

**Principles of Purchasing**  
**Lecture 8**  
**Planning in Purchasing operation**

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**Lecture Learning outcomes**

At the end of the lecture, you will be able to:

1. Explain the key terms used in procurement planning
2. Understand the role of procurement planning in the procurement cycle
3. Describe the type of procurement plan and the contents of procurement plan.

**Introduction**

A procurement plan is a budget implementation instrument used to record all the forecasted requirements for goods, services, and works of all the departments of an organization. It is an integral part of the budgeting process as the financial estimates are derived from cost estimates of individual items in the procurement plan.

A procurement plan enables the execution of an approved budget and ensures cost savings, efficient business operations and increased value for money. It should contain an elaborate procedure for planning procurement of goods, works, services and consultancy services based on an indicative or approved budget.

**Definitions of Key Terms in Procurement Planning**

*Procurement planning*

It is the process of deciding what to buy, when to buy and from what source. It is the primary function that determines and guides the subsequent purchasing activities of the organization for the specified duration of the plan. The procurement planning is then summarized in the document known as the *Procurement Plan*.

*Aggregation and Consolidation*

This is the process of combining all the requirements with similar specifications and attributes in the procurement plan to enjoy economies of large-scale buying.

The following are the considerations during aggregation and consolidation:

- a) The needs of similar nature and are likely to attract potential bidders.
- b) The period of aggregation –whether aggregation should be done for a whole year or whether the seasonal price fluctuations require the aggregates be limited to particular seasons as is expected for primary food commodities;

- c) Whether storage and distribution capacity and costs offset any potential economies of scale cost savings achieved through aggregation;
- d) The optimum size and type of contract to attract the greatest, most responsive competition, taking into account the market structures for the items required;
- e) The need to apply any applicable measures to promote the participation of small enterprises, end-user or community participation;
- f) Items will be subjected to the same bidding requirements and conditions of the contract; and
- g) The potential to realize savings in time or transaction costs or facilitate contract administration by the buying organization.

#### Advantages of aggregation and Consolidation

- i. Increases the bargaining power of a buying organization.
- ii. May attract quantity discounts-aggregation may afford the buyer quantity discounts as needs of the same specifications are consolidated into one order.
- iii. Low ordering costs, i.e., the costs of placing orders may come down considerably due to consolidation.
- iv. Elevates the buyer position from the perspective of the supplier, the buyer becomes an important customer to the supplier due to large orders.
- v. Consolidation and aggregation can lead to the application of a more competitive procurement method that could save money to a buying organization.

#### *Lotting*

- This refers to dividing procurement requirements into separate contracts that would otherwise be procured in a single contract.
- This is done with the realization that the award of a separate contract may result in the best value for a buying organization.
- Lotting may also be as a result of an attempt to comply with the preference and reservation scheme to ensure that certain lots are reserved for the target groups in the procurement budget.

#### When to apply lotting in the procurement plan

- a) When unbundling the contracts for purposes of preferences and reservation schemes (to ensure that per centage of budgetary reservation is met).
- b) When the award of several separate contracts will result in the best overall value for the buying entity by applying a competitive procurement method.
- c) Where lotting is meant to cater for small enterprises that would not qualify for a complete package in a single contract
- d) When the division into separate lots is likely to attract more suppliers enabling the participation of bidders who are able to bid for some, but not all types of items.

Circumstances under which lotting is not permissible

- a) For purposes of avoiding the established procurement thresholds;
- b) Where the award of separate contracts will create problems of compatibility, standardization or interchangeability between separate lots;
- c) Where the award of separate contracts would invalidate or restrict any contractors warranty or liability of already existing contract; and
- d) Where the award of several separate contracts would increase the cost of servicing, maintenance or similar requirements.

### *Grouping*

- This refers to separating procurement needs into an appropriate classification of goods, works, services, and consultancies.
- The grouping may also consider the cost of the items, the complexity of the market and the importance of the item to the buying organization.
- As a general rule, these should not be mixed in procurement except in special cases where they are inseparable, considering the cost and difficulty in the procurement of each item.

