

**COST EFFECTIVENESS IN INTERNATIONAL PURCHASING:
THE CASE OF SONGAS**

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THE CASE OF SONGAS**

**By:
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**Research paper submitted in Partial Fulfillment of the Requirements for Award
of Master of Science in Procurement and Supply Chain Management of
Mzumbe University
2013**

CERTIFICATION

I, **Prof. Joseph Kimeme** undersigned certifies that, I have read and hereby recommends for acceptance by Mzumbe University this research paper titled “cost effectiveness in International Purchasing” Case of Songas, in partial fulfilment of the requirements for the award of Master of Science in Procurement and Supply Chain Management of Mzumbe University.

.....
Prof. Joseph A. Kimeme
(Supervisor)

Date.....

DECLARATION

AND

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I **Edmund Nchunda**, declare that this dissertation is my own original work and it has not been presented anywhere or will not be presented to any other institution for any award.

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I am grateful to the Almighty God for his mercy and grace in enabling me to carry out my filed research and successfully complete this research paper.

I wish to thank my beloved family and my relatives for their great support in achieving success to this research work.

Special thanks also goes to Songas Management and staff for giving me great support and opportunity to lean throughout this project, and my sincere gratitude should also go to my supervisor Prof Joseph A. Kimeme, for giving me a grateful support and close supervision during the whole period of writing this research. In sincerely I real appreciated his cooperation via theoretical and technical support all the way through the preparation of this report.

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DEDICATION

I dedicate this work to my parents Mr. Celestine Nchunda and Eliwasayako Kombe and my family at large. For their love, support, guidance and encouragement during the hard times of data collection and reporting.

ABBREVIATIONS

B O T	Bank of Tanzania
EDI	Electronic Data Interchange
FOB	Free On Board
ICT	Information and Communication Technology
ICD	Inland Clearance Depot
LC	Letter of credit
SPSS	Statistical Package for Social Sciences
TANESCO	Tanzania Electricity Supply Company Limited
VAT	Value Added Tax
TAS	Tanzanian Shillings
USD	United state Dollar

ABSTRACT

The researcher studied the cost effectiveness in International purchasing a case study of Songas Tanzania. The general objective was to examine whether it is cost effective to purchase internationally the materials that can also be obtained domestically, Other Objectives were to determine the extent to which cost of international purchasing influences competitiveness, to determine the extent to which the quality of imported materials influences competitiveness and to determine the extent to which after sale services of the imports influences competitiveness.

The study was being conducted at the Songas. The study aimed at exploring the cost effectiveness in international procurement.

Research design used was a case study design and research approach was both qualitative and quantitative approach. Data collection methods and instruments were questionnaire, personal interviews, documentary source and photographs. Analysis of data was done using quantitative techniques such as thematic analysis and for quantitative data; it was analyzed through categories such as coding, editing, tabulation and computation of various percentage.

Findings indicate that there are great savings in International purchasing due to the fact that cost are known and controlled, there are great quality of materials obtained from international sources and further more there are great after sales support from international sources of supply.

Lastly the researcher came out with number of recommendation to SONGAS these including training to procurement personnel's, the best selection of Incoterms, preparations of proper specifications and management of consolidation of orders.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 Introduction

This chapter introduces background of the research problem, statement of the research problem, and the objectives of the study which are categorized in general and specific objectives, statement of the research questions which are also categorized under specific and general questions, the scope of the study and significance of the study

1.2 Background Information to the problem

Procurement is the acquisition of goods or services at the best possible total cost of ownership in the right quantity and quality, at the right time, in the right place for the direct benefit or use of the organization. This was developed after World War II due to improvements in communication, transport and technology (Mlinga, 2008)

In today's world, a large and growing portion of the organizations around the world purchase across borders. Consequently there is increased cost of purchases in international markets (Mrope and Mayage, 2005). Therefore, a broad understanding of the commercial issues associated with trading internationally is of virtual importance to cost effectiveness of the particular organization tending to undergo international purchasing.

In recent years, there has been an increase in international purchasing due to factors such as uneven distribution of natural resources around the world and difference in geographical and climatic condition in various countries (Mrope, 2005). For these reasons and many others countries have no objections to international purchasing.

Currently the world has developed technology, the difficulty to international purchases have been reduced due to growth of Information and Communication Technology (ICT) together with transportation facilities and the business is becoming more simple as communication enables control from far.(Mrope, 2005)

Mrope (2005) argues that, despite the growth of information and communication technology together with transportation facilities many buyers are reluctant to buy internationally due to additional cost associated with the international purchasing.

These additional costs include shipping costs, international freight costs, international, insurance, internal correspondence, financial charges by a chain of materials flow institutions including freight forwarders, clearing agents cost, customs authorities, banks, official documents, supplier (e.g. Suppliers of certificates of origin and ministerial clearance). Also pre-shipment inspection fees, costs of tying up high inventories in transit, cost of tying up high inventories in store house, stock due to the high cost of making orders, costs of misunderstandings leading to inconsistent marks and numbers on packages and cost of extra packaging. Also, cost of tying up money to support letters of credit which is the most preferred vehicle payment by the majority of suppliers, cost of using the legal system of suppliers and the like.

1.3 Research Problem

The globalization phenomenon has induced a considerable shift in manufacturing and supply chain strategies across many industrial sectors. In a quest for cost efficiency, manufacturers and service operators alike are considering the reallocation of their operations too, and the sourcing of components from other low cost countries (Baily et al, 2005). While the underlying trend towards off shoring and global sourcing has been widely discussed, the underlying concepts such as international procurement, outsourcing, and off shoring are often used interchangeably. It is in this context that international buying for any entity including Songas should be cost-assessed.

When it comes to international buying however there is an added special factor in the costs of dealing with a supplier. This added cost factor is mainly stemming from the arms-length location between buyers and suppliers (Lyson, 2003).

At Songas for examples most of foreign supplies is from Europe, United States, Asia and some are from Africa. Due to the nature of operation taking place, it is found

difficult to obtain all consumables for machineries domestically. Therefore it is important to negotiate the cost of its foreign purchase.

Clearly buying from the supplier located in Europe or USA versus one located in Tanzania have impact on both direct and indirect costs which do not arise when the supplier is located domestically.

To that extent, organization should not ignore cost of anxiety on the part of the purchasing, due to misunderstanding of product item. Such misunderstanding can result in wrong quality deliveries, diverse business practices, appreciation and depreciation of exchange rates, diverse political environments and the like.

From the concept drawn above, direct and indirect cost associated with purchasing internationally should be taken into consideration between the buyer and the international supplier prior to commencement of international buying, thus making the cost of buying abroad so unpredictable.

Many studies have been made on international purchasing including, assessment of factors causing increase in international procurement and assessment of procedures for international purchasing in international procurement. These studies and the likes could not specifically touch the cost implication on international purchasing; therefore the study attempts to identify the cost implications associated with international purchasing. It is in the researcher's expectation that the identification of the costs associated with international purchasing could assist the organization to formulate policies and procedures to minimize cost of foreign purchase and subsequently be cost effective.

It is from this background that drew the attention of the researcher to embark on this subject for a research study, whether buying from Europe, USA, Asia and some parts of Africa done at Songas proves is operationally efficient and cost effective.

1.4 Research objectives

1.4.1 General Objective:

The general objective of this study is to examine whether it is cost effective to purchase internationally the materials that can also be obtained domestically.

1.4.2 Specific Objectives

- (i) To determine the extent to which cost of international purchasing influences competitiveness.
- (ii) To determine the extent to which the quality of imported materials influences competitiveness.
- (iii) To determine the extent to which after sale services of the imports influences competitiveness.

