An Introduction to CONTRACTS AND PROCUREMENT

- Certification Guidebook -

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Certification guidebook

for

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PURPOSE OF THIS BOOK

Contract and Procurement is basically the structured process of making acquisition of goods, services or works from an outside external sources. Governements, private companies and voluntary entities often develop and follow defined procurement processes which are intended to promote fair and open competition for their business while minimizing exposure to fraud and collusion.

With these purchasing decisions, and contactual obligations and if there is sound data is available, then business has a level of control against bad practice, error and mistakes.

There for methods such as cost-benefit analysis or cost-utility analysis. Therefor adding a competitaive advantage.

A contract is a mutually acceptable written agreement that legally binds two parties to the obligations outlined therein. Contracts can be of many types, e.g. sales contracts, purchasing contracts, partnership agreements, trade agreements, and intellectual property agreements.

BUSINESS ON GOOD FAITH

If business transactions were completed based on word of mouth, the world would be a much easier place to live in. Think about it; trader A wants consultant B to help him perform an analysis of his business. Trader A simply tells consultant B what he wants; consultant B sends over an invoice and then proceeds to complete the analysis.

Trader A pays, and everyone's happy. It's easy and straightforward but not without a catch – for the trade to be completed, all parties involved must on their own accord act in good faith.

As most business professionals would know, however, good faith is not an especially popular concept in the traditional corporate setting. Most enterprises will act in their own best interest even if it means doing so at the expense of another business, exactly why there's a need for a specific outline of the terms, requirements, and conditions that define any business agreement as agreed by all concerned parties.

In its most basic form, this is what a contract is, and it exists as a legally binding agreement that holds all parties accountable to the declarations made when a deal is struck.

When a contract is entered into by an entity to obtain a service, for example, trader A in our earlier scenario attempting to purchase a business analytics service from consultant B, the transaction is deemed a procurement. With procurement, the goal is to obtain a good or service in the most efficient and cost-effective manner possible.

You might be thinking since we are talking about buying goods and services, why not just say purchasing? There's a difference. Procurement is purchasing with the intent to maximize profitability and cost-efficiency. By virtue of this characterization, procurement is considered to be a business management process.

Unlike the simple business of identifying a good/service and making a purchase, procurement encompasses everything from purchase planning, to value analysis and contract negotiations. Much later in this guide, we will address the many other components that make up the typical procurement lifecycle.

For now, let's turn our focus to answering the questions of why both (contract and procurement) are essential ingredients in the cocktail of business success.

DEFINING THE BOUNDARIES OF A BUSINESS AGREEMENT

The primary function of a contract is to outline in no uncertain terms the roles and responsibilities of all parties involved in a business deal, but you already know that. Contracts define the expectations of each party in a business deal. Additionally, contracts can also contain unique specifications and clauses that define measures for dispute resolution, contract renegotiation, or contract termination.

A properly drafted contract is in the purist sense, a fail-proof mechanism that ideally should provide outlets for navigating any impasses that arise as the contract is fulfilled. The next question then is, why should a business adhere to the terms of a contract when the going gets tough instead of just flouting the specifications and doing as they please?

A CONTRACT IS LEGALLY BINDING

A contract is, by all definitions, a legal document. When two or more parties enter into one, they are subjecting themselves to the specifications of the contract in question. Flouting the terms of a contract translates to a breach of contract, and because they're legal documents admissible in a court of law, this usually comes with a penalty.

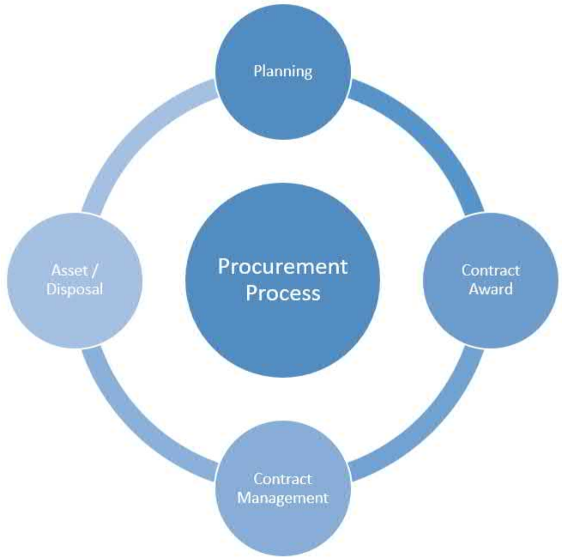
The ideal contract defines the responsibilities of the parties that created it while providing a mechanism to uphold these responsibilities. In the case where one or all parties covered by a contract fail to live up to their commitments, legal prosecution provides an avenue to seek redress.

To summarize, a contract gives everyone involved in a business agreement foresight of what's expected, how it's expected to be done, what to do when that expectation is not met, and the consequence of not meeting expectations.

PROCUREMENT IS ESSENTIAL TO THE SURVIVAL OF ANY BUSINESS

No one organization exists as an island. In today's globalized corporate ecosystem, doing business is a clockwork cycle of providing goods and/or services and, conversely, receiving goods and services from other outfits.

As we've already noted, procurement is the mechanism to make sure the process of sourcing and purchasing goods/services is as fluid and efficient as possible.



A deficient procurement mechanism invariably means a corporation would be left without the resources it needs to be competitive or, worse, incapable of offering goods/services to its customers.

Before we delve further into the exact mechanism through which contracts and procurement enable businesses, let's do a quick trace of how both became essential components of business management.

