

**PROCUREMENT STRATEGIES AND COST PERFORMANCE
IN BUSINESS FIRMS
(A CASE STUDY OF SHELL PETROL STATION – BUGOLOBI)**

BY

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**A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF
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OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE
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DECLARATION

This research report is entirely my original work and has never been presented to any institution of higher learning for the award of any qualification.

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DATE:th 25 / 05 / 2011

APPROVAL

This is to certify that the following research report by ECAU ENOS MIKE which has been under my supervision has been submitted to the school of business and management with my approval.

MR. KINYATA STANLEY
(SUPERVISOR)

Signature.....

Date.....

DEDICATION

With heartfelt appreciation I dedicate this research to my mother, The late Alenyo Joice, father, Mr. Etadu Eliphase, my siblings; Edward, Richard, Christine, Margaret and also the late Etadu Peter Oule for their encouragement, prayers and words of wisdom towards the success of this course.

Am also very mindful of my colleagues at K.I.U. my best friends Dramiga Moses, Ekaju Dominic and the charismatic and intelligent Mutesi Sheila who gave me encouragement and desire to complete my dissertation through their love they showed to me, thanks for being patient and kind to me during this great struggle.

May the almighty God reward you abundantly.

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ABSTRACT

This study was carried out to examine procurement strategies and cost performance in business firms and in particular Shell petrol station – Bugolobi. The objectives were focused on procurement strategies in organizations, the challenge of implementing strategies, the cost performance measures and the relationship that indicated a positive progress between the two variables. It also reflected the procurement process used by firms while undertaking procurement activities.

The method of collecting data and the research design used was descriptive in nature where the researcher designed questionnaires that were given to a selected number of respondents in different departments of the organization randomly. The data sources were both primary and secondary which enabled the researcher to obtain the relevant information. The findings revealed that adopting procurement strategies can assist firms to achieve their stated objectives and reduced extra costs hence increasing the level of profitability in the long run.

The recommendations made included sensitizing all the employees about procurement strategies so that those who were not sure can realize the benefits and also adopting other viable strategies apart from supply base optimization. The buying firm requires providing for any unlikely changes that may result so that the supplier is able to comply and meet the organizational objectives.

CHAPTER ONE: INTRODUCTION.

1.0 Introduction

This chapter presents the background to the study, statement of the problem, purpose of the study, objectives, research questions, scope and significance of the study.

1.1 Background of the study

Thompson (1996) argues that procurement strategy is a new field for empirical measurement beyond the basic monitoring of processes, thus it still has a lot of potential to offer. Previous research had already shown that the benefits from organizing supply chain resources, strategy, structure, responsibilities, approach and policies more effectively are far greater than the possible savings from a simple departmental cost/efficiency focus. Therefore, it is not just about buying but creating value for money in the long term.

Procurement strategy thus focuses the decisions of procurement professionals on the creation of value, rather than on the traditional objectives of cost saving and efficiency.

According to Talgen et al (2001), organizations are giving more attention to the value concept as a result of the fearful competition on the market place. They are attempting to increase the value of their products and service and reduce non-value-added activities both in terms of cost and in number.

Procurement strategy involves making purchasing decisions concerned with the achievement of competitive advantage by making the best use of distinctive competence of the enterprise and integrating the various functional areas of the business, Lysons (2003).

The cost performance refers specifically to a method, chart, or other instrument that is implemented for the purpose of determining/ measuring the actual cost

efficiency of a project or business. The cost performance index is determined by measuring the ratio of earned value to actual costs.

The approach of cost performance analysis when first applied made use of traditional costing models to guide investigations of the various elements. Buyers and/ or cost analysts within the buyer's organization first prepared estimates on the basis of the direct costs of material and labour that were bought to be incurred by a supplier in the production of the product.

Cost performance is an essential aspect of modern life as organizations seek to maintain a competitive position within the market. Only by working closely with supplies will systematically become embedded that ensure the achievement of minimal stock levels, and prices and costs controlled and reduced over a period of time as improvements enter the supply chain, CIPS(2006).

Prompted by a need to cut costs or by a desire to respond to customer concerns or external political forces, organizations are increasingly driven to evaluate the environmental, social and economic impacts of the purchases they make.

Shell Petrol Station Bugolobi was established in 1992 as one of the branches of Shell (Uganda) Limited. It deals mostly on petroleum products particularly fuels such as petrol, diesel, gases and lubricating oils.

The company emphasizes procurement strategies to enhance cost performance. However certain unavoidable factors like theft of fuels, accidents while in transit and delays in delivering the products caused by poor road network especially distributing in inaccessible regions mostly rural areas makes the organization to incur higher costs.

1.2 Statement of the problem

Some organizations are applying procurement strategies as a way of realizing value while reducing unnecessary costs. Procurement strategy at the functional or operational levels derives from corporate or business strategies. However while

procurement strategies attempt to address and work within existing organizational and legal structures, the cost performance is still hindered and undesirable as there tends to be plenty of unnecessary costs involved in the procurement process.

1.3 Purpose of the study

The purpose of the study is to establish the relationship between procurement strategy and cost performance in business firms.

1.4 Objectives of the study

- i. To examine the key procurement strategies employed by organizations.
- ii. To ascertain the challenges in implementing procurement strategies.
- iii. To establish cost performance measures.
- iv. To find out the relationship between procurement strategy and cost performance.

1.5 Research Questions

- i. What are the procurement strategies in business?
- ii. What are the challenges of procurement strategy?
- iii. What are the cost performance measures?
- iv. What relationship exists between procurement strategy and cost performance in business firms?

1.6.0 Scope of the study

1.6.1 Study scope

The study covers the procurement process, the different strategies used by the organization, and the measures applied to enhance cost performance. It further focuses on various products procured by the organization and other essential products demanded and stocked to suit customer's interests.

1.6.2 Time scope

The research was done in a period of 4 months from November 2010 to March 2011.

