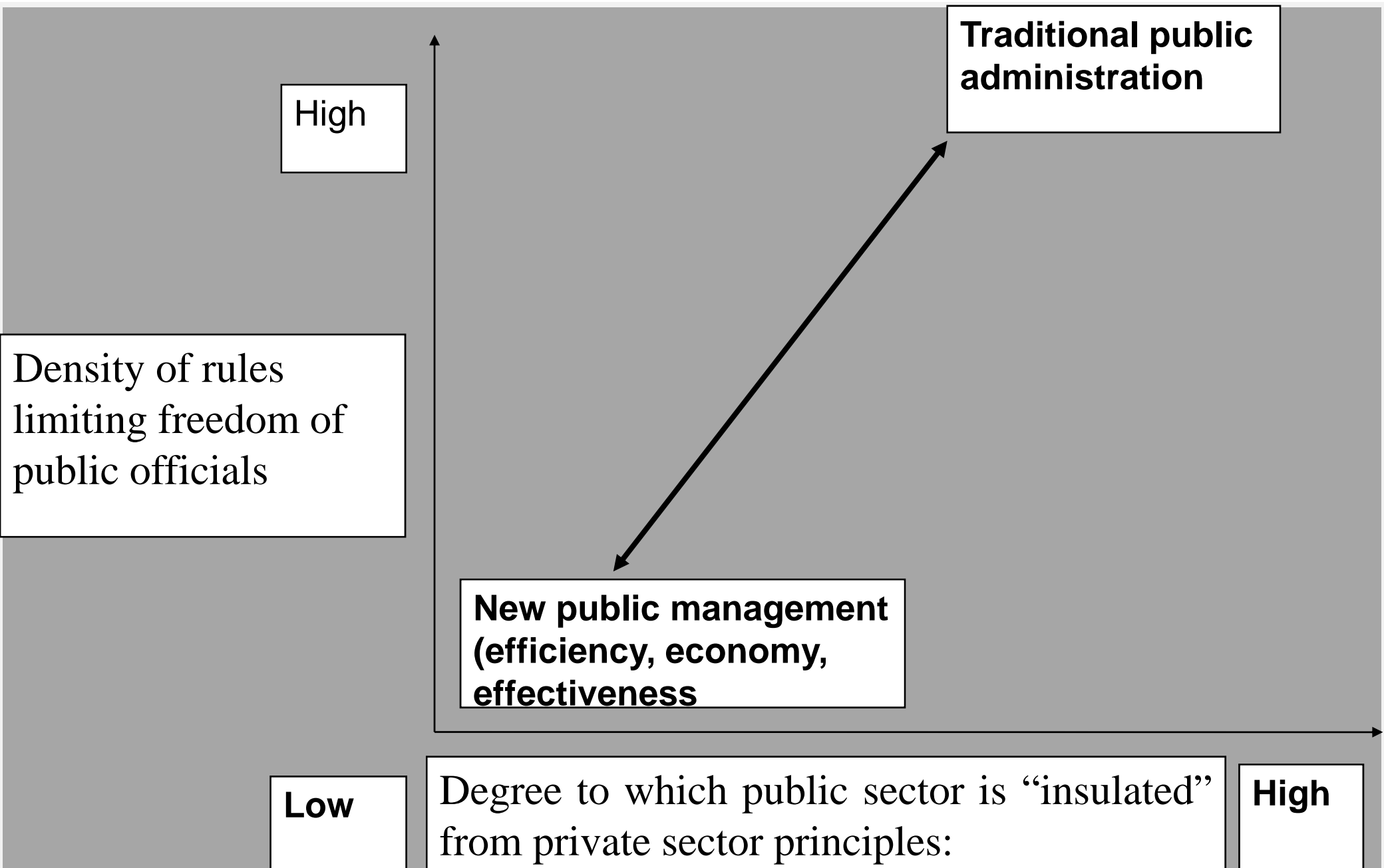
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The Agenda

1. Introduction: The notion of “strategic ” procurement
2. Where are national governments going?
3. Competencies desired
4. Conclusions/way forward

1.0 Introduction

- **SUSTAINABLE** develop requires attention to the basics:
 - Cutting costs
 - Elimination of waste and redundancy (lean)
 - Investing prudently
 - Providing flexibility
 - Reducing risk (rationalizing supply base, etc)



Blunt truth!

...Procurement has to demonstrate that it is able to influence 100% of its organization's spend. If it can't then there is little chance of procurement being seen as relevant in the future...!