RECOUNTING HISTORY

Contracts have been around since the advent of human civilization, as people came together in societies, the fundamental need to exchange goods and services became a pillar of living. In medieval times, where most trades simply took the form of barter, contracts were struck in person and executed on the spot. There was little to no risk of defaulting given this setting, and in the unusual case where a dispute arose, a resolution was pursued under the auspices of family or extant religious laws.

More complex bits of trade requiring security, of the sorts provided by modern-day contract laws, leveraged on the existing societal constructs of kinship and contractual debts. Contractual debts were in the simple sense collateral that guaranteed compliance with the terms of the contract. Again, contract laws were primarily non-existent at this point, and disputes, negotiations, and resolutions were processed through institutions of religion and in many cases, especially those involving landed properties as collateral, property law.

What is considered to be the earliest characterization of contracts in the modern sense, that is, contracts backed by formalized laws, probably originated in ancient Rome. Drawing from the details outlined in the Roman Law of contracts, part of the law books of the 6th-century collection owned by Roman Emperor Justinian, historians have concluded that the Roman Empire had a clear definition of what contracts were and probably saw to it that their provisions were enforced by law. This formalized construct of contracts soon fell with the collapse of the Roman empire/western empire and subsequent upheaval of the standard institutions of law and urbanization it established.

By the 19th century, however, there was a renaissance of formalized contracts and fitting laws to back them up. Spurred on by a sweeping trend of urbanization, human societies had evolved past the largely agrarian civilization that existed prior. Much of western Europe and indeed America was experiencing a seismic expansion of trade and industry. Expectedly there was an increase in trade disputes. This 19th century post-agrarian setting was where the first modern contract laws evolved, particularly in England and America.

The Roman civilization also presented one of the earliest instances of procurement as we know it today. It's on record that sometime in 215 BC, Roman soldiers marching to conquer a region in present-day Spain ran short of critical supplies, a development that left them critically compromised. Back home, the Roman Senate quickly convened and the unlikely solution at the time was a deal that would see merchant ships supply the necessary relief material not as sympathizers to the Roman cause, but as third party contractors providing a service. Merchant ships were not to fight any battles, and by virtue of the contract entered with the Roman Senate, they also qualified for a resettlement package if their ships were damaged by war or weather. This was not a mere case of an entity purchasing a good or service; it's one of history's first documented cases of procurement complete with bits of source determination, supplier selection, liability, and insurance.

Like contracts, however, the origins of procurement can be traced back to the rise of human civilization. Through the years, the trajectory of increase in sophistication and efficiency of procurement appears to have shadowed the evolution of civilization.

As the world moved from the ancient civilizations to the middle ages, the industrial revolution, and then to the present age of globalization and global supply chains, the principles and practices underlying procurement have pretty much evolved to match the demands of these eras.

So, while procurement was akin to purchasing at the start of civilization, it has grown into a sophisticated business management process well suited to the competitive and advanced nature of the 21st global market. This evolution is still ongoing, and even now, we are still witnessing a transient but palpable metamorphosis of the traditional procurement process, this time catalyzed by technology.

THE ROLES OF CONTRACTS AND PROCUREMENT IN THE REAL WORLD SETTING

So far, we've been able to discern why contracts and procurement are a necessity. Now we move forward to address the specific functions of both in the traditional business setting.

For most businesses, procurement has three core functions;

- Controlling Spend
- Protecting brand image
- Checkmating corruption

CONTROLLING SPEND

Procurement takes up a significantly large portion of operational expenses. For some businesses, it could be as much as two-thirds of gross revenue, reasons why optimizing and streamlining procurement remains a critical component of business management. When the procurement framework of a business is fully set and tuned to match with its organizational goals, it sets the business in line with being more profitable. The expense cuts from reduced spend on raw materials, streamlined procurement schedules, and better fitting supply sources, amongst other things, works to cut down operational 'bottom line'.

This trait of procurement being an avenue for controlling spend and bettering business profitability is especially important in the private sector, where the ultimate goal is to maximize profit. When we turn to the public sector, procurement stands out for another critical function – to sustain business accountability

CHECKMATING CORRUPTION

In the public sector, the goal is not so much to post profits, as it is the need to provide full service, value for resources spent, and business transparency. A fully-fledged procurement framework aside from bolstering a public enterprise's ability to deliver on the former three ensures that there are no loopholes for bad actors/corrupt officials to exploit. The transparency it provides, makes it easy to track spend and monitor compliance, ergo sharpening the accuracy of organization-wide audits.

In developing countries where corruption is estimated to pad up procurement expenses by as much as 25%, the ability of procurement to foster accountability is an especially important characteristic.

STRENGTHENING BRAND IMAGE

The transparency and accountability brought on by a fully set up procurement protocol also work to strengthen brand image. When a business can demonstrate prudence and fiscal responsibility in its operations through procurement, both traits will be transcribed to the public and corporate imagery of the company.

For private businesses, where an excellent brand image can be the difference between posting excellent and 'good' quarterly financial reports, leveraging procurement, as a means to bolstering brand image is more of a necessity than it is a choice.