1.6.3 Geographical scope

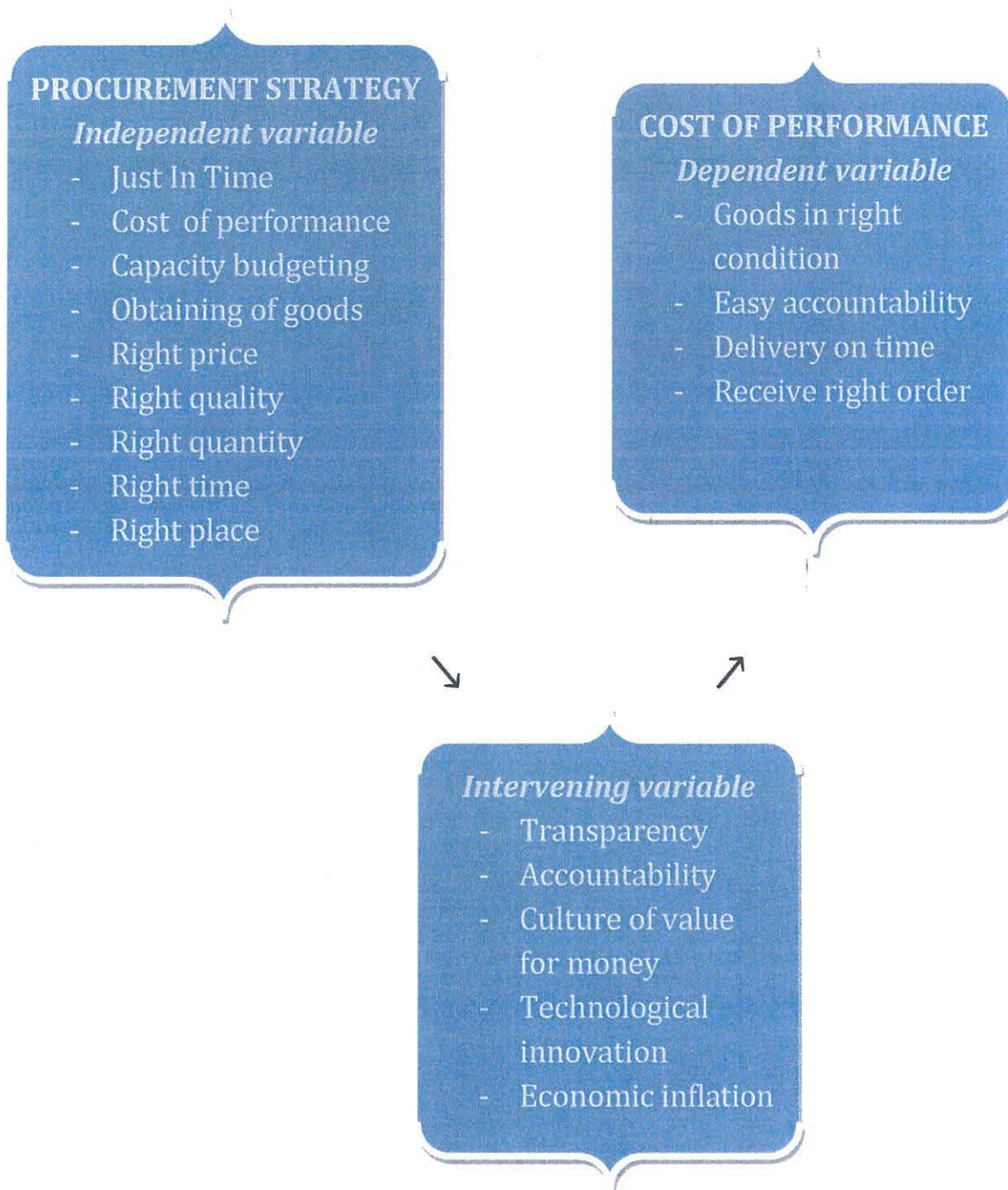
The study examines procurement strategy and cost performance of Shell Petrol Station – Bugolobi because of its strategic position and its wider customer base.

1.7 Significance of study

- i.** The study will help Shell Petrol Station – Bugolobi and other several petroleum organizations improve on their procurement strategies.
- ii.** The government will also be able to use the information to design comprehensive procurement policies and procedures especially for petroleum companies.
- iii.** It will act as a pursuit for further studies by future or other researchers and also assist in handling or related problems in the procurement field.
- iv.** The researcher will be able to acquire more knowledge pertaining procurement strategies.

1.8 Conceptual frame work

1.8 Figure showing conceptual frame work



CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter reviews the existing publications from various scholars and academicians towards procurement strategy and cost performance. It entails the definitions of the key terms, the procurement process, the procurement strategies used, cost performance measures, firm's products/services and challenges of procurement strategy.

2.1.0 Definition of the key terms

2.1.1 Procurement Strategy

This is the planned approach of cost effectively purchasing a company's required supplies, taking into consideration several elements and factors such as the timeline for procurement, the funding and budget, the project risk and opportunities among others.

Lysons (2006) describes a procurement strategy as a set of specific actions that purchasing may take to achieve its objectives.

A procurement strategy provides a "pattern of decisions and events associated with acquiring specific goods, services and work to support the business." The strategy is set out at the pre-tendering stage of the process and assures the contracting authority that the selected procurement approach is appropriate for the proposed acquisition. The procurement strategy should facilitate a collaborative approach and open communication between potential supplies and the contracting authority (www.publicprocurementguides.treasury.gov).

According to Porter (2000), the notion underlying the concept of procurement strategies is that competitive advantage requires a firm to make a choice about the

type of competitive advantage it seeks to attain and the scope within which it will attain it.

D.B Alexis (2000), Procurement strategy is matching the activities of an organization to the environment in which it operates, analyzing the internal core skills and resources of an enterprise and relating these to the external forces acting upon the organization in such a way so as to exploit and avoid threats.

Procurement strategy is the direction and scope of an organization over the long-term, which archives advantage for organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations, Johnson et al (2004).

2.1.2 Cost Performance

This relates to the approach that typically involve at least 2 or more supply chain partners working together to identify process improvements that reduce costs across the supply chain.

Cost performance relates to supply costs which are clearly an influence on the organization's overall costs and can be particularly important in supply chains where competitive pressure means margins are low (R. Wells, 2006). Managing input costs becomes critical if any value added is to be achieved.

Baily et al (1998), Cost performance examines prices in a different way from price analysis. It looks at a key aspect relating to cost of production. When large sums are involved and considerable amounts of cost analysis needs to be done, full-time estimating staff or cost analysts may be employed by the purchase departments to do it.

According to www.ctg.albany.edupublications, cost performance estimations are used to determine the level of investment that is appropriate for the business. The

analysis requires accurate cost data, as well as measures of performance in appropriate units and overall benefits. The broader concept of cost performance analysis accounts for qualitative results.

Kinney et al (1994), several scholars agree that it's important for management to be aware of events that spawn costs. Only after identifying activities that generate cost can cost performance efforts be successful. Management can only control by alternating or changing the nature and extent of activities that create costs.

2.2 The Procurement Process

The purchasing function follows a clearly defined procurement process or cycle. In his article in the procurement news Bashaija (2004) illustrates the procurement process as follows.

Table 2.1 showing the procurement process

Recogniti on of need	Descriptio n of need	Selection of suppliers	Contractin g and purchasin g order	Follow -up And expedit ing	Processing rejections	Auditing The transactio n	Closing transactio ns	Mainte nance of files and records
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Bashaija further notes that procurement procedures vary widely from one organization to another.