1.5 Research questions

1.5.1 General question

- (i) Is it cost effective to procure internationally materials that can also be obtained domestically?

1.5.2 Specific questions

- (i) To what extent does the cost of international purchasing influence competitiveness?
- (ii) To what extent quality of imported materials influence competitiveness?
- (iii) To what extent is after sale services of the imports influence competitiveness?

1.6 Significance of the Research:

Every business enterprises would wish to be provided with the quality delivery of goods and services that they need in cost effective way in order to run their business efficiently and effectively

To the management, the research findings and recommendation would be beneficial to them so that they can amend their policies regarding to international purchasing when found cost ineffective.

To the researcher, it was important for partial fulfillment of award of Masters of Science in procurement and Supply Chain offered by Mzumbe University.

To other professionals and researchers, it would help the professionals to strengthen their knowledge on international purchasing and a problem solving tool for some problems happening on international purchasing and can further be used for future references with other professionals and researchers.

1.7 Organization of the study

The researcher concentrated on the cost effectiveness on International Purchasing which is being done at SONGAS Purchasing department located at Ubungo Power plant offices.

This dissertation is organized in six chapters, containing information that explains how the study was carried out.

Chapter one provides information that makes the research to be understood, it provides clear picture of the problem being studied, and it further provides in formations concerning the objectives and questions that guided the researcher.

Chapter two gives the information of various literature and were reviewed, this chapter also shows how other writers have wrote about the study.

Chapter three explain about practical issues of the study, it shows how the researcher went on conducting the research using various methodologies.

Chapter four is the presentation of the study findings and analysis basing on the research objectives.

Chapter five presents the discussions to the research findings.

Chapter six finally draws conclusion and recommendations in which they will be accompanied with references and appendices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explains how various writers have viewed the concept of cost on international purchasing; it gathers the information from primary, secondary and tertiary sources. It outlines some theoretical literature, empirical literature, conceptual frame work and hypothesis.

2.2 Theoretical basis of the study

2.2.1 Meaning of Purchasing

Purchasing, being a business transaction cannot be defined adequately independent of words of “timely” or “cost effectiveness”. Being timely, this sector of international business must be supported by efficiency. In all aspects of the concept of international purchasing therefore, cost effectiveness must be among the key words. This does mean that almost all topics of international purchasing are easily linked to cost.

The clear definition of purchasing is given by Elliott-Shircore and Steele (1985). They stated that purchasing is the process by which a company contracts with third parties to obtain goods and services required to fulfill its business objectives in the most timely and cost-effective manner.

The terms purchasing and procurement are often used interchangeably. However, there might be a distinction in that purchasing is more concerned with establishing and managing a commercial relationship, whereas procurement is also concerned with the more physical material or service delivery control aspects after the contract has been let or the order placed.

Purchasing has two main purposes: to purchase for resale and to purchase for consumption or for conversion (Dobler, 1990). Merchants and speculators purchase for resale, and their task is knowing the final market for commodities so that, almost

regardless of the cost of purchase, the on-sale can be made at a profit. Purchasing for consumption or for conversion requires a far more difficult decision. First, it is often a long-term decision (e.g., the decision to use gas as a source of energy). Second, although there are many different purchasing decisions, they are not repeated so often that a mistake can have long-term damaging effects, such as the decision to use a particular make of alternator in the assembly of a motor-vehicle engine (Dooley, 1995).

2.2.2 International Purchasing

Mrope and Mayage (2005), International purchasing refers to all business transactions that involves two or more countries. It simply means buying across ones country of origin.

2.2.3 Objectives of purchasing

The aim of purchasing in any organization is to ensure that goods or services purchased are of right quality, right quantity, from the right supplier, right price and at the right time.

To ensure the five R's above of purchasing, Baily et al (2005) have identified that, resource availability, the sellers ask price, the quality of material offered, domestic competition, production capacity requirement and supplier contract performance to be the main reasons for enterprise to source internationally.

Resource availability

Nations differ in terms of availability for resources of land, minerals, animals, agricultural produce and human skills. This has led to the economic concepts of "comparative costs" and "comparative advantage". A nation which try to embark on production of goods or services in which they are least endowed, would embark on a cost ineffective activity. This nation would be the one, through its different organizations, to import such products or services if needed by her nationals, all other factors being equal. Vide this research, the researcher will be finding out to

establish if the Songas importation is actually guided by the unaffordability of domestic supply, given lacking resources in Tanzania.

The seller's ask price

In some organizations, they buy from abroad not because production is not feasible at home, but because suppliers' price quotations at home prove to be higher than those offered by foreign sources (Dooley, 1995). The researcher, obviously, in the light of the research topic, was particularly interested in this factor. Is it true that foreign sources have been offering to Songas Tanzania Ltd significantly lower prices than their domestic counterparts?

The quality of material offered

Entities can import still due to superior quality found abroad, even prices at home are more competitive (Richard,1992).Under quality requirements are included factors like advanced technology requirements for the materials (including parts and components) to be bought and specific features requirements for the final product which could translate themselves into specific grades of quality for the material inputs. It was from this background that the researcher tends to establish the quality differences between international purchases and the ones produced domestically for Songas Tanzania Ltd operations so that any import operations could be regarded as cost effective.

Domestic competition

Sometimes entities can import because they want to stimulate or even push the domestic sources into more competitive prices. (Richard 1992), and (Fawcett, 1992) have also identified this factor as a reason for buying abroad. Domestic suppliers can get complacent on price and, indeed, also other factors of supplier performance such as quality, delivery and service, for lack of adequate competition. If competition cannot be ignored domestically, a foreign-based pressure may be feasible, especially when the domestic supply base is or about monopolistic immediately, such a decision is not going to be cost effective. This is a step, however, that an enterprise takes for long-term and not immediate term, indeed, not even short term, cost effectiveness.

The researcher has searched out whether or not supply market competition stimulation contributed to the reasons for importing and, in either case, the recommendations has been towards long term cost effectiveness at Songas Tanzania limited.

Production capacity requirements

The enterprise may have a customer market that is duly covered by its production capacity. However, if the objective of the enterprise requires that the extra customer age must be covered, the deficit material inputs will have to be imported (Richard, 1992). Tanzanian enterprises have suffered from serious production capacity underutilization since the late 1970s, the problem has spanned nearly two decades. Capacity shortfall can of course be on account of short installed capacity rather than capacity underutilization. In whichever form, could this factor have contributed to some of Songas's imports? The answer to this question is important because if capacity of domestic suppliers has never been a problem, relative to this factor, any importing would not be cost effective.

Supplier contract performance

Sometimes buyers do not trust domestic supplier who, inspite of all the advantages of location they have over foreign suppliers, just cannot deliver on time, quote wrong rates on invoices, cannot absorb order cancellation or urgent orders, withhold from mutually beneficial projects and generally become difficult trade partners. These limitations can result in short-term costs and would certainly mean higher costs in the long-term. A buyer who drops such suppliers in favour of foreign ones has made a cost-effective buying decision. And the researcher had no reason to believe that Tanzanian suppliers will all, including Songas Tanzania suppliers, be above this limitation.

2.2.4 Cost components for international purchasing

In the foregoing literature review, it can be seen that many of the reasons for international buying hinge on the comparisons and contrasts between domestic and foreign supply markets. The along- siding of the two markets continues in this part of

literature review where the researcher has endeavored to identify the cost components that go with foreign buying and the significant items that go with a domestic buying. These costs components include material costs and ordering cost as elaborated below:-

(a) Material Costs

These items have been taken to be the standard cost items of any material (including parts and components), and are the same for both foreign and domestic supply. This means that they are not affected by the source of supply, whether domestic or foreign. Included under this class are the supplier's list price and the supplier's net price which is the supplier's list price net both trade discounts and quantity discounts, according to the definitions given by (Morrison, 2001).