WHAT CONTRACTS DO

First and foremost, contracts are the prime revenue faucet for any traditional business organization. They are the start of business deals and the mechanism that ensures remuneration and ergo revenue generation follows through in the manner specified when the deal was put in place. Contracts serve many other functions, however, some of which we have already introduced at the start of this guide

MITIGATING RISKS AND PREVENTING CONFLICTS

A fully drafted contract specifies the responsibilities and liabilities (if any) of all the parties that consent to its formation. Ideally, these contract terms are drawn on a negotiating table, with each party attempting to cut the best possible deal for itself. The finalized contract then is a summation of the needs of both parties and a definitive pathway to fulfilling these needs. Everyone involved knows what to expect (and what not to expect) thus obliterating the vagueness and murkiness that's often the start of many business conflicts

AN AVENUE FOR SUSTAINING OPERATIONAL EFFICIENCY

The clear and concise requirements outlined in a contract positions business to consistently operate at peak efficiency. Contracts specify the immediate needs and want of a business enterprise, effectively providing a functional template for defining business objectives and goals in line with being profitable and self-sufficient in the long term. To put this into better perspective, consider a business that's invested in manufacturing cars. If it enters a contract to assemble say, 1000 cars for a client, it knows now that it should commit scarce resources to manufacturing these cars, upgrading its manufacturing process, or optimizing its supply chain system, as opposed to say, leasing a new corporate headquarters.

CONTRACTS ARE AN INSURANCE POLICY

Contracts provide a means of recourse either through renegotiation, mediation, or legal action to aggrieved parties in the case of a business gone sour. They can do this because, as we've already established, they are legally binding. Parties who enter into a contract are mandated by law to follow through with their commitment and obligations. When there's a breach of contract, whether knowingly or unknowingly, parties can seek compensation, meted out as a penalty defined by the contract itself or state laws.

The obvious takeaway at this juncture is the fact that both contracts and procurement do more than just help businesses scale. For a fact, they are means to streamlining operations, optimizing business performance, and promoting long term profitability. That said, these extras brought on by contracts and procurement can only manifest in an organizational framework with a fully managed and optimized contract and procurement framework. In the next section, we outlay how the best-case scenario for contracts and procurement should look like in an organizational setting.

THE CONTRACTS LIFECYCLE AND PROCESS

In an ordered organization, contracts don't just come into being after a few handshakes at the business negotiation table. They are a product of a systemic process that's summarily described as the contract lifecycle. From start to finish the typical contract lifecycle has eight stages;

- Contract request
- Drafting
- Negotiations
- Approval
- Execution
- Obligations
- Compliance
- Amendments and Renewal

CONTRACT REQUEST

The first stage of the contract lifecycle is the request phase. Basically, it is an invitation from one party interested in entering a business deal to another party that's willing to fulfill the request put forward by the initiator. The request phase is the 'getting to know each other' better phase, and here, the goal is for both parties to come forward in very certain terms with their intention, requests (what they require from the other party), and expectations. Honesty and the quality of being upfront are essential at this stage to prevent delays in execution and contract disputes.

DRAFTING

Once both parties are familiar with what's expected of them, the next step is to document the terms of the contract as agreed upon. Again, the terms should be as explicit as possible with no vagueness or ambiguous statements. All involved parties, services to be rendered, payments and remuneration, as well as other contract-specific clauses and conditions should be well defined. Note that anyone can draft a contract. Although it is probably better to seek the counsel of a lawyer, a contract can be drafted by anyone as long as that person has the authority of the state and of all parties involved in the contractual agreement.

NEGOTIATIONS

With the interests of all parties fully covered in the initial draft, it's now time to head on to the negotiations table. At the negotiations stage, every party attempts to adjust the specified terms of the contract to a version that's most fitting, and in the context of a business deal, most profitable to them. The next question then is, how can a contract be fair if everyone's arm wrestling each other to walk out with terms that are in their best favor? Simple answer – contracts are not meant to be inherently fair. The variability of business circumstances, competition, and other factors almost always guarantee this. What's important in a contract is not achieving fairness but settling for terms that can be met by both parties without any compromise.

APPROVAL

When all involved parties are satisfied with the negotiated terms, conditions, and clauses, the contract is then forwarded for approval. Approving a contract entails vetting it to ensure correspondence with the organization's situational objectives and goals. The typical approval process includes:

- Setting up approval policies
- Transfer of contract up the approval chain, if any
- Contract review
- Contract acceptance or rejection or modification
- Contract redrafting in the case of the former two

Depending on how far it takes to climb the ladder of command, contract approval can take anything from weeks to months.

EXECUTION

In the execution stage, the terms of a contract are adopted as instructions to guide the implementation of what was agreed on during negotiations. Execution is transforming words into actions, and the general convention is that the process should start when the contract was signed into place and must be completed within the timeframe specified in the contract. Anything otherwise is tantamount to a breach of contract.

OBLIGATIONS

Once the contract is executed, all parties involved must now see to it that additional terms, conditions, and clauses specified in the contract are fulfilled. You can think of the obligations stage as being an addendum to execution because, like the execution stage, it is still concerned with the fulfillment of all that was agreed on in the negotiation phase. In practice, obligations include auxiliary contractual terms like additional services, reports, customer service, consultation, and everything else that deviates from the main title of the contract.

If a telecommunications firm like Huawei signs a contract to install 5G masts in a particular locality, for instance, the actual installation process is the contract execution. When Huawei files its taxes for the payment it received from its client, it's fulfilling its obligations. The contract might have also specified routine maintenance services or the creation of service reports; doing this falls under the umbrella of obligations as well.

COMPLIANCE

It's one thing to execute a contract, and it's another thing entirely to execute it to specifications and in line with industry best practices. The former is the act of compliance, and in the compliance stage of a contracts' lifecycle, all consenting parties dot the I's and cross the T's to ensure they've acted in compliance with industry best practices. Often, being complaint means performing audits, creating and submitting reports to both internal and external supervisory entities, and making sure to follow through with all the auxiliary clauses treated in the obligations phase.