The procurement process should be efficiently managed to reduce on the costs that incur at different stages (Van Weele, 2005) and the procurement related costs should best be analyzed by looking at the procurement process as suggested by palmer et at (1996).

2.3.0 Procurement Strategies

Organizations employ a variety of different strategies that may be unique to each product/service. Some of the most common and important procurement strategies

include; supply base optimization, global sourcing, early supplier and e-reverse auctions. These are reviewed below.

2.3.1 Supply base optimization

This is the process of determining the appropriate number and mix of suppliers to maintain and usually relates to reducing the number of suppliers used (Arajan, 2005). This process is continuous because the needs of the business unit may always be changing and optimization requires an analysis of the number of suppliers required currently and in the future for each purchased item or service.

2.3.2 Global sourcing

This is an approach that requires purchasing to view the entire world as a potential source for components, services and finished goods. It can be used to access new markets or to gain access to the same suppliers that are helping global companies become more competitive (Derek et al, 2003).

2.3.3 Early supplier design involvement

According to Monczka (2005) early supplier design and selection requires key suppliers to participate at the concept or predesigned phase of new product development. Supplier involvement may be informed, although the supplier may already have a purchase contract for the production of an existing item.

2.3.4 Total cost of ownership

This is the process of identifying cost considerations beyond unit price, transport and tooling. It requires a business unit to define and measure the various cost components associated with a purchase item. Such costs may include those associated with the late delivery, poor quality or other forms of supplier non-performance (Tim, 1996).

2.3.5 Longer-term supplier relationships

This involves the selection of and continuous involvements with suppliers viewed as critical over an extended period of time such as 3 years and beyond. These are usually sought with suppliers that have exceptional performance or unique technological expertise.

2.3.6 E-reverse auctions

This is an online, real-time dynamic auction between a buying organization and a group of pre-qualified suppliers who compete against each other to win the business to supply goods or services that have clearly defined specifications for design, quantity, quality, delivery and related terms and conditions.

Procurement strategy at the functional or operational levels, derive from corporate or business strategies. For single business, corporate and business strategy is synonymous. Information and advice provided by the procurement function may also influence the framing or adjustment of corporate strategies. The extent to which this takes place will be largely determined by purchasing contribution to competitive advantage as perceived by top management. The table bellow gives the procurement strategies at corporate/ business level and functional/ operational levels.

Table 2.2 showing procurement strategies at the corporate and functional level.

Corporate/ Business level	Functional/ Operational level
Formulated at higher levels in the hierarchy	Take at lower levels in the hierarchy
Emphasize procurement effectiveness	Emphasize procurement efficiency
Based on widespread environmental scanning. Some of this information will be communicated upwards from functional level	Based on information from a more limited environmental scanning. Some information obtained from suppliers may be communicated upwards
Corporate strategy must be communicated downwards	Integrated with corporate strategies so far as these are communicated and understood.
Focused on issues impacting on future long-term procurement requirements and problems.	Focused on issues impacting on current tactical procurement requirements and problems.

Adapted from, Lysons (2003).

2.4 Challenges of Procurement Strategy

The application of different strategies in an organization requires maximum attention so as to fulfill the intended objectives and enable the organization to save unnecessary costs. While implementing a desired strategy, organizations face a series of challenges such as; unskilled manpower, corruption and embezzlement, inflation, limited funds and implementation among others. These are discussed as follows.

2.4.1 Lack of skilled personnel

Despite the huge sums involved and the resulting need for buyers' expertise, purchasing decisions in this sector rarely involve procurement professionals.

Instead they are made by social services specialists. Further, the urgency of this services provision means agreements are frequently made on the spot, with little opportunity for negotiation (The CIPS magazine, 2005).

2.4.2 Corruption and embezzlement

Implementing a given procurement strategy involves various costs. These can be directly accounted for in the firm's records while other costs may not be reflected as people with different interests divert the resources for personal gains.

Citing the Daily Monitor of Tuesday march 31st 2009, more than \$ 1 million (about 2.2 billion shillings) obtained from the controversial disposition of two UPDF Choppers is not reflected on the ministry of Defense books of accounts, raising fears that it could have been swindled as indicated by the public accounts committee of parliament.

2.4.3 Inflation

According to Vaish (2002), the appearance of the black market in the economy is accumulative process and once it appears it feeds on itself. The existence of such a market gives rise to two parallel modes of transacting business, one in a legal manner in the open market and the other in an illegal manner in the black market with the latter becoming more important than the former. Excess purchasing power then causes violent price inflation in the black market, while the legal markets are drained of merchandise.

2.4.4 Financial constraints

Organizations desire to apply certain strategies that may greatly impact on the financial position negatively. This requires the organization to resort to a low procurement strategy that will enable smooth running of all activities and yet suits its budget thus avoiding unnecessary losses.

2.4.5 Implementation

A given strategy may be chosen by a firm but fails to be practical. This could be associated with poor planning, lack of market research of the product, failure to scan the entire environment, resistance by colleagues within the business, analyzing the supply chains and predicting with reasonable accuracy the outcomes of such a strategy (Baily, 1998).

2.5 Cost Performance Measures

The cost/ schedule performance measurement technique also known as the "earned value analysis technique is used to measure and give visibility to cost and schedule variances from plan, in accordance with the cost performance management. The 3 key measures according to www.toolbox.com are;

- i) Budgeted cost of work scheduled (BCWS)
This is the deviation from the scheduled variance to the budgeted cost of work performed.
- ii) Budgeted cost of work performed (BCWP)
This refers to be budgeted cost of work scheduled and together with the schedule variance.
- iii) Actual cost of work performed (ACWP)
This is the difference in the cost variance and budget cost of work performed.

This is the difference in cost variance and budgeted cost of work performed.

There are 2 key indicators generated for each cost account based on these measures;

- Cost performance indicator (CPI).
- Schedule performance indicator (SPI).

If the cost performance indicator (CPI) has a value less than 1, this indicates that the actual cost for the work performed to date exceed the budgeted costs for the work performed to date, which indicates a cost overrun situation. If the cost performance indicator is decreasing over time, clearly the situation is worsening.

If the schedule performance indicator (SPI) has a value less than 1, this indicates that the budgeted cost for the work scheduled to date exceed the budgeted cost for the work performed to date. If the schedule performance indicator is decreasing over time, the situation is potentially worsening.

2.6 Various Products/ Services offered by Shell Bugolobi

The core products are mainly petroleum in nature and include; petrol, diesel, gas and lubricating oil. The non petroleum is usually stocked in shell supermarket and these are; cosmetics, foodstuffs, toiletries, utensils, soft drinks and other consumables.