David Shields

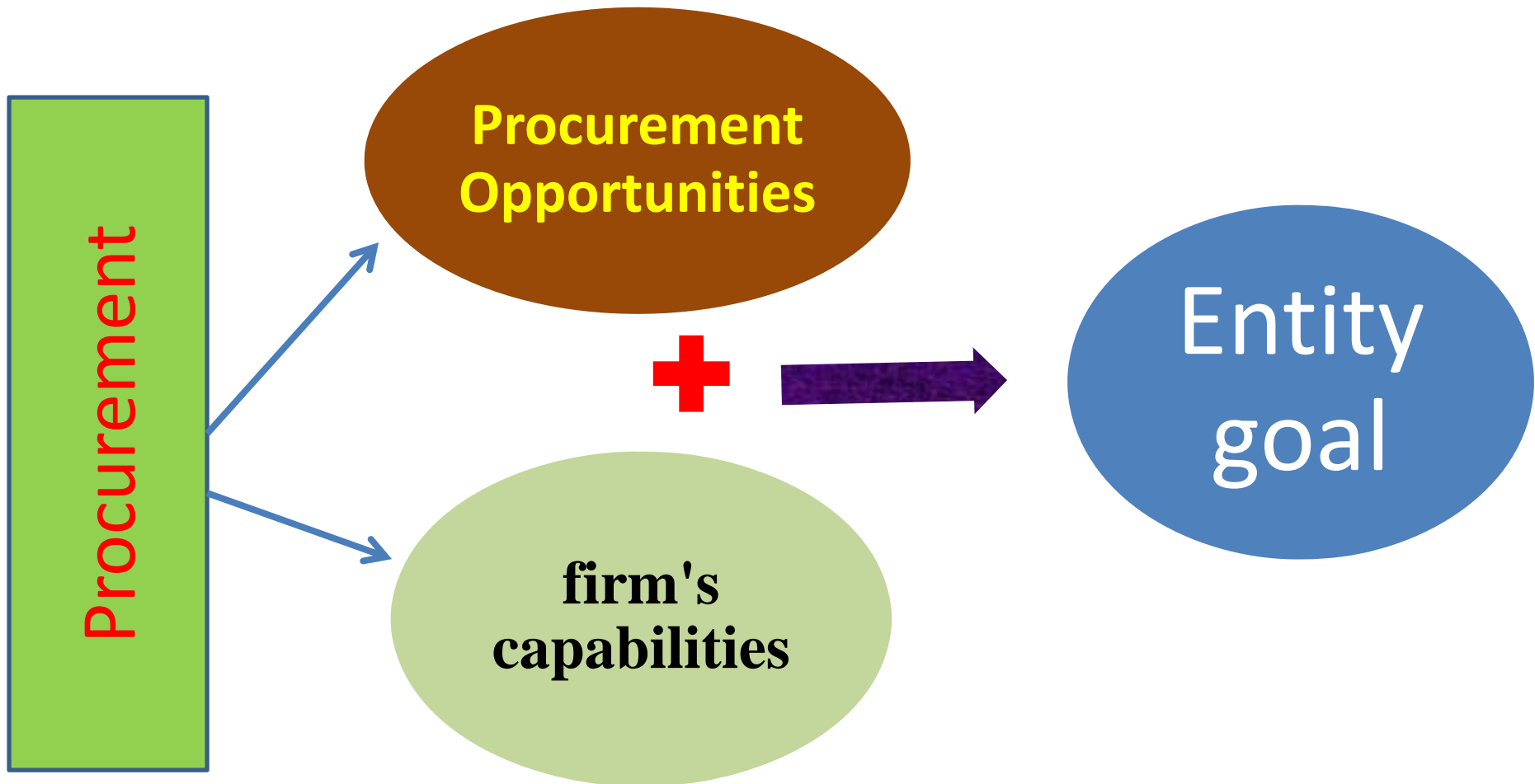
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Introduction, Cont'd

- *Thus, SP entails* aligning procurement decisions (strategic and operational)...
- towards **opportunities consistent with the firm's capabilities** to achieve **long-term goals** (Carr and Smeltzer, 1997).

SP at a glance!



2.0 Where are EAC nations going?

- Uganda
- Kenya
- Tanzania
- Rwanda
- Burundi

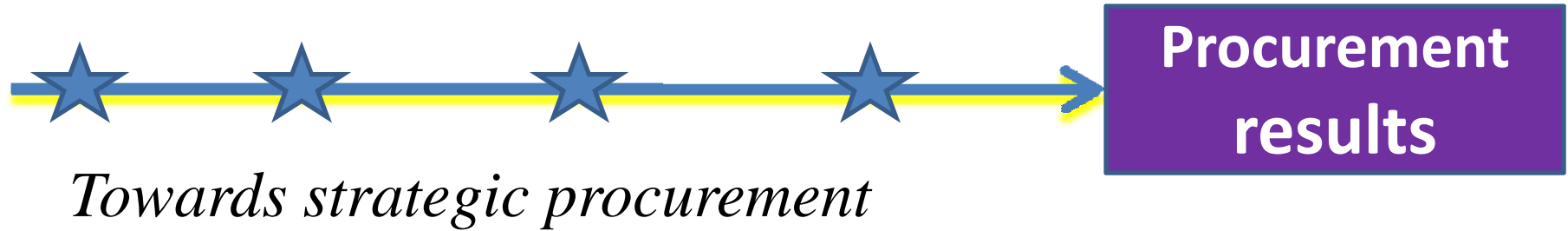
They envision ...