### *Packaging*

- This refers to putting together the requirements in a single purchase order known as a procurement package.
- Putting items into a single procurement package means the items are to be purchased together either in a single bid or request for quotation.
- Packaging assists the procurement function in choosing the appropriate procurement method to use, among other considerations.

The most important forms of procurement packaging are as follows: -

- a) The grouping (or bulking) of procurement requirements within a procurement category for the purpose of acquiring them under a single contract;
- b) The division of one requirement into multiple lots, where bidders can submit bids for one, several or all lots (as may be prescribed in the tender invitation documents); and
- c) Grouping of procurement requirement, e.g., where the need for equipment involve installation and extends to training of the operators, which would call for tender for the supply, installation, and training as a package.

In packaging the items, one may consider the following:

- a) Whether there are suppliers that can provide a combination of procurement categories as may be required in the case of supply, installation, and training;
- b) The ability of the procurement unit to coordinate suppliers;

- c) The possibility of local suppliers being able to fulfill the requirement in a procurement package and whether such packages may limit their participation;
- d) Whether the requirements are needed simultaneously;
- e) Identical items;
- f) Item sizes-large or small items; and
- g) Cost (values) of the items.

### **Role of Procurement and Disposal Planning in the Procurement Cycle**

The procurement cycle captures the key stages of the procurement process and allows for estimation of the time duration that an individual procurement need may take based on the procurement method assigned and the market dynamics of the need. Therefore, effective planning should be done with the complete procurement cycle in mind.

The following are the importance of procurement planning:

- i. It allows planners to determine if expectations are realistic; particularly the expectations of the requesting entities, which usually expect their requirements met on short notice and over a shorter period than the application of the corresponding procurement method allows.
- ii. It is an opportunity for all stakeholders involved in the processes to meet in order to discuss particular procurement requirements. These stakeholders could be the requesting entity, end-users, procurement department, technical experts, and even vendors to give relevant inputs on specific requirements.
- iii. It permits the creation of a procurement strategy for procuring each requirement that will be included in the procurement plan. Such strategy includes a market survey and determining the applicable procurement method given the requirement and the circumstances.
- iv. Planners can estimate the time required to complete the procurement process and award contract for each requirement. This is valuable information as it serves to confirm if the requirement can be fulfilled within the period expected, or required, by the requesting entity.
- v. The need for technical expertise to develop technical specifications and/or scope of work for certain requirements can be assessed, especially where in-house technical capacity is not available or is non-existent.
- vi. Planners can assess the feasibility of combining or dividing procurement requirements into different contract packages.

- vii. The procurement plan is the product of the procurement planning process. It can be developed for a particular requirement, a specific project, or for a number of requirements for one or many entities in the public or private sectors.
- viii. It helps to decide what to buy, when and from what sources, i.e., it defines the need, the method of procurement and when the procurement process will be initiated.

## **TYPES OF PROCUREMENT PLANS**

### *1. Individual procurement plan*

Refers to the creation of a procurement plan for each individual procurement item/requirement. Once the need has been identified and the requisition raised, and approval obtained for the purchase of a requirement, the procurement unit may proceed to develop individual procurement plan for the purchase of the item.

Normally, requirements are put together to form either a departmental procurement plan or consolidated procurement plans. The procurement unit may develop individual procurement plans due to the requirement's strategic or complex nature to allow for the isolation and management of extremely high risk and a high-cost requirements under a project procurement.

#### Contents of individual procurement plan

- a) A description of the requirement, including the schedule required for delivery, implementation or completion of the goods, works, services or consultancy;
- b) The estimated value of the requirement;
- c) The proposed procurement method;
- d) A justification for the use of any method other than open tendering;
- e) An estimate of the time required for each stage in the procurement cycle;
- f) The proposed type of contract; and
- g) An indication of the resources required and available for management of the procurement process and contract administration.

### *2. Departmental Procurement Plans*

- ✓ This contains the details of procurement requirements and activities of the concerned department for the planned period. Development of departmental procurement plans begin with needs identification by the users of each department.
- ✓ The procurement needs of each department are then summarized into departmental procurement plans. The departmental procurement plans are always based on estimates of all procurement requirements and operations to be carried out by each department in the specified period.