Services include;

- | | |
|-----------------|--------------------------------------|
| - Shell cards | - Advantage cards, |
| - Wheel fitting | - Tyre cleaning and Pressure fitting |

2.7 The relationship between procurement strategy and cost performance

Procurement strategy is a critical mechanism for delivering value for money and achieving sustainable outcomes for the organization. Such a strategy aims at providing a clear framework for procurement to ensure a coordinated approach is adopted across the organization and reflects the aims and objectives.

Several scholars agree that cost performance can be effectively enhanced if an organization applies a procurement strategy which is flexible to the activities performed and the existing funds. The aim is to avoid or minimize unnecessary cost that may be encountered if any strategy is used without accounting for its

costs that may be encountered if any strategy is used accounting for its performance (Kenny et al, 1994).

Whilst achieving value for money the organization is committed to supporting and promoting sustainability together with environmental considerations which are built into the procurement cycle. This enables the organization to achieve efficiencies in the procure-to-pay cycle including reductions in cycle time and costs.

The relationship of the two variables underlies the fact that a given procurement strategy is a key corporate leverage point for simultaneously increasing shareholder and customer value while reducing and capital costs so as to enhance cost performance in the organization (CIPS, 2006).

Thus by delivering value through continued effective procurement strategy leading to increasing profits for enterprises, organizations today are highly able to enhance cost performance in their daily procurement activities.

2.8 Conclusion

Many companies make decisions that profoundly affect their supply base while leaving purchasing personnel outside the decision making process. Procurement should be organized around critical products combined with cross-functional representation. Organizations should integrate suppliers not just in the product development phase but also in the order fulfillment phase of the product life cycle, thus suppliers can provide significant benefits in the form of lower costs, improved delivery and problem solving capabilities.

Therefore through use of procurement strategies, organizations are able to meet their stated objectives and realize cost performance while executing procurement activities.

CHAPTER THREE: METHODOLOGY

3.0 Introduction

The chapter presents the tools used in the collection of data in a descriptive nature. It introduces the various methodological aspects of the study that include, research design, survey population, sample size and procedure, data source, data collection, data processing, presentation and analysis and the limitations to the study.

3.1 Research design

In relation with the objectives and questions, the researcher analyzed the primary data that was collected by use of data collection instruments like questionnaires and interview guides. This design was selected because of the nature of the data anticipated in relation to procurement strategy and cost performance of business firms.

3.2 Study/ Target population

The organization consists of 55 employees from 4 departments. These department included; Procurement, Human Resource, Accounts & Finance and User department.

3.3 Sampling design/ technique

The researcher used random sampling by selecting a given number of respondents from the 4 departments. The questionnaire were then given out to the employees who were willing to enable the researcher fulfill his purpose.

3.4 Sample size

Shell Bugolobi has 4 departments with a total number of 55 employees. 40 respondents were randomly selected from these departments in relation to Morgan.

3.4.1 Composition of the sample

A sample of 40 respondents was selected from a population of 55 employees working with the petrol station as shown below.

Table 3.1 showing respondents from various departments

Department	Respondents
Procurement	4
Human Resource	3
Accounts & Finance	3
User department	30
Total	40

Source: Primary data.

3.4.2 Measurements of variables

Procurement strategies were measured in terms of funding, projected risks and opportunities, timeline, the various activities and the available resources of the organization.

Cost performance was measured in terms of quality supplies (products), quality services and effective skilled management.

3.4.3 Sources of data

The study was based on both primary and secondary sources. Primary sources included mainly the questionnaire while secondary sources involved textbooks, journals, internet, news papers and articles from other related reports.

3.5 Data collection methods/ instruments

The data was collected through extensive library research by reviewing the existing literature in order to compare and contrast different scholars. More data was also accessed from Shell petrol station Bugolobi through use of questionnaire and interviews.

3.6 Data processing, presentation and analysis

Data was processed by making inferences to the available empirical literature in order to compare and contrast different opinions and edited where necessary. The information was then presented and analyzed in easy form with the help of tables, graphs and pie charts accordingly.

3.7 Limitations of the study

3.7.1 Insufficient reading materials

Procurement strategy being a recent new trend and aspect of procurement, it necessitated thorough searching for the relevant literature which was not easily and readily accessible.

3.7.2 High financial expenditure

This was associated with gathering of data (transport), typing, printing, photocopying, surfing and other petty expenses yet the researcher had limited funds.

3.7.3 Limited time

Time allocated to carry out the research and compile the findings was inadequate as the researcher had a tight working schedule and yet also the respondents were busy with their work. This hindered the success of the researcher within the time allocated.

CHAPTER FOUR: PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the results and the discussion of the findings in relation with the stated objectives of chapter one that focuses on procurement strategies and cost performance in business firms. The findings are summarized from the primary sources of data, presented in tables, graphs and percentage form.

4.1 Data analysis and nature of respondents

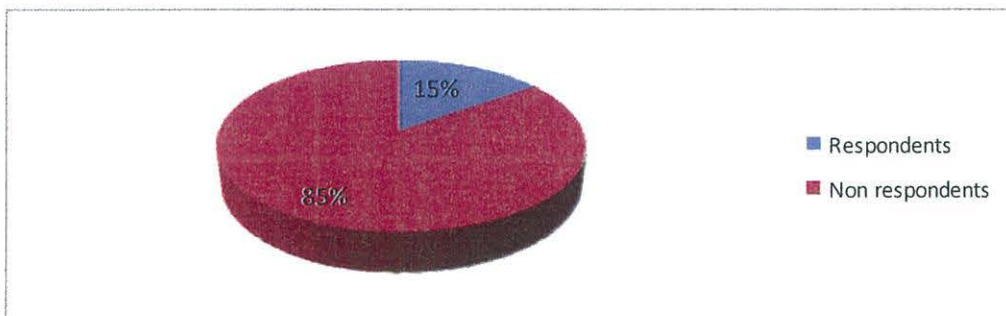
The demographic characteristics are presented showing respondent's characteristics including; response rates, gender response, departmental response, level of education and working experience in the organization.

Table 4.1 Response rates

Category	Frequency	Percentage (%)
Respondents	34	85
Non respondents	6	15
Total	40	100

Source: primary data

A pie chart to analyze the above data



85% of the selected respondents filled and returned the questionnaires to the researcher while 15% either filled in but never returned or never filled at all. This could have been due to the busy schedules that never gave ample time to the respondents to comply.