The Supplier's list price

This is the pre-discounts of all forms price. It assumes that the producer shall perform all marketing functions by himself up to the final consumer.

Trade discounts

These are given to trade customers of the producer. Buyers should investigate whenever possible for a supplier who is getting the highest trade discount. The trade discount reduces the supplier's list price.

Quantity discounts

Buyer's who buy in great quantities save sellers the cost of holding stock. The sellers also benefit from improved cash flow plus more competitive transport costs which in turn facilitate lower and more competitive price quotations. Quantity discounts are therefore intended to encourage buyers to buy in greater quantities. These discounts reduce the seller's list price even further and lead to the seller's net price.

(b) Ordering Costs

Under this cost segment, all operational costs that differ in size and even occurrence between foreign and domestic buying. Such costs have been identified to include, purchase value added tax, transport and freight forwarding cost, insurance in transit, parking and packaging, import duties, port charges, material and time for supplier location, personnel cost of cargo clearing, cost of money for in transit stock, storage cost and obsolescence and deterioration.

Purchase Value Added Tax (VAT)

Many European countries relieve exports of the VAT. The tax, however, has to be paid on all domestic purchases. In Tanzania the VAT is 18% of the invoice value. When importing, however, purchase VAT shall be paid on clearing expenses, port authorities' charges and transport from ports to UPP warehouse.

Transport and freight forwarding cost

This is a cost item to be checked when purchasing internationally against domestic purchasing. The difference in the orders capacity, however results in big differences of size of materials to be purchased as size has direct impact on weight and packaging. Transporting into Tanzania from foreign suppliers is governed by the law that established the Tanzania Central Freight Bureau. The law requires that all imports be shipped FOB while all exports have to be shipped C & F. This is so that Tanzania through the TCFB has the opportunity to save on transport cost through cargo pooling/group age and cargo consolidation. At this point in this research, the researcher will require for the actual cost levels being born by Songas, useful for both comparative analysis between domestic and foreign buying costs and absolute analysis of Songas management of their international buying costs.

Insurance in transit

This is supposed to be born whether the buy is foreign or domestic, with the accounts being very different between foreign and domestic buying. The same law establishing the TCFB means that imports are insured domestically. That is the meaning of FOB vide International Chamber of Commerce Terms (Incoterms

2000). The researcher's concern at this point will be the actual premiums paid which are governed by the level of cover and the insured value, useful for both domestic versus foreign purchase cost comparative analysis and absolute analysis at Songas foreign buying cost.

Packing and packaging

This also exists for both foreign and domestic trade; with sizeable differences in magnitude between the two source locations. In domestic purchasing, at this point in the series of "order costs" the buyer's "purchase price" would be determined. Packing and packaging in international procurement is obviously more elaborate than in domestic buying. International and specific nation requirements are involved. It must provide for safety instructions by defined international symbols for lifting, stowing and danger. Provision must also be made for security marks and numbers. Containerization is a great feature today in international trade packing and packaging. This will therefore be another cost item relevant to the comparative and absolute cost analysis of this research.

Import duties

This obviously exists only with imports. For Tanzania of today, the only import duty is the VAT Charged at 18% of the goods value. This is a customs duty VAT which must be distinguished from the purchase VAT above. The interest of the researcher is to get the actual values for the purpose of contrasting domestic sourcing costs and foreign sourcing costs.

Port charges

This cost also exists only with imports. Port authorities charge for handling and storage services between the arrivals of the goods until departure. The storage charges rate is increased by demurrage when the period within which the importer is expected to clear his cargo before demurrage elapses. The cost is for the importer is expected to clear his cargo before demurrage elapses the cost is for foreign-domestic cost contrasting and the absolute analysis of foreign buying cost management.

Material and time for supplier location

This also differs in magnitude between the two sources. Baily, (2001), have listed typical sources of information on potential suppliers to be reputation, record performance, approved lists, trade directories, sourcing services, representatives and colleagues.

Best use of International Commercial Terms (INCOTERMS)

The International Chamber of Commerce (ICC) published the 8th and current version of its International Commercial Terms (INCOTERMS), These are set of three-letter standard trade terms most commonly used in international contracts for the sale of goods. First published in 1936, INCOTERMS provide internationally accepted definitions and rules of interpretation for most common commercial terms.

These terms are subdivided into two groups, terms for any mode of transport and terms for marine means of transport.

(i) Reputation

The reputation of a particular source may be ascertained through informal talking to the general public on various topics.

(ii) Recorded performance

The purchasing department may maintain records which may provide information on the past performance of suppliers who have been used in the past.

(iii) Approved lists

Individual organizations may maintain lists of companies who have been assessed and approved. The approved lists of other organizations such as the Government Directorate of supplies may be useful

(iv) Trade directories

There are plenty of directories published and available to buyers which provide information on sources of supply. The yellow pages directory is an example of this

on a local general basis, but there are also national and international guides; usually specialized by industry.

(v) Sourcing services

A number of agencies will provide information to buyers about potential sources of supply. Commonly, a computerized database is maintained to enable efficient matching of customer and source.

(vi) Representatives

Suppliers' representatives are useful sources of information on supply sources. They may disclose details of similar and competing products as well as their own.

(vii) Colleagues

Personnel in other departments within a company are often knowledgeable about sources of materials relating to their specialization

Material, time and fees for supplier payment

This exists for both sources but magnitudes differ between the two sources. Apart from "price" that a buyer pays to a supplier, the process of payment and its timing can also cost a buyer significant amounts. If a buyer, for example, does not seize an opportunity for cash discounts this costs him money equal to the cash discount times the interest rate on deposits for the period covered by the cash discount. Such costs related to the time of payment are of commercial significance in international payments to suppliers. The use of letter of credits (LCS) involves the committing by the buyer of money to his bankers as financial cover for their willingness to guarantee payment to the seller. This makes the letter of credit "irrevocable". For the period of that guarantee, the buyer pays in terms of interest lost on the committed funds. The buyer will pay even more if they need their LC to be "irrevocable and confirmed". For the seller's bankers to accept to guarantee payment to the seller they also shall need financial cover.

A buyer who negotiates to pay by documentary collection therefore, shall be making significant savings. And even within documentary collection, sight bills are more

extensible than due date bills. Towards the other extreme are even more attractive arrangements for the buyer such as “consignment” payments (the buyer shall pay as and when they draw material from a customs bonded warehouse) and “open account” (the buyer possesses the materials already but pays as and when he can or as agreed with the supplier). Moreover, banks charge a fee just for their services. And what about the time spent on the payment process? The enterprise may be forced to employ another person due to the activities in foreign buying. In the circumstances, have the Songas been managing the foreign supplier payments in the most cost effective way?

Personnel cost of cargo clearing

This is significant only in foreign buying. In an international order the determination of the buyers purchase price may have to wait until this point in the series of order costs. Clearance of foreign-borne cargo involves a lot of physical work needing several human hours to complete. The bulk of the time being spent in the processing of clearance documents. The options lie between the enterprise using their own personnel or engaging the expertise of a clearing agent. The researcher will be interested in the specific arrangement(s) in use at Songas and the cost implication of the same to the organization.

Cost of money for in transit stock

While this is an insignificant figure in domestic buying, it can be very significant in foreign buying. The cost of stock in transit is a financial element for the time stock is not earning any money because of its being on journey between the supplier and the buyer. In a typical international transaction, the time involved would start from the date the buyer committed total price payable to the supplier through the buyer's bankers up to the date goods were actually received in the buyer's stock via a goods received note. If the time period is equal to x , the bank interest rate on deposits is y and the monetary value of the consignment is z , the cost of stock in transit shall be x divided by 365 days times y times the cost effectiveness of international buying must not ignore this factor.

