Summary

Before a buyer can make a final supplier selection, a decision on all the important questions of sourcing strategy, offer evaluations and selections must be reached. A legally binding contract to seal the commitments of all parties is drawn and INCOTERMS are used as appropriate with understanding of risk transfers.

Next, we will explore another dimension of reality with contract administration: defaults and disputes.

Self-test 4.1

Should the buyer rely upon a single supplier or utilise several? What are the arguments for placing all orders for a given item with one supplier and the arguments for multiple sourcing?

Self-test 4.2

The use of INCOTERMS is optional. Give examples of two types of procurements whereby the standard transport obligations, costs and transfer of risk represented by the INCOTERMS are not useful for the procurement contract.

Suggested answers to activities

Feedback

Activity 4.1

The three main options are:

1. Based on price
2. Based on cost
3. Based on supplier's capability and motivation