Table 4.2 Gender response

Sex	Frequency	Percentage (%)
Male	28	70.6
Female	12	29.4
Total	40	100

Source: Primary data

A pie chart to analyze the above data

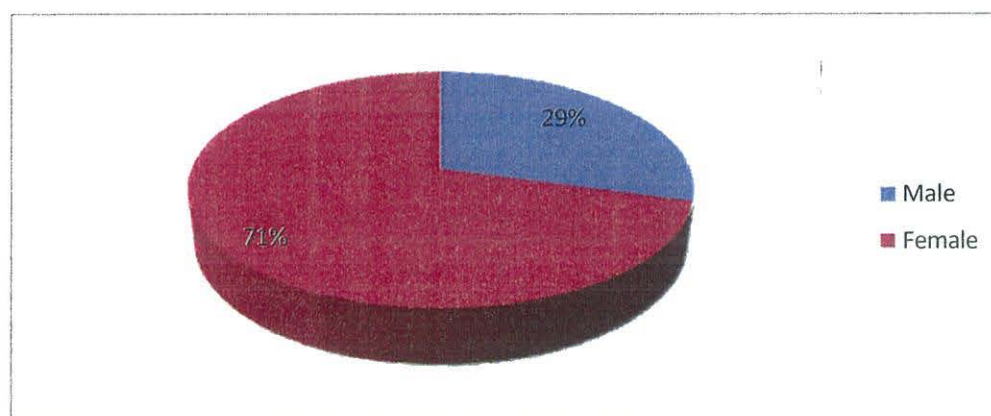


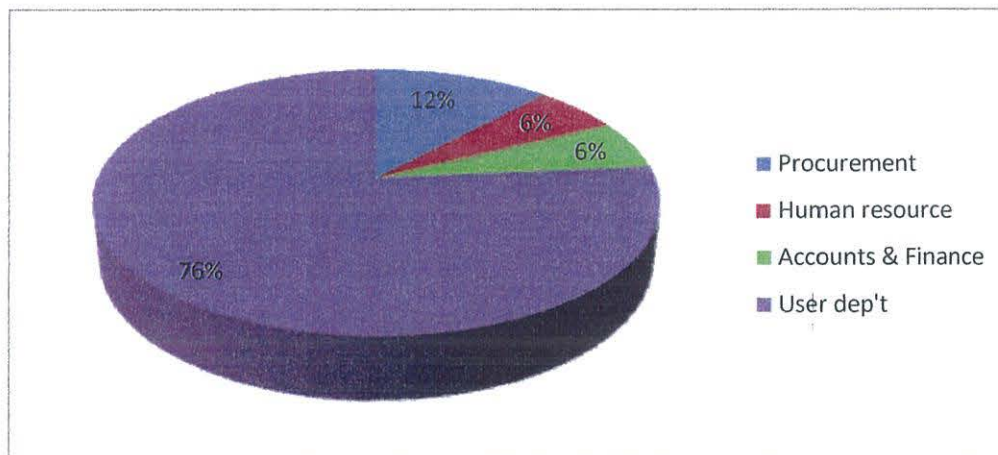
Table 4.2 shows that the biggest numbers of respondents were males with 70.6% compared to females with 29.4%. This is due to the fact that Shell petrol station Bugolobi employs majority of males who were also very much willing to fill in the questionnaires.

Table 4.3 Departmental response

Department	Frequency	Percentage	Cumulative percentage
Procurement	5	11.8	11.8
Human Resource	3	5.9	17.7
Account & Finance	3	5.9	23.6
User department	29	76.5	100
Total	40	100	

Source: Primary data

A pie chart to analyze the above data



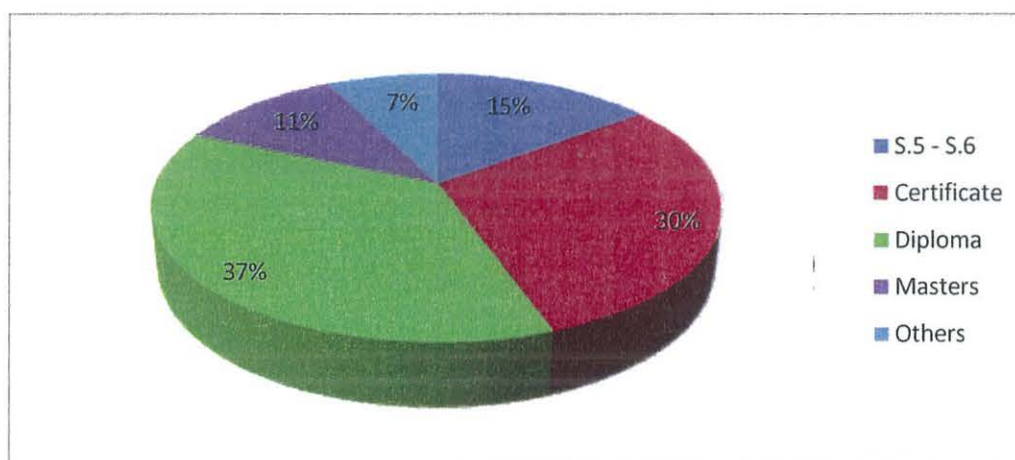
The User department had the biggest response of 76.5% followed by procurement department with 11.8% while human resource and accounts & finance had equal responses of 5.9% each. This implies that majority of the respondents were from the User department which has a bigger number of employees compared to other departments.

Table 4.4 Education level

Qualification	Frequency	Percentage (%)
Primary	0	0
S.1 - S.4	0	0
S.5 - S.6	5	11.8
Certificate	9	23.5
Diploma	8	20.6
Degree	11	29.4
Masters	4	8.8
Others	3	5.9
Total	40	100

Source: Primary data

A pie chart to analyze the above data



The primary and ordinary level never had any respondent because, the questionnaire was a bit complex and require persons of advanced level and above. On this note therefore, the respondents were of advanced (A level) representing 11.8%, certificate 23.5%, diploma 20.6%, degree 29.4%, masters 8.8% and other

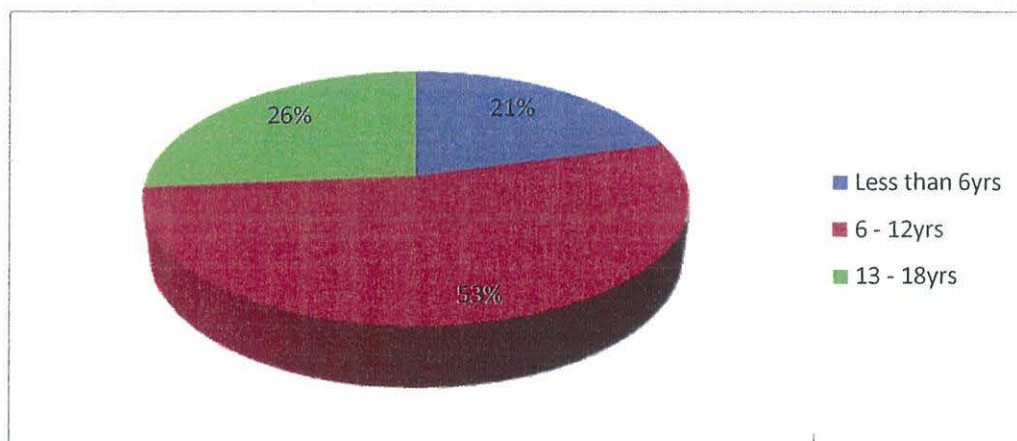
qualifications 5.9%. The degree holders represented a bigger percentage of 29.4% compared to the rest which meant that the organization has quality staff that enables it to attain its stated objectives.