Cost of money in average stock in store

While existing for both sources, it is typically much higher in foreign buying than in domestic buying. When the foreign consignment is received in store, the concept of stock holding or carrying cost begins. Because of great differences in the order quantities between foreign and domestic buying, cost comparisons between the two sources must certainly include the cost on account of holding stock which is based on the average stock which, in turn, is based on the order quantity. Dobler (1996) has itemized the cost of carrying stock in a more or less typical way:-

Storage costs

The warehouse in which a firm stores its inventory is depreciated a certain amount of money per year over the length of its life. One may say, then, that the cost of warehouse space is a given amount of money per cubic foot per year. And this cost conceptually can be charged against inventory occupying the space.

Obsolescence and deterioration

In most inventory operations a certain percentage of the stock spoils, is damaged, is pilfered, or eventually becomes obsolete. No matter how diligently warehouse manager's guard against these occurrences, a certain number always take place. With new products being introduced at an increasing rate the probability of obsolescence is increased accordingly. Consequently, the larger the inventory typically the greater is the obsolete loss from this source.

2.2.5 Factors for Successful International Procurement

Another measure that for passing finding on the cost effectiveness or lack of the same in international buying at the Songas will be the extent to which they have invested in measures and activities that characterize successful international buying. Richard, (1992) has identified such measures as supply strategy, people, market search and intelligence, communication, top management support, establishing supplier goodwill and exchange rate management.

Supply strategy

To what extent has Songas identified factors that they think are critical to the implementation of successful import buying? And if they did, have they pursued the strategy consistently. A casual approach to overseas buying is likely to result in failure to manage the complexities involved

People

People who are involved in foreign purchasing must be intellectually capable of analyzing supply market differences. This sector is more technical than domestic buying. These people need to have training in specific skills such as negotiation in foreign markets, foreign cultures including language, freight and importation procedures, legal matters and other specific needs. Has Songas taken any advantage of experience of intermediaries? This goes a long way in reducing replenishment lead time.

Market research and intelligence

To a buyer who treats the whole world as their supply market, supply market research and intelligence is a key factor for success.

Communication

Ensuring prompt and clear communication between international traders is a lot more difficult than domestic traders find it, on account of much greater physical distances between them.

The status of information technology (IT) such as the use of Electronic Data Interchange at Songas will therefore affect the efficiency and effectiveness of their International Purchasing

Top management support

The selection of a international supplier must always be certified by the Plant Manager, In this case, it was important to specify the extent of co-operation from the management level to the supporting/user departments, which cooperation is crucial if

senior management level interventions between SONGAS and other participating institutions are to be handy, when in need.

Establishing supplier goodwill

Especially when the need for importation is long term, buyers both in domestic and foreign markets should foster goodwill with suppliers. Has the SONGAS been making efforts, for example, to pay their suppliers early enough? And, has this effort paid off to the buyer in terms of improved payment terms?

Exchange rates management

The amount of preparation and nature of policies for managing exchange rates is obviously a factor in the success of international buying. What are the contractual arrangements for managing exchange rates? Do they have in place a “price variation clause” in their terms of purchase that specifically addresses the handling of exchange rates fluctuations? How have their practices affected their exchange rate costs? Have they endeavored to quote in domestic currency risk costs?

2.3 Empirical Literature review

Various studies have been reviewed concerning the research; these are the past studies concerning the research.

2.3.1 Abroad cases

According to Lambert (2004) on his presentation on cost effectiveness in Kenya he noted down that cooperation from other professionals is critical in order for the purchasing staff to reach their objectives. Gao (2001) still we have a long way to go before each profession reorganizes the importance of other profession and cooperates in order to achieve cost effectiveness.

A study by Gonzalez (2003) on his research on international purchasing procedures in India wrote that specification of requirements has a major impact on cost for an international buyer, and he concludes the specification of the requirements should be based on approach which is simple and easy understood by the seller, however the

main problem arise from the competence of the purchasing staff as most of them lacks the legal frame work of the purchasing procedures. Lawin (1997) also on the same study in USA suggests that it is no more than sound commercial sense for the buyer to spend much time, effort and money on specifications to ensure that they cannot be misunderstood, the consequence of not writing proper specification results on spending much cost and time for purchasing items.

It was recommended that procuring entities should enhance their internal cost control systems on international procurement units and introducing an ethical code of conduct in order for them to be able to combat the causes of cost ineffectiveness in the procurement process and enjoy value for money resulting in cost effectiveness on international procurement system.

2.3.2 Tanzanian cases

In the mid 1980, the need to reform International procurement in Tanzania become urgent, as there were growing scrutiny and pressure from within and outside to reform the international procurement processes (Material Management Journal, June 2005).

Chengula (2003) pointed out that, in order to reduce the cost on international purchasing Tanzania there must be a clear analysis of the main areas where cost is highly spent. He further added that if the analysis is made properly the procurement professionals and the management in general may set a proper strategy to reduce cost on international purchasing.

In his research titled problems of overseas purchasing Simon (2006) point out that cost is the major problem to international purchasing in most of Tanzanian firms as many firms find it difficult to buy overseas due to the cost associated with specification, clearing, and transportation and clearance charges at the port of destination.

Robert (2005) on his research titled international purchasing and globalization, stated that purchasing activities in globalized economy has become an integral part has become a strategy to all levels of organization. It should be noted that one threat which is common to all business in Tanzania is globalization of market place resulting in competition not only on cost price but on total value.

Therefore, no doubt that achieving sustainable economic growth and value for money, private sectors should depend heavily on international procurement. This research work will try to find the way forward to minimize cost on international purchasing.