- “A Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years”
(*Uganda Vision 2040 statement*)
- To transform Kenya into a newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment (*Ruwaza ya Kenya 2030*)

Vision ...

- A strong, competitive economy that will provide improved socio-economic opportunities, public sector performance and environmental management (*Tanzania Vision 2025*)
- A Burundi that is New, Democratic, Reconciled and Unified, a land flowing with milk and honey, as our grandparents wished. “Burundi Buhire” (happy Burundi) (*Burundi Vision 2025*)
- A united Rwanda that is competitive both regionally and globally (*Rwanda Vision 2020*)

3.0 Competences desired



1. Assess procurement vulnerability for major procurements
2. Examine **CAPABILITY of the entity** to harness procurement opportunities
 - in-sourcing (like *force-account*)
 - out sourcing (buy decision)

Self-sufficiency: Like FORD

- In 1920's Ford wanted to make every thing;
- Later, it resorted to buying more than 50% of its parts! Why?

Actions...

3. Determine what to “acquire” and the source
4. Develop appropriate supplier relationships (SRM).
Your **important suppliers could view you differently! (know how to deal with them!)**
5. Conduct due diligence: for quality, quantity, and timeliness of procurements (avoid *ghost providers*)

Determine the full cost: (*consider TCO*)

Is the price realistic? The TCO view

$$\text{TCO} = A + \text{P.V.} \sum_{k=1}^n (\mathbf{C}_i - \mathbf{S}_n)$$

Where:

TCO = Total Cost of Ownership

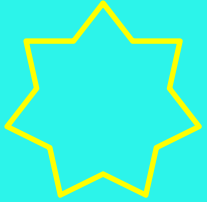
A = acquisition cost

P.V. = present value

\mathbf{C}_i = other costs in year i (operating, maintenance, etc)

\mathbf{S}_n = salvage value in year i

IMPORTANT



Procurement should communicate to the supply market the *required information* to aid the TCO analysis

6. Purchasing Vs. leasing

- Purchase (*non productive requirements*)
- lease (*industrial equipments*): **operating lease** (*short term projects*); **financing lease** (for long term projects: Total, Tallow)

7. Used Vs. New equipments — for used equipments (fighter jets), senior equipment operators (pilots, mechanics) should have **veto approval powers!**

8. Implement an integrated procurement system

- All activities and persons involved in procurement **MUST** add value ; otherwise, should be eliminated
- Regulator; ombudsman; Police; Tribunal; Dispute resolution
- **Link procurement plans and budgets to national plans and priorities;**
- **Align procurement schedules to** resource envelope and cash flows (**dry Vs. wet** seasons)

9. Collaborative procurement or going solo!

- Pulling resources ; working together to create a shared service to achieve better VFM
- Economies of scale
- Complement capability (**e.g., Standard Gauge Railway**)

NOTE: Coming together is a beginning, staying together is progress, working together is success.
(Henry Ford)

10. Outsourcing

- Identify mission critical activities and focus on those
- These are often few, incidentally!
- It could turn *theatrical if the decision is not thought through carefully*
- Otherwise, outsource all non mission critical activities and release value to the entity

4.0 Conclusion/way forward

- Procurement is a policy instrument . It helps to achieve the desired course of action.
- **Procurement should Protect the GOAL!**
- Like in soccer: Procurement must “score more goals” than the opponent and win the game (**Primary goal**) .
- “Kicking the ball out”, “delaying the pass”; are **secondary! Focus on these; lose the game!**
- **...what are their equivalents in procurement practice?**

Conclusion

- Providers are strategic partners in the socio economic development of a country. So treat them fairly;
- **PONDER: Why this:** Performance guarantee (in most banks: max.12 months); demand by the entity: performance guarantee (3 years) !!!!!!!!!!!!!
- Do not pay more for “papers”. ...1st bidder had no powers of attorney; the second bidder: **4 Million dollars higher?**
- **Professional need to develop meta competences (to conduct price/cost, market and other analyses)**

Thank You for the audience

Dr. L.B. Kabagambe