Table 4.5 Working period in the organization

Duration	Frequency	Percentage (%)
Less than 6 year	9	20.6
6 - 12 years	20	52.9
13 - 18 years	11	26.5
Total	40	100

Source: Primary data

A pie chart to analyze the above data



The above table shows that 20.6% have worked for less than six years, 52.9% for a period of less than twelve years and 26.5% for a period of thirteen to eighteen years. This results indicates that majority of the employees have worked for the organization for a longer period and thus are well versed with the firm's operations especially procurement activities.

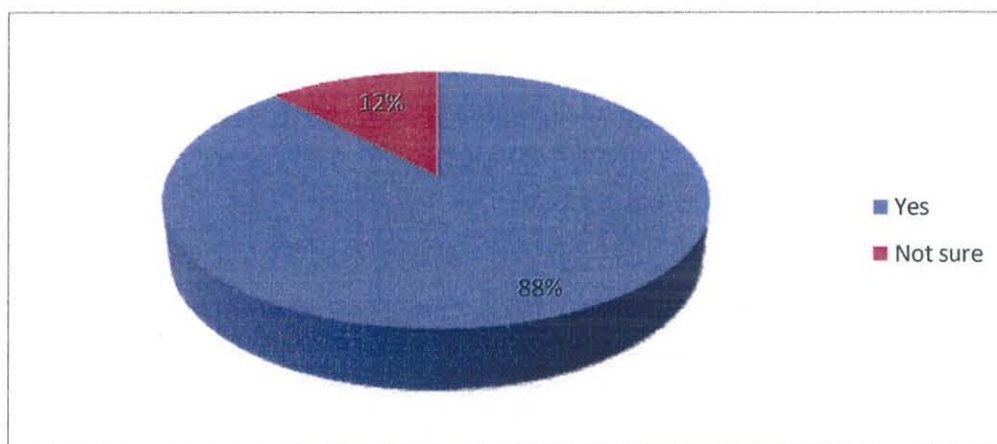
4.2 Procurement strategies

Table 4.6 whether procurement is practiced in the organization

Response	Frequency	Percentage (%)
Yes	33	88.2
No	0	0
Not sure	7	11.8
Total	40	100

Source: Primary data

A pie chart to analyze the above data



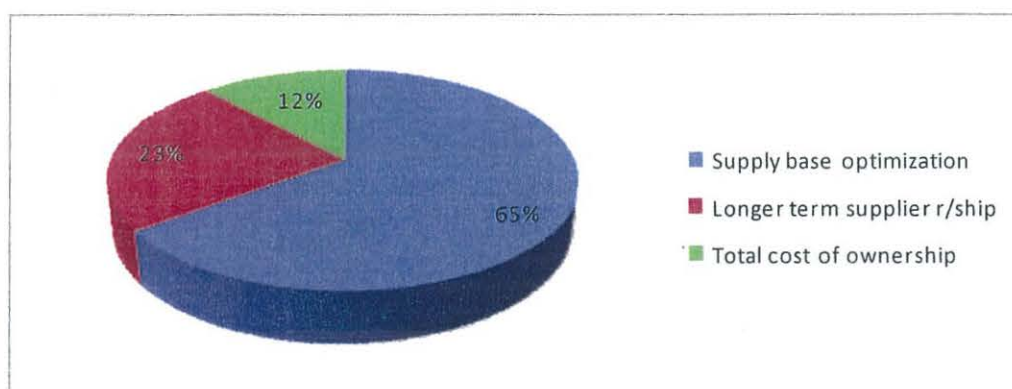
88.2% of the respondents agreed that procurement is much emphasized by the organization and only **11.8%** were not sure but none objected. This is a sign that the firm practices procurement while carting out its operations though a few employees were not sure.

Table 4.7 Procurement strategies emphasized by the firm

Strategy	Frequency	Percentage (%)
Supply base optimization	24	64.7
Global sourcing	0	0
Early supplier design involvement	0	0
Longer - term supplier relationships	10	23.5
Total cost of ownership	6	11.8
E - reverse auctions	0	0
Total	40	100

Source: Primary data

A pie chart to analyze the above data



The firm mainly relies on supply base optimization as the bet strategy for its operations since it has the biggest portion of the respondents represented by 64.7%. This implies that Shell Bugolobi agrees with Arjin, (2005) who asserted that such a strategy is the process of determining the right number of suppliers who can meet the changing demands of the firm both current and in the future on

a continuous basis. The other two options are; longer – term supplier relationships (23.5%) and total cost ownership (11.8%) agitated by Tim, (1996)

Table 4.8 Reason for selecting a given strategy

Reason	Frequency	Percentage (%)
Exposes the organization to a variety of suppliers	0	0
Reduction of excess costs	8	17.6
Attain right quantity and quality standards	10	23.5
Maintenance of buyer - supplier relationship	22	58.8
Total	40	100

Source: Primary data

The firm aims at maintaining its relationship with the supplier as shown above with a high percentage of respondents of 58.8%. This could be related to factors like sharing of crucial information and credit term agreements among others. Obtaining the right quantity and quality is yet another key reason represented by 23.5% and lastly minimizing of excess costs with 17.6% of the respondents.

Table 4.9 The organization should continue embracing procurement strategy

Response	Frequency	Percentage (%)
Yes	40	100
No	0	0
Not sure	0	0
Total	40	100

Source: Primary data

100% of the respondents agreed that procurement strategies should continue being embraced by the organization so as to enhance cost performance. This is because of the positive relationship existing between the two variables and benefits obtained by the firm as a result of implementing a stated strategy.