AMENDMENTS AND RENEWAL

Depending on the specific terms of the contract and how it was executed, a contract can close in two ways – a renewal or termination. Renewal is a reinstatement of the existing contract. Renewals can be outright or with an amendment to the existing contract. In any case, renewals mirror the terms, conditions, and clauses of the current contract and make it possible to skip the sometimes-lengthy process of creating a new one from scratch. Renewals, however, occur only if the relationship between all parties is adjudged to be beneficial and if both parties are invested in continuing with the relationship, reason why the adroit contract manager will always strive to promote fairness and sometimes yield to compromise.

THE PROCUREMENT LIFECYCLE AND PROCESS

To kickstart this section, let us develop a more comprehensive picture of procurement using a description obtained from the United Nation's handbook on procurements. It states that procurement is a summation of every action necessary to facilitate acquisition either by lease or outright purchase of tangible property, including everything from real estate to products, services, and even works.

This definition puts to practice the fact we discussed earlier – procurement is a multidimensional process that goes beyond just buying or obtaining goods. It is a critical component of supply chain management, and it is, in turn, summarily comprised of eight core processes, namely:

- Demand determination
- Source determination
- Supplier selection
- Purchase processing
- Order monitoring
- Goods receipt
- Invoice verification
- Payment processing
- Demand determination

Before we go into describing each process in detail, it's important to note that the success of procurement as a business management process depends on how it is executed. In other words, for procurement to be successful, it must be executed from a strategic viewpoint. As we go on to describe each procurement process, keep in mind that we're approaching it from the perspective of a standard and effective procurement strategy.

DEMAND DETERMINATION

Finding out what you need in the first place is the obvious start of any buying journey. In the business of procurement, this is called demand determination. The goal here is to generate a summary of the exact product or service needed by the organization even before the need arises. Demand determination is based on the projected needs of end-users or requisitioners in an organizational framework.

Ideally, needs can be defined by requisitioners or departments within an organization who require the product or service; or by requisitioners outside the organization's operations framework.

To illustrate if an IT department is planning to upgrade the server infrastructure of a business, it is in the best position to draft up a template of all that's needed to complete the project. On the other hand, if an organization needs to build a different server infrastructure, then it might require the services of a consultant in drafting up its needs. The consultant, in this case, is an external determinant of procurement needs.

The procurements department is tasked with the job of accessing needs and classifying them as organization-specific demands if they (the needs) qualify. To this, procurement has to ask the questions of:

- What will the need serve?
- Who will be impacted by the need if fulfilled?
- Who are the key stakeholders implicated in the fulfillment of this need? i.e.
    - Who are primary internal parties pushing for/benefitting from the need?
    - Who are the primary external parties pushing for/benefiting from the need?

The goal here is to derive a big picture that differentiates needs from desires or wants. Procurement must work outline a clear and concise definition of what's needed without any vagueness or ambiguousness. Many people, and indeed departments in an organization, have a hard time segregating needs from wants, so this step is particularly important.

At the end of the day, procurement would have derived a purposeful statement of needs that outlines what's needed and the relationship between these needs, if any.

SOURCE DETERMINATION

Once a clear picture of what's needed is painted, the next step is to identify potential sources of supply to satisfy this need. To do that, procurement has to perform a market analysis.

Now a market analysis in the context of the procurement lifecycle differs from your typical market analysis in that the analysis is skewed towards segments of the market that have the potential of fulfilling the demand determined in step one. That's to say that the demand – its nature, its specificity, and cost – determines the scope and extent of the analysis.

Performing a market analysis

To analyze the market to determine a source, organizations can leverage from a diverse pool of information banks, including:

- Company-specific internalized knowledge
- The internet
- Relevant industrial organizations
- Professional outfits
- Professional market consultants
- Other buyers who have procured the same good or service
- Market Suppliers

While each of these information repositories proffers its advantages over the others, often, the most practical option is consulting market suppliers with a proven history of supplying the good or service in question.

Market analysis for procurement purposes usually does the following:

- Determine the market structure – that is the relevant segment of the market, its size, major suppliers, supplier profitability, and market ownership structures (who owns what).
- Establish nature of market competition – is the market a perfect competition where many buyers are offering similar services; an imperfect competition where many buyers are offering differentiated

products; a monopoly where there is just one supplier; or an oligopoly where there a few large firms offering differentiated services.

- Identify the predominant supply chain mechanism
- Identify substitute goods or services – if available substitutes provide an alternative means to fulfilling the demand

SUPPLIER SELECTION

With the knowledge and extent of the market fully set in place, now's the time to select a fitting supplier to fulfill the demand. If supplier selection is to be free of bias and human error and oriented in a way that promotes the best interest of an organization, it must be effected against the backdrop of the strategic selection methodology.

Broadly speaking; however, supplier selection usually follows this trajectory:

- Approach the market with a statement of needs. Remember that a statement of needs is a transcript of the organization-specific demands fabricated in the demand determination stage. Sometimes it might include specific information about the demand like its product number or use case.
- Conduct supplier symposiums as a form of meet and greet for both parties (supplier and procurement management) to get familiar with the standing requirements.
- Solicit for bids from suppliers:

In submitting bids during the supplier selection process, suppliers can opt for a fixed price contract or a time and materials contract. A fixed-price contract as the name lets out sets a fixed price for a definite and specific scope of service to be provided. Once the contract is accepted, the supplier must deliver on all the deliverables for the amount stated in the agreement.

