***CHAPTER 16 – STUDY UNIT 11***

**11.1 Importance of services procurement (purchasing) (pg 271)**

\*The service sector is by far the **FASTEST GROWING** sector world wide

\***DEREGULATION** has resulted in the disbanding of monopolistic protection.

\***REDUCE COST** – The proven ability of supply management to reduce cost by increasing the efficiency of the procurement processes influenced top management to allocate cost

reduction goals in services to purchasing and supply.

\*The introduction of **E-PROCUREMENT AND OTHER SOURCING TOOLS** assisted supply managers in performing procurement activities much more efficiently.

\* **OUTSOURCING** of non-core activities is another management philosophy that stimulated by the relentless global drive for cost reduction.

THE NATURE OF SERVICES – DIFFRENCES BETWEEN BUYING SERVICES AND GOODS

**11.2Characteristics of services:**

\* The intangibility of services – services are experienced by the customer and not delivered

\* The Heterogeneity of services – The implication for purchasing is that services are unlikely to be interchangeable

\* Simultaneity – In service production there is no lead time in services delivery since service production and services consumption are simultaneous

\* The perishability of services – Since the production and consumption of services are simultaneous, services cannot be stored for later use.

\* Entry into the market - For most services entry into the market is relatively easy in the sense that large amounts of capital are seldom requires to become a service provider.

PURCHASINGOF SERVICES

**11.3** **5 Guidelines for purchasing services**

1. Have a clear defined scope – supply management must have a clear vision of what exactly is requires, what the supplier must accomplish, what the outcome of the service

Delivery must be and how performance of the supplier is to be measured.

2. Establish a suitable organizational structure – Centralizing the services purchasing structure will reduce the risk associated with service buying.

3. Allocate resources to supply management relative to the importance of services buying.

4. Develop a procedure for supplier’s selection and supply base.

5. Develop a performance measurement system for service delivery.

**11.4 Core activities in services purchasing – devided into 3 phases:**

A. INITIAL PHASE

* Data collection
* Sourcing process
* Purchasing structure
* Statement of work (SOW)

4 FORMATS OF THE STATEMENTS OF WORK (SOW)

* Performance SOW – Broken down into task describing the required outcome performance of the task
* Functional SOW – Defines what the buyer is trying to do
* Design SOW – Most detailed SOW, used mainly in construction and manufacturing
* Level of effort SOW – Specialized version of the performance SOW used in research and development

B. PURCHASING PHASE

1. Determine the supply base – develop a set of criteria which will enable the buyer to reduce the number of potential suppliers to a more realistic potential supply

Base

2. Negotiation – Standard procedure of asking for quotations may be possible when buying services.

3. Contract development (service level agreement) – Formal written agreement made between two parties

4. Performance standard should be agreed in advance on what constitute acceptable performance.

5. Changes should be agreed on and how to make changes

6. Behavioral issues – standards of behavior should be determines

7. Sub-contracting - the supply managers right to review and approve subcontractors

8. Dispute resolution – The process that will utilize in case a dispute arises must be determined.

C IMPLEMENTATION AND FOLLOW UP PHASE

1. Monitoring the results of services buying
2. Develop a policy of compliance to service contract performance towards suppliers
3. Contract administration – Follow up

Quality control and supplier evaluation – Will have to be performed while the service delivery is in process

Payment – some service agreements require pre-payment and others payment on delivery

Records are essential.

11.5 PURCHASING PROFFESSIONAL SERVICES

**Issues surrounding purchasing professional services:**

1. Conduct an internal audit within the firm to determine how much is currently being spent on purchasing professional services.
2. The scope of each project for purchasing professional services should be clearly defined
3. Goods can be returned if they do not conform whereas professional services cannot
4. Methodology should be in pkace to gauge the performance of professional services providers at various stages
5. It is essential that buy in into policies and practices for purchasing professional services should be obtained from employees and internal stakeholders in order to maintain best practice in purchasing professional services

**11.5.1 Recommendations regarding the purchase of legal services:**

1. User functions and their managers should keep abreast of those aspects of the law that influence their specific operations

2. Functional managers and employees should seek and take legal advice before a problem arises.

3. Who are the best suppliers of legal advice and or services should be ascertained before embarking on a project of purchasing such services – lawyers are not always the best

Source

1. Arbitration should be explored to resolve disputes
2. Legal cost can be controlled by accurately defining the scope, negotiating for the best value and designing an adequate performance evaluation structure.

**11.5.2 Prerequisites for success in purchasing marketing and advertising services:**

1. It important for the supplier to work closely with user functions such as marketing and public relations

2. The supplier must be fully informed and must understand what to be promoted

3. Teamwork between internal functions and the service providers is of utmost importance

4. Own employees should be involved in the creative element

5. Advertising and marketing involves complicated supply chains and supply management can have a crucial role to play.

PURCHASING TRANSPORT SERVICES:

**11.6 5 Key variables that supply management must consider in acquiring transport services: (Variables in transport decision making)**

\*Total Cost – All cost that can be associated with a particular transportation contract.

\*Speed – Refers to the time required by the contractor to perform a specific task as describe in the SOW

\*Reliability – Ability to meet customers’ expectations continuously

\*Capability - Ability in terms of capacity, staff, equipment and management to perform the services contract in time

\*Accessibility – The ease with which a service supplier can be accessible to the various user division or plants which may be spread geographically