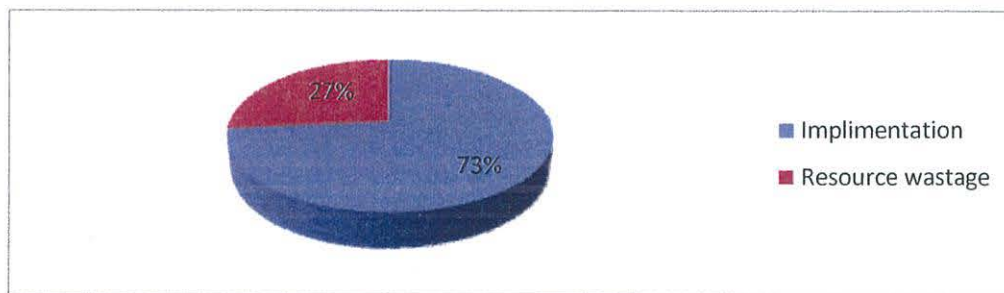
4.3 Challenges in implementing the strategies

Table 4.10 Challenges in implementing the strategies

Challenge	Frequency	Percentage (%)
High costs	0	0
Implementation	28	73.5
Corruption	0	0
Resource wastage	12	26.5
Total	40	100

Source: Primary data

A pie chart to analyze the above data



The above table indicates that implementing a stated strategy is the biggest challenge faced by the organization as stated by Baily, (1998) that a given strategy may be chosen by a firm but fails to be practical. This is further reflected in the response of 73.5%. Resource wastage is another challenge with 26.5%

response while high costs and corruption are not noted. The idea underlying this could be associated with failure of the supplier to comply in time when a contract is undertaken as he (supplier) buys enough time to get used to the buying firm.

4.4 Cost performance

Table 4.11 key cost performance measure being enhanced

Measure	Frequency	Percentage (%)
Budgeted cost of work scheduled	40	100
Budgeted cost of work performed	0	0
Actual cost of work performed	0	0
Total	40	100

Source: Primary data

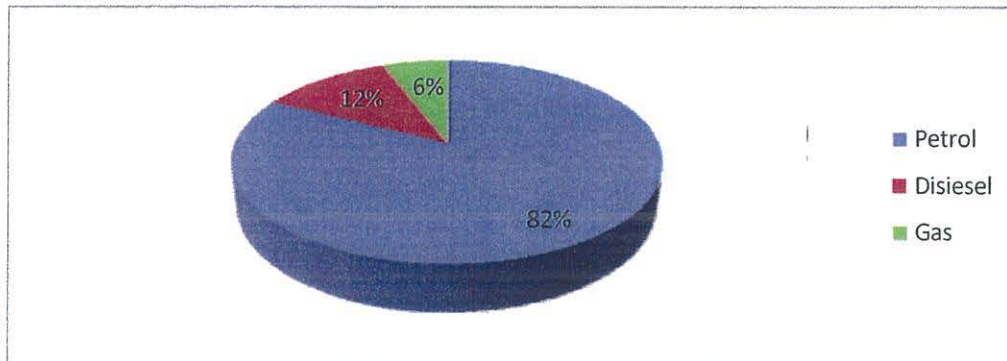
The budget cost of work scheduled was represented by all the respondents (100%). This is in accordance with www.toolbox.com which implies that it is the only cost performance measure applied by the organization because it measures and gives the visibility to cost and schedule variances from planning in accordance with the cost performance management standard.

Table 4.12 Core products that cost the organization high expenditure

Product	Frequency	Percentage (%)
Petrol	30	82.4
Diesel	6	11.8
Gas	4	5.9
Lubricating oil	0	0
Total	40	100

Source: Primary data

A pie chart to analyze the above data



Most respondents indicated that petrol (82.4%) consumes a bigger budget of the core products, followed by diesel (11.8%) and lastly gas with 5.9%.

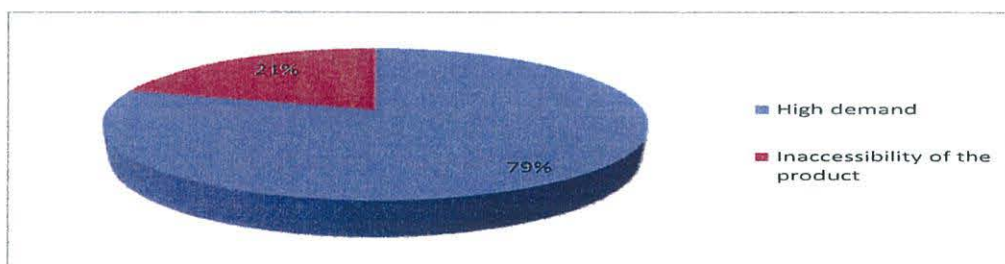
The idea behind is that petrol is a highly demanded product used by many automobiles unlike the other products. This causes competition for it thus pushing its prices up.

Table 4.13 Reason for the high cost

Reason	Frequency	Percentage (%)
Limited suppliers	0	0
High demand	30	79.4
Inaccessibility of the product	10	20.6
Poor organizational strategy	0	0
Total	40	100

Source: Primary data

A pie chart to analyze the above data



79.4% of the respondents indicated that the high demand for petrol is the major cause for the organization to incur high expenditure. This is due to other competing firms operating similar business locally and other regions hence pushing its price up. However petrol is sometimes not easily accessible (20.6%) due to other factors like poor road network, government policies such as high taxes that cause a lot of delays.

4.5 The relationship between procurement strategy and cost performance

There is a high positive relationship as a result of the organization applying a given strategy to enhance cost performance. This is because a strategy is selected after determining its cost whether low or high thus giving the organization a better opportunity to decide wisely. However this must be in relation with the operations of the firm that are basically procurement related.

The organization is able to realize value for the products procured through implementing strategies that account for the various cost in terms of real cost of purchase, delivery period (lead time) and other related costs. An analysis is usually made by a team of experts who are more knowledgeable with the operations of procurement trends and coming up with better conclusions which help in avoiding unnecessary costs. The selected strategy is basically in favor of the buying firm but the supplier is also considered so that the extra costs that may be incurred by the supplier are not extended to the organization. This helps both the supplier and the firm to operate at low cost and maintain a good relationship for an extended period of time. This is according with the Kenny (1994) who stressed that realizing value should be a key factor as a result of the firm's operations with an objective of minimizing extra costs while enhancing cost performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The chapter presents the summary of the key findings in relation with the stated objectives, conclusions on the study, recommendations and areas for further study, recommendations and areas for further study that the researcher identified during the course of carrying out research.

5.1 Summary of the findings

The researcher realized that the organization practices procurement strategies in order to enhance cost performance. This was much evidenced in the high percentage of respondents. The selected strategy (supply base optimization) was aimed at maintaining better and lasting relationship with suppliers. It also applies longer-term supplier relationships and of ownership alongside the supply base optimization.