With a time-and-deliverables contract, payment is dynamic and dependent on the effort expended in completing the project.

Usually, billing is hourly, and contract specifications are subject to changes or modifications.

Suppliers choose from both based on their preferred style of project execution. However, from the perspective of the buyer, it's important to note that some suppliers might lower their bids to secure a contract before going on to shortchange the buyer by lowering the scope of work afterward.

- Receive the bids and document offers.
- Address suppliers' concerns, questions, and contributions without going overboard to reveal confidential or sensitive information that may jeopardize the competitive advantage of any party involved in the procurement process.
- Communicate back with suppliers confirming receipt of offers
- Proceed to evaluation - here offers are screened against predefined selection criteria. Note that the supplier with the best pricing is not automatically the best-fit supplier. Suppliers must be evaluated on their ability to deliver on the requirements. Usually, this is weighted against things like their market performance and proven experience at fulfilling the demand.
- Make sure to examine any conflicts of interest documented by individual suppliers and play close attention to any signs of collusion or supplier-side rigging.
- Round up with any measures of due diligence – drafting reports, background checks, and executive briefing.
- Identify best fit offers. In some cases, the best-fit offer might not correspond with the approved budget for procurement. At this stage procurement managers can request for additional funding from the relevant financing authority
- Draft up a letter of interest addressed to the best-fit supplier stating terms of negotiation
- Negotiate with the preferred supplier and then end the negotiation by signing a contract.
- The signed contract is forwarded to a shared database where it will be accessible to management and administrative personnel.

- Communicate back to unsuccessful suppliers informing them that they have failed to meet the shortlist

Please Note:

The signing of the contract phase marks the official end of the traditional procurement process. Everything onwards from here falls under contract management/administration, although for clarity sake, they are still considered to be part of the procurement lifecycle.

PURCHASE PROCESSING

Purchase processing concludes the supplier selection cycle and sets in motion the mechanism for actual delivery to take place. The key activity here is the issuance of a purchase order. A purchase order is an official authorization issued by a buyer to a seller instructing the latter to begin delivery of the service/goods as agreed in the negotiations and selections stage. A purchase order is, in effect, a contract that specifies the nature of goods/services to be delivered, the agreed cost, payment information, and relevant delivery timetables (when the product is time-sensitive). It is drafted up and issued by the procurement department.

Note that the purchase order is subject to approval by the supplier. If there are any inconsistencies based on the earlier deal, a supplier can file for an amendment or, in some cases, outrightly cancel the order. Once approved and before signing, procurement management must assess the order for compliance with company terms and the needs defined in the earlier demand determination stage.

In addition to issuing a purchase order, procurement management can also establish whether it wants its procurement relationship to be short or long-term during the order processing phase. Depending on which the organization settles for, a procurement manager can either issue a long-term agreement (LTA) or a short-term agreement (STA). Which is the best and why?

Long term agreements

An LTA is a written agreement between a buyer and supplier that establishes demand and correspondent supply for specific goods and services over a defined period. There is usually no commitment as to the minimum or maximum order quantities for the good/service in question.

An STA is essentially a one-off affair. Supply moves to deliver on the deliverables specified in the purchase order then the contract is closed.

Of the two, LTAs are generally thought of as the more efficient and productive procurement arrangement because it allows organizations the ability to sustain an open chain of supply at a competitive price point. In addition, LTAs also:

- Streamline the entire procurement process, and this often translates to reduced expenses. With an LTA in place, a business saves on resources and time since it doesn't have to conduct procurement from scratch.
- Bring about consistency in reliability and product/service quality.
- Reduce latency in goods/services delivery.
- As you would expect, given these advantages forming long term relationships are the preferred and advised option for most buyers and suppliers.

ORDER MONITORING

Order monitoring simply means assessing the performance of the supplier against the requirement specified in the purchase order. It begins when the supplier acknowledges receipt of the purchase order and extends until the end of the contract. The rationale for order monitoring is straightforward – it's put in place to:

- ensure compliance with the specifications of a purchase order
- mitigate risks and prevent disruptions in operations

For order monitoring to be successful, like virtually every other component of procurement management, must be undertaken against the backdrop of a clearly defined strategy. A valid order monitoring strategy consists of three management areas:

1. Service delivery management – which is concerned with managing supplier performance against the requirements specified in the purchase order. Here, quality standards and key performance indexes (KPIs) are tracked and weighted against a predefined rubric.
2. Contract administration – which centers on the formalized handling of contracts and management of changes to contract terms that may arise. Everything from ensuring appropriate documentation, to tracking costs and charges, validating invoices and payment, and report reviewing falls here.
3. Relationship management – aside from the role good business relationships play in the success of any commercial venture, it is an essential requirement for effective order monitoring because it opens up a channel for fluid communication and reporting. Sustaining an excellent buyer-supplier relationship mandates that both parties:
    a. Are open and direct when communicating
    b. Work to develop understanding and trust for one another
    c. Collaborate openly to resolve issues that may arise as the order is processed

That said, suppliers must know from the start that although effective commination and understanding is the goal, it's not a prerogative to double back on agreed terms and specifications. Payment is only guaranteed when compliance with the latter two is met.

At the end of the day, it is the responsibility of the procurement manager to report back to management with updates on compliance, issues, and everything else that happens as the order is fulfilled.