2.4 Conceptual frame work for the study

INDEPENDENT VARIABLE

DEPENDENT VARIABLE

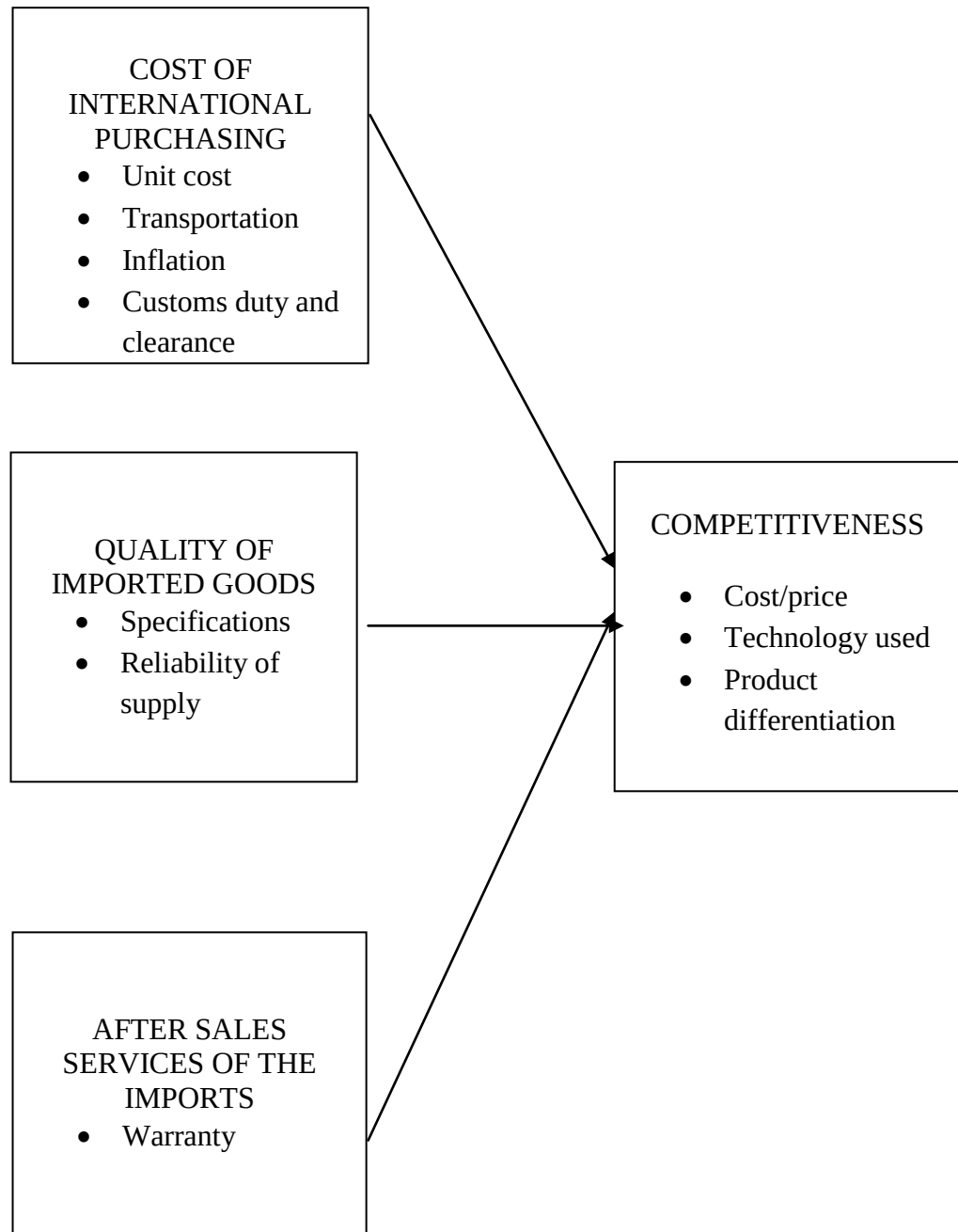


Figure 2. 1: Conceptual frame work for the study

Source: Own developed Model

2.5 Relevance of the literature review to the study

The figures 2.1 above, there are two kinds of variables which are independent variable and dependent variables in which three of them are independent variables and one dependent variable.

The relationship between costs of international purchasing and competitive advantage is that for a company to have an edge over its competitor it has to operate under minimum costs of production. Thus it has to consider going into international purchasing with cost effectiveness ideology for the company to be able to produce competitively.

Also there exists the relationship between quality of imports and competitive advantage as for the company or organization to compete effectively interms of its output in the market it has to have a good base of quality supplies from an international source. Thus if the company receives the imported quality materials from its abroad supplies and utilize these materials effectively it is likely to produce the same quality materials and obtain competitive advantage over its competitors.

Finally, there is existence of relationship between the after sales of imported goods and services and competitive advantage as when the company is importing goods from abroad sources for the intention of making business will surely obtain competitive advantage from its competitors who are possibly manufacturing locally.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains methodology used in the course of this study. It gives a systematic approach through which research will be undertaken. Research methodology will consist of research paradigm, design, types of measurement, data collection methods, sample and sample size, sampling procedure, reliability and validity, data management and analysis

3.2 Research paradigms

Research methodology defines the actual ways and activities to be performed by a research. Research paradigm can be qualitative and quantitative or mixed. This study considers generating knowledge from a social reality. Therefore the researcher employed a qualitative research paradigm. (Kothari, 2005)

3.3 Research design

Research design is a framework for providing answers to the research questions in best possible way such as collection, organizing, analysing and interpreting data (Kothari, 2006). This study used a case study research design. Case study means a plan for collecting and observing data about a particular social unit in its natural setting. The researcher used case study due to limited amount of time available to conduct the study. Also, the researcher adopted both, qualitative and quantitative research approaches.

This part of research methodology provide means of treating research data by statistical procedures or other means for purpose of giving the research data forms in which it will be interpreted relative to the similarities, difference or size it possesses. However the design is ideal in gathering data from various sources such as documentary reviews, physical observations, questionnaire and interviews, thus useful in studying particular social unit.

3.4 Area of the study

The study has been conducted at Songas Limited which is located at Ubungo area Dar es Salaam. The study has focused on Supply Chain department of the organization which is responsible for international procurement of the organization in cooperation with other departments.

3.5 Data gathering Instruments and methods:

The specification of units of inquiry, including the sample size, facilitates the decision on vehicles for data and the extent to which each vehicle can be used, taking into account also the cost implication

3.5.1 Observation:

Observation do not provide much data in a research guided by facts and figures such as this one however in comparing costs of offloading to SONGAS warehouse, Observation will therefore be useful in confirming data obtained by interview such as packing and packaging for domestic purchases.

3.5.2 Interview:

This has been used extensively against open-ended checklists on the buying process at SONGAS, the stock items relevant for the study, who are the suppliers of the relevant material both foreign and domestic, what is the transport rate for hiring transport to deliver domestic consumable and apparatus. Logistic officers and head of procurement and Logistics will be interviewed as well as Managing director.

3.5.3 Document review:

Documentary review has lead to obtain exclusive data also assisted in confirming some data achieved via interview

3.5.4 Questionnaire administration:

Questionnaire was set to cover both open and closed ended questions. By this approach data will be obtained basing on purchasing authority, criteria for cost effectiveness in foreign buying, the foreign buying information system, items of payment and the criteria for buying abroad will be obtained as per Songas purchasing policy.

3.6 Population

The population will include five groups of respondents; procurement qualified personnel, employees of accounting qualification, engineers and other employees of Songas.

3.6.1 Sample size

A sample is a small group of respondents drawn from a population in which the researcher is interested in gaining information and drawing conclusion. The sample for this study has been drawn from the population of 40 respondents with a specific target to the user's of services resulted from international purchasing.

The basic idea of sampling is that, by selecting some of the elements in population, it can be used to draw conclusions and generalization about the entire population. A population element is the subject on which the measurement is being taken. It is the unit of analysis.

Professional qualification	No of respondents
Procurement qualification	6
Engineering qualification	18
Finance/Accounting	6
Others	10
Total	40

Source: Researcher's field data, 2013

3.6.2 Frame and procedures

Population of the study will originate from employees of Songas. The researcher has used proportional and disproportional stratified random sampling technique to ensure a balance of at least 5 respondents from each department. Also judgmental sampling will be used to select respondents from Procurement department

The reason for the selection of the above group is that they are the users of the financial statements in which the procurement auditor's report is contained. These users make decision based on these audited financial statements.

Under this technique all members in the targeted population will have equal chance to be selected. The researcher will select the sample according to appropriateness in relation to the study. This technique will be applied because of a wider range of selecting a sample which was appropriate to the study.

Under random sampling the sample has been drawn from all the participating units mentioned above. In order to make sure that the chosen sample is accurate and contains the proper composition and free from duplication and biases the study shall adopt the following techniques.

Purposive sampling techniques, that is choice of respondents or participants in the study depended on the researcher's perception of their ability to increase the data base and or provide information data necessary for the purpose of achieving the study objectives and answering the research questions .This study approach shall be used in identifying respondents from Songas limited.

3.7 Types of Data

The right division of the two main divisions of the theoretical frame work normally international buying costs suggests the kind of data pertinent to this research. Data on materials that are bought from abroad by Songas and the cost incurred in the course of their buying.