There were basically two challenges faced by Shell petrol station – Bugolobi; that is implementation being the major challenge and resource wastage in terms of time taken to deliver the products to the premises. This originates on the supplier's chain of operations that could be related to factor like having many clients (customers) to serve within the same period or poor distribution channels especially transport network which is a great hindrance to the suppliers. The chosen strategy may also render the supplier to disclose some important facts or information to the buying firm as the two parties try to forge along lasting relationship.

The firm applies budgeted cost of work scheduled only which was supported by all the respondents because budgets are made in advance and effected when the products have been delivered. This is in relation with the planning process which is a standard tool in management of procurement activities.

The findings showed that there is a high progressive relationship between procurement strategies and cost performance since the decision to implement a given strategy is considered at a corporate level. This enables the organization to increase shareholder and customer value thus reducing operation and capital costs. There is need to evaluate costs and benefits of both supplier and buyer relationship development opportunities. This should be in relation with time aspect, developing and convincing suppliers, workforce needed to implement the strategies and considering other factors like loss of interest on either party, risk of sharing new technology and risk of reputation already created.

5.2 Conclusion

Procurement strategy requires ownership and documentation concerning timing and tasks between the buying firm and the supplier. This will help in understanding the likely changes brought about by a given strategy and should focus on the critical products that meet the demands of the organization so that unnecessary costs are minimized thus realizing cost performance.

However the firm has to consider the challenges that may result as a result of undertaking a specific strategy (ies) and should always plan in advance by creating series of options, which is if one strategy fails then the other one that can fulfill the firm's objectives can be adopted. The procurement process should act as guiding tool to enable the organization realize value from its current and prospective customers.

5.3 Recommendations

- The fact that majority of respondents agreed that procurement is practiced in the organization, a few of them were not sure which necessitates management to sensitize such employees so that they are familiar with the procurement activities.

However this could have been brought about by performing non procurement related activities.

- The organization should also opt to use global sourcing as yet another key strategy. This will expose the firm to various suppliers worldwide. These (suppliers) can compete among themselves favorably which will be an advantage to the company in that it will be able to pay lower prices thus saving costs. The petrol station should also engage in other core products like tyres apart from the four already mentioned. This will help in increasing the profitability level of the organization.
- Finally there is need to carry out training services at a cost to clients on proper maintenance of vehicles in terms of cleaning, oil and pressure filling so that customers are able to solve minor problems while on there way travelling. This will also accelerate its periodical sales.
- For procurement operations there should be enforcement of all the existing rules on advertising, pre-qualifications, submission and opening of bid and use of appropriate evaluation criteria through regular procurement audits applications of effective sections.
- The Public Procurement and Disposal Act (PPDA) should establish open line of communications and collaborative strategies approach for monitoring audit and over sight functions associated with the procurement and disposal functions.
- The PPDA should also prepare and implement a detailed plan for capacity building strategy including individual career development plans, performance measures and training for it's staff, establish accreditation system for procurement profession, linking all this to capacity building and career development measures. It should also establish an upgrading

system of the local government so as to strengthen the central institution frame work and capacity.

5.4 Suggested Areas for further research

The researcher therefore suggests further research to be conducted in the following aspects:

- Procurement strategy and customer service.
- Strategic choice and cost performance.
- Procurement management and cost reduction.

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APENDIX A
RESEARCH QUESTIONNAIRE

Dear respondent,

The researcher kindly seeks your opinion to facilitate the study under the theme **“Procurement Strategy and Cost Performance in Business Firms”**. The information availed will be treated with confidentiality and it's strictly for academic purpose. Your response will contribute to the success of the researcher's course (Bachelor of Supply and Procurement Management).

SECTION A: Respondent profile

1. Sex: Male ☐ Female ☐
2. Position: Top level ☐ Middle level ☐ Operational level ☐
3. Department: Procurement ☐ Human Resource ☐
 Accounts & Finance ☐ User department ☐
4. Age: a) Less than 20 years ☐ b) 20 – 35 years ☐
 c) 36 years – 50 years ☐ d) 51 and above ☐
5. Level of education: a) Primary ☐ b) S.1 – S.4 ☐
 c) S.5 – S.6 ☐ d) Certificate ☐ e) Diploma ☐
 f) Degree ☐ g) Masters ☐ h) ☐
 Others.....
6. Marital Status
a) Single ☐ b) Married ☐ c) Divorced ☐
b) Widowed ☐
7. How long have you worked in the organization?
a) Less than 6 years ☐ b) 6 – 12 years ☐ c) 13 – 18 years ☐

SECTION B: Procurement strategy

8. Is procurement being practiced in the organization?

Yes ☐ No ☐ Not sure ☐

9. Which of the following procurement strategies is emphasized by the firm?

- i) Supply base optimization ☐ v) Total cost of ownership ☐
ii) Global sourcing ☐ vi) E – reverse auctions ☐
iii) Early supplier design involvement ☐
iv) Longer – term supplier relationships ☐

10. Why does the organization choose to apply the above strategy (ies)?

- i) Expose the organization to a variety of suppliers ☐
ii) Reduction of excess costs ☐
iii) To attain right quantity and quality standards ☐
iv) Maintenance of buyer – supplier relationship ☐

SECTION C: Challenges to procurement strategy

11. What could be the likely challenges that the organization faces as a result of implementing a given procurement strategy in order to realize cost performance?

- i) High costs ☐ ii) Corruption ☐
iii) Implementation ☐ iv) Resource wastage ☐

SECTION: Cost performance measures

12. What is the key cost performance measure being enhanced as a result of using a given strategy?

- a) Budget cost of work scheduled ☐
b) Budget cost of work performed ☐
c) Actual cost of work performed ☐

13. Among the core products procured by the firm, which of the following costs the organization high expenditure?

- a) Petrol ☐ c) Gas ☐
b) Diesel ☐ d) Lubricating oil ☐

14. What could be the reason underlying this?

- i) Limited suppliers ☐ iii) Inaccessibility of the product ☐
ii) High demand ☐ iv) Poor organizational strategy ☐

15. The organization should continue embracing procurement strategy so as to enhance cost performance.

- a) Yes ☐ b) No ☐ c) Not sure ☐

APENDIX B
TIME SCHEDULE

Activity	Duration
Data Collection	1 month
Compiling chapter 1	2 weeks
Chapter 2	3 weeks
Chapter 3 & Questionnaire	1 month
Chapter 4 & 5	3 weeks
Final editing	2 weeks
Research report and submission	1 week
Total	4 month

APENDIX C
BUDGET

Item	Cost
Transport	60,000/=
Meals	35,000/=
Stationery	25,000/=
Airtime	50,000/=
Typing	40,000/=
Printing	30,000/=
Binding	15,000/=
Total	255,000/=

Source: Primary data