GOODS RECEIPT

Assuming everything goes according to plan, the goods receipt phase is where the goods or service procured arrives in location and is received. An official handover from supplier to requester occurs here. During the goods receipt phase, It's the duty of procurement to:

- Inspect the goods – to determine if it's the right quantity and quality. Depending on how sensitive the products are, inspecting for quality might require a standardized quality control test.
- Compare delivery with the purchase order to confirm that order specifications were met and if not reject them.
- Document delivery and post-order receipt to ensure seamless invoice processing and for records purposes. It's expected that businesses keep detailed records about the goods and services procured over their lifetimes. Aside from serving as a reference point for future purchases, these records will also come in handy for audits conducted by regulatory agencies like the Inland Revenue Service (IRS) and when processing warranty claims.

INVOICE VERIFICATION

The invoice verification phase marks the penultimate stage of the typical procurement lifecycle. An invoice is a document that specifies the amount to be paid for a goods or services, and invoice verification fact checks the authenticity of the invoice. Fact-checking the invoice is essentially reconciling the delivery documented on the invoice for payment with the purchase order and receipt posted when the goods were received.

If it's a match, the invoice is posted for payment, otherwise, then it is blocked or rejected.

PAYMENTS PROCESSING

The role of processing payments rests on the shoulders of an organization's accounts payable department. Once the invoice is tendered by the supplier, usually at the goods receipt phase, it is forwarded to the accounts payable department. The accounts payable department, on its part, reviews the invoice and establishes correspondence with the procurement department or senior management (whichever applicable) to confirm that all order terms, as detailed in the purchase order, have been fulfilled by the supplier.

After confirmation, the accounts payable department can then forward the agreed amount to the supplier.

From the description outlined above, it's easy to picture the procurement lifecycle as an extensive process. Why stick to this extensive, and some would say redundant framework instead of just 'going with the flow' and approaching procurement as an on-demand bespoke service? Asides from the fluidity and continuity brought on by procurement – in that it determines a need before the demand for that need arises – sticking to an effective procurement template guarantees the consistency and reliability required for businesses to thrive. More so repeating the same procurement run consistently brings about familiarity, thus equipping procurement management with the ability to spot and mitigate problems with procurement when they do arise.

PRIVATE VERSUS PUBLIC PROCUREMENT

So far, we've built our discussion of the procurement lifecycle on the template of public procurement. However, there's such a thing as private procurement, and while both share many similarities, the difference is distinct.

THE DIFFERENCE

Everything from phase one – demand determination – to phase three – supplier selection is the fundamental scope of procurement, and it ends basically when a contract is signed into place. From this point onwards, the processes we outlined are considered to be part of contract management. Public procurement is a merger of procurement proper and contract management.

So, to clarify, private procurement does not lump the contract management process into the business of procurement, and the reasons for that are not far fetched. In public procurement, the benefits brought on by contract management – transparency, integrity, and accountability – are a necessity since legal, fiscal, and ethical compliance is, by default, expected of public procurement. For private procurement, the primary goal is to promote the interests of the private entity involved. This is why, for instance, private procurement might select the best-fit supplier in terms of favorable pricing and payment methods.

GOVERNMENT PROCUREMENT – A DERIVATIVE OF PUBLIC PROCUREMENT

In effecting public procurement, governments leverage standardized processes that work to guarantee the transparency and accountability demanded of it by the public. In the US, the most notable schematic for government procurement is outlined in the Federal Acquisition Regulation or FAR.

The FAR specifies four contracting methods to be used by government agencies:

MICRO-PURCHASES

Micro-purchases are procurement buys whose value does not exceed $3000. Usually, in these types of procurements, the need for competitive bidding from suppliers is shelved. When it's time to pay, the procuring agency can use a credit card or government purchase card to fund the purchase. Current estimates put it that over 70% of all government procurement runs are micro-purchases.

SIMPLIFIED ACQUISITION PROCEDURES

Simplified acquisition procedures include all procurement tasks whose value equates to anything between $3000 - $150,000. Compared to contracts by negotiation and sealed bidding, procurements under this schedule require less paperwork and documentation. That said, unlike micro-purchases, government agencies are mandated by law to advertise for all procurements falling in this bracket. And additionally, procurements in this price range must be reserved for fulfillment by small businesses.

CONTRACT BY NEGOTIATION

The contracts by negotiation process is very similar to the sealed bidding process; only this time, the value of the sought-after goods/services are higher, plus there's some negotiation involved before the contract is awarded. Like the sealed bidding method, government agencies issue a Request for Proposal to solicit and then entertain proposals from prospective suppliers.

These proposals are then accessed, but unlike the sealed bidding method where the lowest price contract is accepted, a government agency can, on its discretion, negotiate the terms of proposals submitted by suppliers.

SEALED BIDDING

When government agencies have a very specific set of requirements, most times for technical goods/services, they use the sealed bidding method of procurement. Here an Invitation for Bid (IFB) containing information about the requested goods/services, method of bidding, payment, and a slew of other requirements is issued.

Submitted bids will be evaluated in public using a specified rubric, and the bidder with the best price (and demonstrable ability to fulfill the need) is awarded the contract.

DISPUTE RESOLUTION IN GOVERNMENT PROCUREMENTS

What happens when problems arise in a government contract? Do suppliers just charge the government agency to court? Well, the short answer is no. Because governments are sovereign entities, contracts signed with a government agency are, for the most part, inadmissible in traditional courts. Problems and issues are instead thrashed out using the procedures outlined in the Contracts Disputes Act.

