

Workflow: Procurement

Toolkit 10.3

Procuring Services

target audience

Packhouse owners, and managers.

what it is

Services include maintenance services, heavy machinery hire, accounting and payroll services, laboratory services, quality control services, logistical services, etc. Services fall into three categories:

- Uncontracted services or very short-term or seasonal contracts – These procurement decisions can be undone if the service is not up to standard, and an alternative service provider exists.
- Longer-term, non-core-business service contracts – These services may be governed by longer term or ongoing agreements, e.g., accounting services, but they are fairly easy to exit. Therefore, they are important but not mission critical.
- Long term, business-critical service agreements – These include decisions to enter a relationship with large plant/software vendors, long term logistical services, market agents.

The focus of this toolkit is last category – long-term, business-critical service agreements.

why it is important

Commitments to long-term, contractual, service relationships are especially important decisions. They are typically made very infrequently and may lock the packhouse into a long-term relationship, i.e., you have to get it right and cannot afford to learn by trial and error. They are also sometimes tricky since there may not be much choice of service providers, thus reducing the bargaining power of the purchaser; and in such cases, the soundness of the agreement and the ability to enforce the protective and service level provisions of agreements becomes critical. Unfortunately, sometimes packhouse owners find themselves bent over the barrel that they will enter into agreements which will not serve them in the longer term.

success factors

The key success factors are:

- **Clarity of purpose and intent** – If you know that you are going to need long term services or partnerships, do not wait unnecessarily. Every year in which you can strengthen your

operation and move forward counts, and every year where your operation deteriorates counts against you. Tackle the procurement with positive intent. Even if you are in a difficult situation and feel that the service provider has the power to dictate terms, negotiate as effectively as possible.

- **Due diligence and market comparison** – A comprehensive due diligence of the prospective outsourced partner(s), including references from current clients/partners. Ask for the specialist advice you may need, whether legal or operationally.
- **Written formal agreements** – Ensure that everything is in writing. Do not work on assumptions, and make sure you know exactly what has been agreed.
- **Service Level Agreements** – Service level agreements (SLAs) define exactly what the service provider has to do for you, and should include what, when and how. This may also include regular data and reporting to ensure that you own the data related to the service.
- **Termination provisions** – Ensure that all agreements have a clear termination provision that enables you to exit the agreement with the lowest, most reasonable, cost or penalty.
- **Mediation and arbitration provisions** – All agreements should stipulate dispute resolutions provisions that will ensure that you have a fair process should it become necessary.

execution steps

See success factors above.

assessment questions

Please Note: There is no minimum / maximum number of questions you can add.

1.	Do you have a clear business case and approach for the procurement of key services?
2.	Do you undertake proper due diligence, and can you ensure that you have the advantage of comparison when procuring services, even if you do not have much choice do you have comparative information?
3.	Are all your service procurements supported by formal agreement and service level provisions?
4.	Do you have clear exit or termination provisions?
5.	Do the agreements contain acceptable dispute resolution provisions, such as mediation and arbitration?

resources

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| 1. | Supply and Marketing Agreement Example |
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