- ✓ Some procurement needs cannot be anticipated, and the plans can therefore never be accurate. However, a procurement plan based on estimates is still better than no procurement plan.

### *3. Consolidated Procurement Plans*

All the procurement needs of all the departments of an organization can be aggregated in corporate procurement plan known as the consolidated procurement plan. The procurement unit plays the lead role in initiating the procurement planning process by engaging the user departments to list their requirements approved by departmental heads. These requirements are then profiled and consolidated in the procurement master plan for a whole organization. However, depending on the structure of the organization and level of decentralization, the consolidated procurement plan may be developed at the corporate, divisional, country office or business unit level.

In the public procurement practice, the responsibility for preparing the consolidated procurement plan would normally lie with the accounting officer (the principal secretary/chief executive officer) or the authority responsible for procurement policy and planning, but in smaller business units it may lie with the procurement officer. Consolidated procurement plans are typically prepared annually.

The information collected would include:

- i. The expected requirement for goods/services/works
- ii. Quantities/ volume of requirements
- iii. The delivery schedule for the identified requirements
- iv. Estimated cost/ budget
- v. New project procurement.

Once this data has been collected from all the appropriate sources, it is consolidated into the overall procurement plan. Analysis of the plan provides an opportunity to identify potential consolidation of procurements to achieve economies of scale, utilize resources better, and provide an overview of the magnitude of the procurement activity.

### **Contents of a Procurement Plan**

A procurement plan defines and identifies all the purchasing requirements of the buying entity and the procurement method to be used while guiding all purchasing activities throughout the duration of the plan.

The following are the key considerations/contents of a procurement plan.

- i. A detailed description and breakdown of goods, services, works and consultancies required to carry out activities of the buying unit. These should be segregated by the user department with assistance from recurrent and development budget.
- ii. A schedule of planned delivery, implementation or completion dates for all goods, works, services, and consultancies required taking into account the necessary time for effecting the proceedings.
- iii. An indication and justification for whether a procurement requirement should be procured under single-year period or multi-year arrangement.
- iv. An indication of which items should be aggregated for procurement as a single package or procurement through any applicable arrangements for common use items. This is justified on the basis of savings that will be accrued from economies of scale.
- v. Where aggregation is justified, the optimal period for such an aggregation should be indicated taking into account seasonal price variations, warehousing and distribution capacity and product shelf life.
- vi. An indication of all items divided into lots.
- vii. An estimate of the value of each package of goods, works, services and consulting, the design required, an indication of the budget and the possible sources of funding.
- viii. An indication of rules applicable to procurement: for instance, specific rules dictated by an international agreement in the case of donor-funded procurement.
- ix. An indication of the anticipated procurement method for each procurement requirement, including the need for pre-qualification, the anticipated time to complete a procurement cycle taking into account the applicable approval requirements.
- x. An indication of whether the procurement function will be carried out by the procuring entity, a specialized procurement unit, any other special agency designated to procure common-use items or any other body.
- xi. An indication of the warehouse requirements for storing the planned procurement
- xii. An indication of the shelf life of any goods that may be perishable or degradable.
- xiii. An indication of the resources available for managing the procurement workload.
- xiv. Details of any committed or planned procurement expenditure under existing multiyear contract.

## **Conclusion**

In conclusion, procurement planning plays a vital role in the efficient execution of an organization's budget, ensuring value for money and optimizing resource allocation. By consolidating, lotting, grouping, and packaging procurement needs, organizations can benefit from economies of scale, enhance competition, and streamline operations. Effective procurement planning also mitigates risks by promoting transparency and accountability

throughout the procurement cycle. Moreover, it enables strategic decision-making, helping to meet organizational goals while adhering to regulatory requirements

### **Review Questions**

1. Explain the importance of a procurement plan to an organization
2. Identify the key contents of a procurement plan
3. Discuss the factors that a procurement unit should consider during aggregation of procurement requirements.
4. Explain the advantages of aggregation and consolidation
5. Discuss the various types of procurement plans.
6. Describe the specific tasks involved in the procurement planning process