

ABSTRACT

Negotiation as a reduction technique in material procurement is to ensure that high cost incurred in material procurement is managed hence the negotiation is one of the tools in spend cost management to optimise profit in every organization. Lack of knowledge to some guide when negotiating by procurement managers leads to high cost of finished product and it makes the product not to compete well with its competitors in the market. The impact expected at the end of negotiation is to minimize cost and maximise profit of the organisation. In both private and public sectors between 50% to 80% of the total expenditure is spent on acquiring either materials or services. The high percentage of charges by company's agent could lead to additional cost of production over invoicing and overpayment. What else can be done, and what other means can be used to acquire raw materials without incurring high cost. To reduce high cost, negotiation is one of the techniques of spend cost management to arrive at a mutually acceptable bargain by planning. Objectives and strategies in order to arrive at an agreed price term and condition of service between a procurer and supplier. To ensure prudence and judicious utilization of the limited resources available in an organization. To expose ideas to procurement manager on how to achieve the objectives and enhance the profitability of organization as materials procured when adequately negotiated reduce cost incurred in acquisition of material for production process. To expose purchasing manager to possible tools of spend and cost management. The major research question of what are the techniques for negotiation the strategies for effective negotiation, the rate of material availability, how coordination and management of suppliers to ensure cost reduction and constant flow of material to avoid interruption at the point of production. The research Design would be descriptive and analytical in nature. Interview would be conducted on selected staffs of Production, Stock Control section, Human Resources and Procurement Department. The Instrument for data collection are Questionnaire, Record, Interview, Observation. This work also comprises of summary of findings, conclusions and recommendation.

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CHAPTER I: Introduction

Every human being needs water to survive, so also every organization needs materials to survive. In the private and public sector, their total expenditure is mainly spent on acquiring either materials or facilities or services. There is no way business operations can be effectively carried out without them. Negotiation is vital to organizations so as to reduce cost or minimize cost and to maximize

profit.

1.1 Background of the study

Negotiation as a cost deduction technique in material procurement is for efficiency of any business, and also contingent upon obtaining the right materials and have it available in the right quantity from the right source, at the right price, delivered at the right place at the right time, whereby failure to any of these adds to costs and decreases the profit level of any organization.

There has been procurement fraud because of the idea of speed money in the mind of some of the procurement managers or officials who buy materials or items for the organization. Lack of transparency has led to excess spending, increasing cost of production, losing a lot of money through the inflating of prices, over invoicing and overpayment of materials procured.

High cost incurred in material procurement is as a result of procurement manager not doing his home work well that is by planning his objectives and strategy before hand and he enters the session without a positive attitude of success.

Lack of knowledge and not been conversant to some guide when negotiating by the procurement manager in respect to issue such as, when to negotiate, the agenda, negotiation technique and behaviour, some attribute of a good negotiator, the team leader to negotiate term of payment not stipulated and followed add to the cost of production. These could also lead to high cost of finished products and make it not to compete well with its competitors in the market, and calls for extra expenses on promotions and advert, renovation and so forth, just to improve sales in order to make profit or keeps the organization living.

Hence procurement being a process whereby all classes of resources such as materials, facilities, people required to render services are obtained procurement covers a wider range of supply activities than buying alone. Negotiation as cost reduction technique in materials procurement is embarked on to solve some of the problem earlier mentioned. Negotiation is a very vital and essential technique in every organization in both private and public sector to reduce high cost incurred in material procurement, the role in negotiation and all that it takes to negotiate effectively. The impact expected at the end of these is to minimise cost and maximise profit of the organization, and also to ensure that the end products stand in the competitive market, to satisfy the taste of consumers and promote the standard of living economy and the society at large.

1.2 Statement of the Problem

In both the private and public sectors, between 50% and 80% of their total expenditure is spent on acquiring either materials or services, procurement is thus the biggest item of expenditure of an organization. Excessive costs are incurred when enquiring these materials in private sector about 60% to 75% of company's procurement (purchases) of materials examples raw material is done by the company agent or foreign officials of the company based abroad, who usually charge certain percentages for their work which could lead to additional cost of production, over-invoicing and over payment. What else can be done, and what other means can be used to acquire raw materials.

Further more, when there is a need to render service that is the award of contract we know that every one is interested in buying, although they call it purchasing but it has led to mismanagement and squandering of funds. What are the procedures, measure technique to ensure that such

contract or procurement of materials, goods and services are carried out appropriately and so on. To reduce cost, negotiation is one of the techniques to use, since negotiation is an art of arriving at a common understanding through bargaining on the essentials of a contract such as delivery, price, terms and condition of service, payment. These communication of inter-changing ideas and information as a result of which procurer and the supplier arrived at a mutually acceptable bargain enhance the procurement manager with a positive attitude of success, planned his objectives and strategy before hand.

The procurement manager would have to collect and study all relevant facts before meeting the supplier, and then develop an agenda for the meeting to negotiate with the supplier.

Adequate arrangement or preparation would be made in respect to the negotiation team, the leader with the technique that would be used to negotiate and when to negotiate will be spelled out.

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