3.7.1 Primary data

Most of the data already exist in the form of records and reports. Primary specification on data, however, exist on items like off- loading rates at SONGAS warehouse, based on material packing, store house design and layout and handling facilities in use. Transport trips for delivering domestically sourced purchases based on average order quantities, vehicle capacities and distance between SONGAS warehouse and suppliers operational premises. Average order sizes both in quantity and value are themselves primary data based on total annual purchases and total annual orders both for domestic and foreign order. The average order values will be crucial data item in evaluating relative cost effectiveness between foreign and domestic buying.

3.7.2 Secondary data:

The bulk of the data in this research, characteristic of any investigation in supply management which is secondary data were obtained from SONGAS records and reports.

The number of orders for both foreign and domestic buying, unit purchase prices, values of individual and total orders, prudent quality levels, supply sources, individual cost item in the clearance process of imported supplies will be obtained on the Songas purchasing books and Manuals

3.7.3 Tertiary data:

Publications will also be useful working document, on part VAT percentage, theory on average stock competition, model for optimizing on order quantities without holding and ordering factors, theory on segregation of international buying costs into material order and potential components, statistical tools for the testing of the research hypothesis and principle of analysis and diagnosis.

3.8 Reliability and validity of data

3.8.1 Reliability

Reliability is a concept of practical measure of how consistent and stable a measurement instrument or a test might be. Reliability consists of both a true score and an error score. (Kothari, 2005).

$$\text{Reliability} = \frac{\text{True score}}{\text{True score} + \text{error score}}$$

During the study the researcher has used statistical concept called correlation and the measure of correlation coefficient.

3.8.2 Validity

Validity is a measure of how well a test measures what is supposed to measure. The manner the questions are formulated, posed and the respondent effect can lead to inaccuracy of the data. In this case it is important that certain psychological factors that induce incorrect responses and great care must be taken to design a study that minimizes this effect

During the research, the researcher has used various ways to measure truthfulness and accuracy within the score of test or interpretation of an experiment by comparing the data collected with the literature.

3.9 Management and analysis of data

3.9.1 Data management

The data collection was carefully organised and mathematically analyse before presented in order to meet the objectives of the study in terms of drawing up conclusion and recommendation

Data collected was properly examined to detect errors and omission and all information will be edited to ensure that data are accurate. The researcher used Statistical Package for Social Sciences (SPSS) program which helped in managing data and finally drawing conclusion and recommendations.

3.9.2 Data analysis

Data to be collected shall be organized and checked to ensure completeness, accuracy, clarity, and uniformity. This classification facilitates proper recording and enables the researcher to consider whether data collected are in alignment with the research objectives.

Saunders (2000) contend that, the prime purpose of data analysis is to ultimately assimilate evidence to provide answer to research questions. The statistical Package for social Sciences (SPSS) 11.5 for windows has been applied in analyzing data. Appropriate statistical tools such as descriptive statistics, charts and frequencies have been used to analyze data. Data are presented in tables, charts and graphs.their interpretation has also been done by relating to the relevant literatures

CHAPTER FOUR

PRESENTATION OF THE STUDY FINDINGS

4.0 Introduction

This chapter is devoted to the presentation of study findings related to the assessment of cost effectiveness of international procurement of materials at Songas Tanzania. The findings are based on the research instrumentation which included formal and informal interviews, checklist-guided documentary reviews, literature reviews and observation as already indicated under chapter three above. The justification for and practice of international procurement are given.

4.1 Descriptive findings

Descriptive findings intend to provide an assessment of respondents' reactions towards archiving intended results.

Out of sixty respondents collected questionnaires only 40 (66.6%) submitted the same in time to facilitate this research work.

4.1.1 Professional qualifications of the respondents

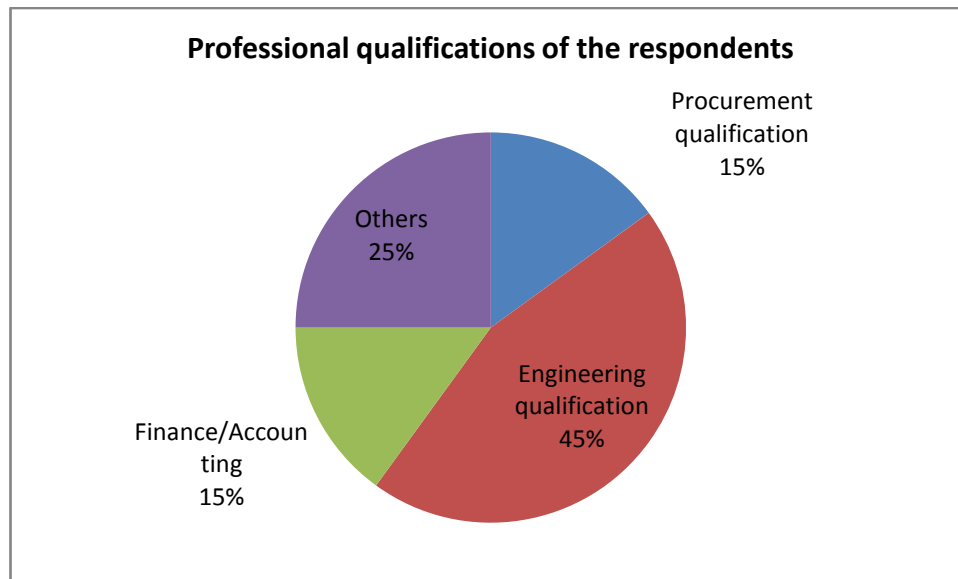
In this regard the researcher intended to know the professional qualifications of the respondents, the departments they belong, employment level and the experience in performing international tasks.

Table 4. 1 Professional qualifications of the respondents

Professional qualification	No of respondents	Percentages
Procurement qualification	6	15
Engineering qualification	18	45
Finance/Accounting	6	15
Others	10	25
Total	40	100

Source: Field data (2013)

Figure 4. 1 : Professional qualifications of respondents



From the findings above related to assessment of professional qualifications of the respondents at Songas shows that 6 (15%) of respondents were procurement qualified and 18 (45%) were Engineers, 6 (15%) were employees with Finance and accounting qualifications and other respondents were 10 (25%).

In a study conducted by Adamson (2010), out of 20 respondents 10 (50%) had procurement qualifications, and 4 (20%) were Engineers, 5 (25%) were employees with Finance and accounting qualifications and other respondents were 1 (5%).

This implies that the sample size selected has covered various departments that it will yield results of proportion. Furthermore it implies that Songas has many employees of engineering professionals that participate in International procurement due to nature of the power plant requiring engineering purchase.