SOURCING FOR GOVERNMENT CONTRACTS

From our brief description of the government procurement process, it's easy to picture it as a tad bit complicated and cumbersome. In reality, however, this is not the case; there are many benefits for those who engage with government agencies.

For one, as we've already stated, government agencies are by law mandated to give small business preferential treatment. Then there's the fact that the transparency consistent with government procurement runs makes the bidding process easier and fairer. Government agencies are also great clients because, in most instances, they form long term partnerships and proceed to order in bulk.

To enjoy benefits, however, it's imperative that vendors (suppliers):

- Understand the complex documentation involved in securing and fulfilling a contract and seek professional help where needed.
- Be clear, concise, and factual when filling forms and other contract documents.
- Ensure compliance with all applicable rules and regulations.
- Refrain from missing deadlines

EXAMPLE OF A PROCUREMENT DEPARTMENT

From all we've covered in this guide, it's easy to see that procurement is an essential component of operations. Handling it strategically is critical to guaranteeing business success. Often, however, procurement as a business strategy is summarily grouped as part of the responsibilities of administration. Although this approach might come as a valid avenue to cut expenses and streamline operations in the first instance, in the long term, it's counterproductive.

If a business plans to debut procurement as a means for sharpening competitive edge and fostering innovation, then it must float a full-scale procurement team or department.

Let's now proceed to describe the roles that make up the ideal procurement department.

PROCUREMENT ENGINEER

When an organization has demands that fall into the more technical category, a procurement engineer is the management specialist to lead the procurement process. Procurement Engineers have in-depth and practical knowledge of the demand, its use, and the industry for which it is relevant. Amongst other things, it's their job to:

- Identify suppliers
- Contribute to creating the purchase order
- Negotiate the final terms
- Award contracts
- Ensure compliance

You can think of procurement engineers as demi-procurement managers with the specialist knowledge required to efficiently handle the procurement of sophisticated demands and goods. The ideal procurement engineer is a skilled professional with demonstrable business acumen.

STRATEGIC SOURCING ANALYST

A strategic sourcing analyst is like the name lets out an analyst. In a procurement department, he/she collect, organize, and analyze logistic and supply data of good and services procured by an organization. The job of a strategic sourcing analyst is to derive insights that sharpen an organization's procurement process. Whether it's by finding alternatives to demand, identifying 'fitter' suppliers, or defining measures to optimize the supply chain, strategic sourcing analysts define strategies that position their businesses on the path of effective, efficient, and scalable procurement.

Strategic analysts are skilled researchers and critical analyzers. Knowledge of and experience with data analytics and analytical engines is an added perk.

COMPLIANCE SPECIALIST

Suppliers and buyers must abide by a multitude of requirements as orders are fulfilled. For suppliers, asides from the demand specifications outlined in the purchase order, they must as well comply with a growing list of industry standards and regulatory requirements.

A compliance specialist makes sure this is the case for all procurement runs in an organization. Specifically, a compliance specialist will:

- Perform periodic audits of procurement cycles to ensure both demand and supplier side compliance to specifications, industry standards, and state regulations.
- Move to resolve issues with compliance when they do arise.
- Have a firm grasp of industry best practices and regulations in addition to keeping a hand on changes that affect both.

VENDOR MANAGER

A vendor manager is an organization's liaison officer for all issues related to supplies and supply management. They coordinate procurement interactions with suppliers and work to build sustainable relationships with the latter on behalf of their companies.

Vendor managers are also required to have the business and sales skills that allow for sourcing, selecting, managing, and evaluating vendors if that responsibility is ever transferred to them.

The ideal vendor manager will have proven interpersonal skills, sound business acumen, a knowledge of computers, and sales skills.

THE CHIEF PROCUREMENT OFFICER

The leader of the procurement department as a strategic arm of sharpening competitive edge is the chief procurement officer. They oversee the entire demand determination, supplier sourcing (and selection), vendor management, and compliance monitoring processes of the procurement lifecycle. The chief procurement officer will chair the negotiations table with suppliers and supervise the contract creation, award, and execution process.

In a way, you could peg them to be all-round virtuosos of the procurement process, having the skills and expertise to function in the stead of all the other team members of a procurement department. Indeed some organizations' procurement departments are managed in full by a solo chief procurement officer.

Whether as a one-man army or acting in concert with other procurement specialists, the chief procurement officer is expected to:

- Develop a detailed framework guiding their organizations' procurement policy. This framework will include policies that define company-specific targets, business optimizing measures for cost and time savings, and compliance measures to ensure strict adherence to all regulatory requirements.
- Lead and manage an agile procurement team. Leadership skills are a necessity for any aspiring chief procurement officer since it is their job to motivate and direct the activities of team members.
- Oversee the contract creation, award, and execution process to promote business interests and sustain beneficial supplier relationships.

The chief procurement job is a highly professional managerial role. An MBA or a Master's degree proffers advantage, but above everything else, the ideal chief procurement officer must display astute leadership skills, sound business acumen, and a knack for analyzing and providing pathways to navigate complex situations.

TECHNOLOGY IN CONTRACT MANAGEMENT AND PROCUREMENT

The notion that technology changed how business is done is now a globally recognized fact. From the 21st century model of business analytics, to how marketing and sales are driven by tech, we've seen laudable jumps in business performance, efficiency, and scalability over the last couple of years. Procurement and contracts as business management processes are not left out of this major reshuffle.