4.1.2 Employees department

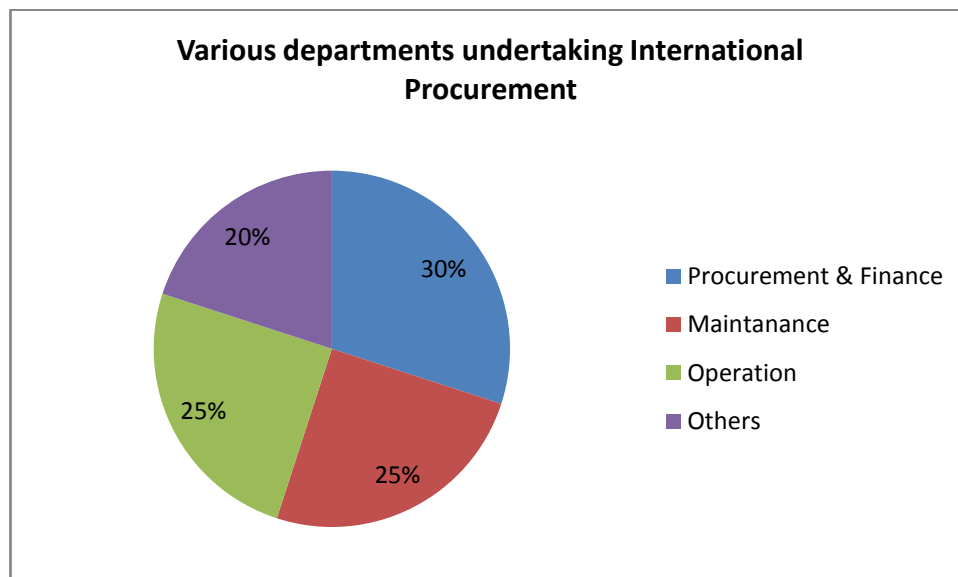
Under this point the researcher intends to identify various departments that participate in doing international procurement in Songas

Table 4. 2Departments undertaking International procurement

S/N	DEPT	AMOUNT	PERCENTAGE
1	Procurement & Finance	12	30%
2	Maintenance	10	25%
3	Operation	10	25%
4	Others	8	20%
	TOTAL	40	100%

Source: Field data (2013)

Figure 4. 2 : Departments undertaking International procurement



From the above data, It implies that apart from 12 (30%) employees in procurement and Finance department, there are other departments that plays part and parcel of international procurement at Songas, most of them being Maintenance 10 (25%), Operations 10 (25%),and other departments represented by 8 (20%).

In a 30 respondent study conducted by Kondela (2012), the results were in similar proportion of 12 (40%) employees in procurement and Finance department, followed

by Maintenance 8 (27%), Operations 7 (23%), and other departments represented by 3 (10%).

4.1.3 Levels of employment of the respondents

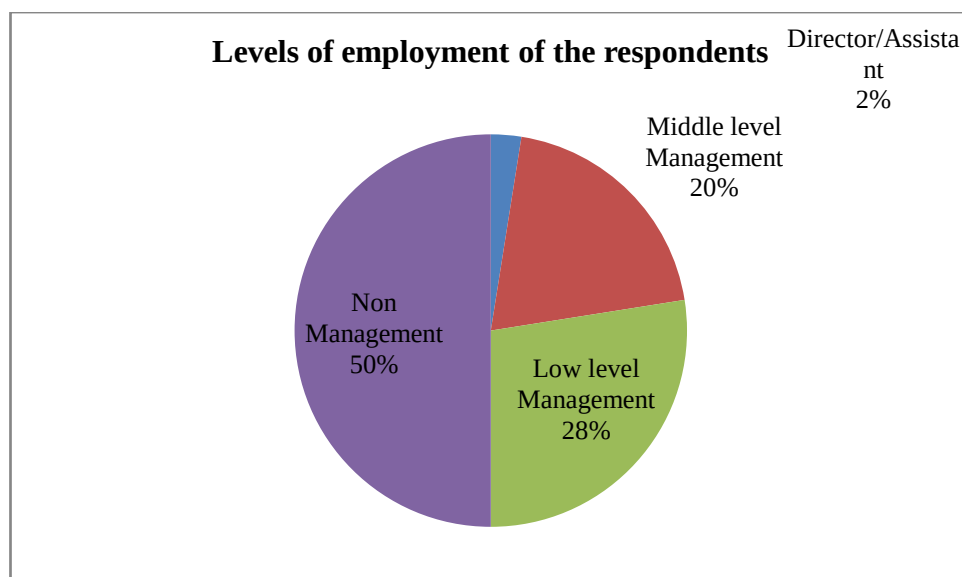
The levels of employment set from questionnaire varied from director of procurement which is a managerial role to non managerial roles of procurement.

Table 4. 3Levels of employment of the respondents

Level of reporting	No of employees	Percentages
Director/Assistant	1	2.5
Middle level Management	8	20
Low level Management	11	27.5
Non Management	20	50
Total	40	100

Source: Field data (2012)

Figure 4. 3 : Levels of employment of the respondents



Songas has one director 1 (2%) that is involved in procurement decisions. Songas has established its management structure in the way their lowest possible levels get

involved in management and decision making. Thus total number of staff in middle level management is amounting to 8 (20%). On the other hand, low level management was 11 (28%) and finally non management staffs constitute 20 (50%). In a study by Ngeze (2012), the study had equivalent findings of 22 (55%) of the recipients are non management which implies that non management employees are many in all sectors which are the heavy load carriers meaning that participate in almost all company's jobs although Songas has set its management structure more participatory thus they are also involved in decision making.

4.1.4 Experience in doing international purchasing

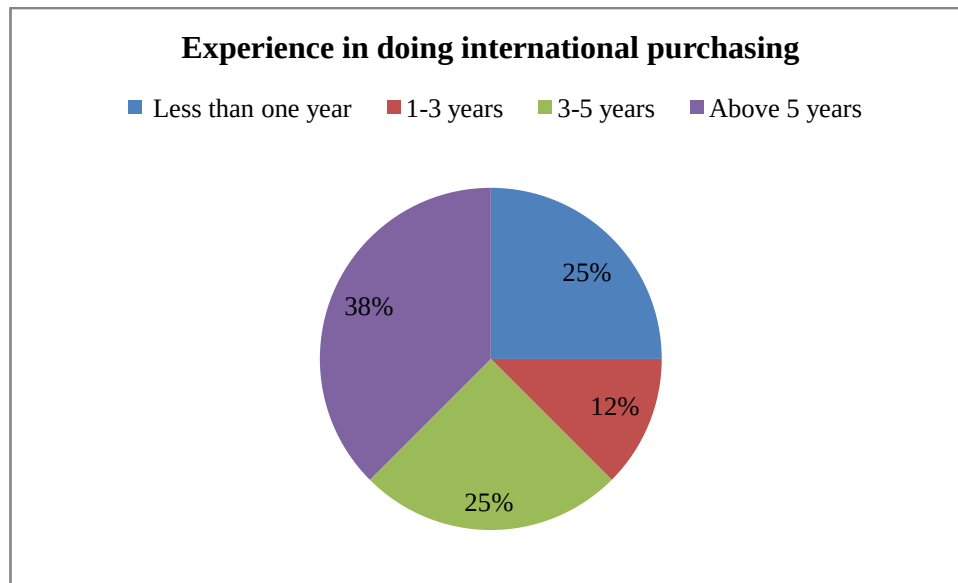
Experience in performing international procurement matters a lot. In this regard Songas has a mixture of varied experiences according to the field data collected as it consist of staffs with one year experience to staffs with more than one year experience.

Table 4.4 Experience in doing international purchasing

No of years	No of respondents	Percentages
Less than one year	10	25
1-3 years	5	12
3-5 years	10	25
Above 5 years	15	38
Total	40	100

Source: Field data (2012)

Figure 4. 4 : Experience in doing international purchasing



From the above table 4.3, experience shows that Songas has more employees with 3-5 years of experience in international purchasing who amounting to 10 (25%). This followed by those above 5 years who constitute 15(38%) and finally, 1-3 years 5 (12%).

Carlson (2009), came out with a result that most of the employees had less than one year experience in doing procurement 24 (62%) this implies that the organization of the study encourages more fresh from school employees.

However, At Songas this scenario seems different as in Procurement and Logistics department have more experienced employees than any other department therefore high efficiency when doing international purchasing and thus cost effectiveness.

4.2 The extent to which costs of international purchasing influences competitiveness.

Songas has not made a cost analysis of their foreign buying cost along the lines of the analysis made by the researcher as set out in the literature review to this research, in terms of the actual cost components themselves (nature) nor the detail (depth) for the number of cost components identified. The researcher has, however, worked to

identify foreign buying costs at the Songas with the cost analysis set out in the literature review.