Today, technology is now an integral component of the contracts and procurement framework for multinational agencies – all under the banner of E-Procurement. As their small and medium-sized counterparts continue to scale, we're now seeing increased adoption of tech on all fronts of the procurement department.

THE CASE FOR TECHNOLOGY

So why adopt technology? Why not just stick with manually creating and managing contracts and procurement? The answer to that question is straightforward – the 21st century has ushered big numbers in terms of market size, consumers, sales, revenue, and profitability for most businesses. Business analysts estimate that the typical organization manages anything between 26,000 – 40,000 contracts. Without technology, it would be almost impossible to handle contracts and procurement efficiently.

According to a McKinsey report, inefficient contract management, for instance, translated to a loss of at least $2.5 trillion for Fortune 500 companies in 2016. Technology debut as a substantive panacea to this inefficiency but only for those who bother adopting it.

Let's take a more detailed look at tech's influence on the contracts and procurement scene.

IMPROVED MANAGEMENT AND ORGANIZATION

The creation, evolution, and mass-scale adoption of digital tech solutions ushered in a new era in contracts and procurement. Enterprise contracts and procurement management suites like Agiloft, Concord, and Updraft allow for the automation of formerly cumbersome processes that make up the typical contracts/procurement lifecycle. The practical and intuitive nature of these applications means everything from making records to creating contracts, filling reports can now be executed swiftly and with a reduced risk of errors.

On the front of organization and management, these applications have also transformed the often decentralized, disjointed, and unwieldy business of managing documents and records into a fluid and seamless process. Paired with revolution digital solutions like semantic search, these tools have made it easier to create, store, organize, retrieve, and secure data derived from contract and procurement processes.

IMPROVED COMPLIANCE

Navigating the legal and fiscal maze surrounding today's contracts and procurement ecosphere is no easy task. In the US, for instance, business owners must comply with a long list of contract/procurement laws, including those specified by the Financial Accounting Standards Boards' rules and the Sarbanes-Oxley Act.

Adopting the right digital management solution, most times in the form of an Enterprise Contract Management (ECM), is often all that's required to implement compliance-sensitive creation, approval, and review of contracts and procurement processes. True to that fact, one study published by the Aberdeen Group showed that 65% of organizations leveraging these sorts of digital solutions were better at identifying legal and financial compliance issues.

THE IMPACT OF AI AND OTHER EMERGING TECHNOLOGIES

The quartet of artificial intelligence, machine learning, deep learning, and natural language processing make up the list of emerging technologies with demonstratable applications in the business of managing contracts and procurement. Together or singly, they function as process optimizers, helping to derive more value from traditional business processes at a fraction of the financial and social costs.

In procurements, these technologies sharpen the efficiency and effectiveness of virtually every task. From start to finish AI, for instance, helps in:

- Performing swifter, more in-depth reviews of standing transactions, and procurement requests.
- Comparing bids to find best-fit offers.
- Guaranteeing compliance through round the clock automated monitoring

On the front of contracts, it's the same story of these technologies – predominantly AI – helping to optimize the contract generation and management process. AI contracting software doesn't, however, just aid in creating or organizing contract situations for organizations; they can as well spot correlations, differences, and similarities between data defined in groups of contracts.

It is this result-oriented analytics theme that extends to the 'people side' of contracts and procurement management. By providing leadership and management roles with the business analytics and insight generation tools, AI helps to improve the decision-making process that ultimately determines the action course for most contracts and procurement departments out there today.

Other non-novelty applications of technology also contribute greatly to smoothening out the traditional processes of contracts and procurement. Radio Frequency Identification (RFID) tech, for instance, helps with inventory management, allowing for the real-time control and tracking of product quantities in store. The information obtained thereof can be purposed to help with the demand determination and goods receipt verification phases of the typical procurement lifecycle.

FUTURE CHANGES AND DISRUPTIONS IN TECHNOLOGY

STRATEGY AND COLLABORATION

From an adjunct process of demand and supply primarily based on heuristics to a fully floated strategic and collaborative business management process, both contracts and procurement have evolved dramatically in the last few decades. This evolution is expected to continue well into the future with the theme of more collaboration and more strategy taking center stage in procurements and contracts departments.

Catalyzing this systemic ascent into a state of heightened efficiency and cross-functional synergy is the trifecta of technology, talent, and innovation, with the former two serving as a rate-limiting factor for the latter. We are headed for the grand manifestation of digitization in the 21st century business ecosystem and in that future, what we will see are:

A STREAMLINED BUT NONETHELESS AGILE PROCUREMENTS FRAMEWORK

With strategy formation and automation driving competitive edge from the perspective of contracts and procurement, expect a future where the traditional contracts and procurements department will be cut to size with the majority of its processes conducted virtually.

Talent and business analytics will be the key driver of strategy formation. So, while there's a tendency for slashing workforce numbers, individuals with the skills and expertise required to manipulate the advanced analytic frameworks powering contracts and procurement will be in demand. And speaking of business analytics

BUSINESS AND MARKET INTELLIGENCE AS A PREREQUISITE FOR SCALING

In the future, maximizing profits and scaling effectively, at least from the perspective of the contracts and procurement department, will be less about following trends and more about how proficient a business is at gathering and exploiting business and market intelligence. This is especially true for organizations that plan on scaling massively into the global market.

What's the key takeaway here for the smart business owner – it's simple; adapt and evolve or be left behind. Tomorrow's contracts and procurement will be driven technology. Those who key into it set themselves up for expansion and market penetration. Those who do not, risk being stagnated or worse, relegated to obscurity.

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