In chapter two, we have discussed some of the sources of costs at Songas that makes buying overseas an expensive option so far although still crucial. The costs however may be of two types, Material costs and order costs.

(a) Material Cost

The literature review defined material costs as equivalent to the supplier's "net price" as defined by Morrison (2003). This is the supplier's list price less any trade and any quantity discounts.

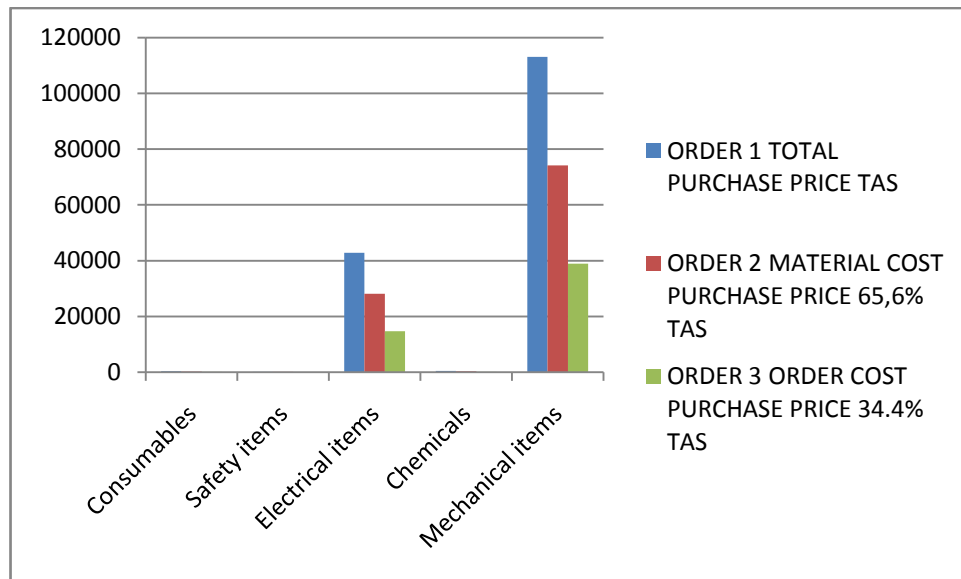
Songas records show no components of trade or quantity discounts. Although records show no cartage costs for imports can be safely approximated with the F.O.B. components of total purchase costs.

Table 4.5: Foreign Material and Order prices

ITEM / MATERIAL TYPE	<u>ORDER 1</u> TOTAL PURCHASE PRICE TAS	<u>ORDER 2</u> MATERIAL COST PURCHASE PRICE 65,6% TAS	<u>ORDER 3</u> ORDER COST PURCHASE PRICE 34.4% TAS
Consumables	320	210	110
Safety items	138	91	47
Electrical items	42,839	28,102	14,737
Chemicals	503	330	173
Mechanical items	113,148	74,225	38,923
Total as per Order	156,948	102,958	53,995

Source: Songas Purchasing & Logistics Department.

Figure 4. 5 : Foreign Material and Order prices



The above table 4.4 implies that for order number one, the FOB value was therefore in average of 156,948 (50%) while looking at order number two 102,958 (32.8%) of total purchase costs, the balance 53,995 (17.2%) represents what is called order costs for order three under analysis.

This proportional implies that, relationship is used on all foreign orders to get logistical rationale for this standardization of orders. No other order of the five items under control has been costs-analyzed with its FOB component shown in Songas Limited records. For a comparative analysis on costs to be made domestic purchase prices must also be organized into material and order components. Since no analysis has been obtained from Songas records, transport, offloading and purchase VAT must be computed using rates obtained from management and the standard VAT eighteen percent (18%).

(b) Order costs

Order costs were defined by the literature review as those occurring because the order was either foreign or domestic. The difference is the sources of supply affect the levels and even the occurrence itself of such costs. These costs should be used to segregate costs between the two potential sources that is domestic and foreign.

In the course of extracting material costs from total purchase prices, Songas's order costs have been identified as per unit basis, against the average order quantities. The costs associated with international purchase at Songas are, the purchase value added tax (VAT), transport and freight forwarding costs as explained below;-

Purchase Value Added Tax (VAT)

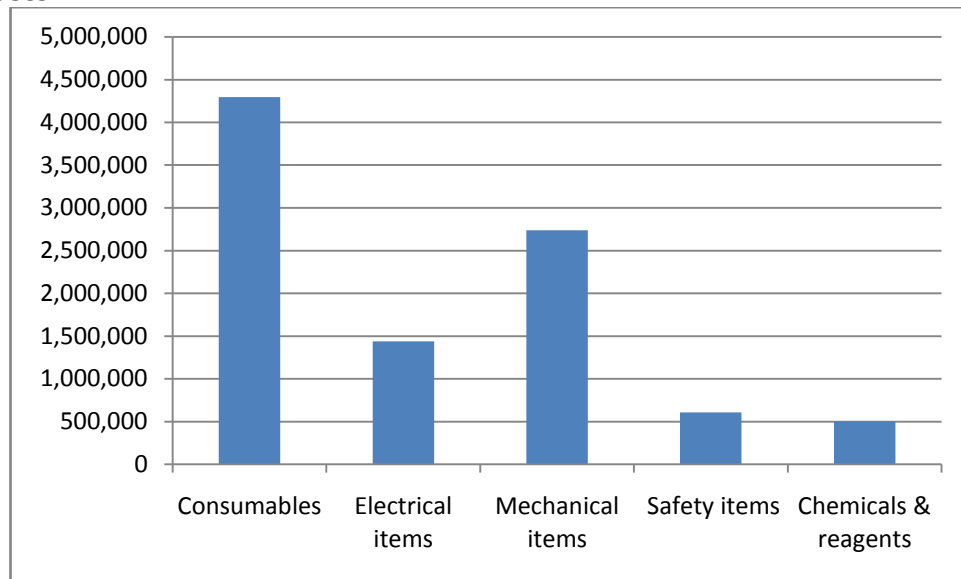
No purchase VAT is charged on imports. All domestic purchases, however, bear this tax at eighteen percent (18%) of the supplier's net price. The figures for the average order quantities of the five items have been computed for consumables, electrical, mechanical, safety and chemicals. For purposes of this section those figures are summarized below in table 4.5.

Table 4.6: Purchase VAT for Average Order Quantity Domestic Purchases

ITEM	PURCHASE VAT TAS	PERCENTAGE OF TOTAL ORDER VALUE
1. consumables	4,294,268	15
2. Electrical items	1,436,704	16
3. Mechanical items	2,738,427	18
4. Safety items	605,100	17
5. Chemicals & reagents	502,562.50	18

Source: The Researcher's Analysis

Figure 4. 6 : Purchase VAT for Average Order Quantity Domestic Purchases



The percentages are less than 20% because the cost of holding average stock has been added to the order values.

This order cost component weighs against domestic purchasing and in favor of foreign sourcing.

Purchase VAT, however, does occur on international purchasing orders when Songas has to buy services related to foreign orders after the order has arrived at the port of destination.

This implies that purchase VAT counts for a much bigger proportion of a domestic total order costs (15-18%) that it does for a foreign buy (0.8%). If a buyer is seeking for cost effectiveness on purchase VAT therefore, they should source abroad.

4.3 The extent to which the quality of materials imported influences competitiveness.

Quality is one of the reasons why companies opt for international purchasing though sometimes available domestically. The researcher identified the other reasons of

importing abroad as natural resource endowment, sellers costs, materials and component quality and supply security.

National resource distribution

Due to the nature of power plant operations and description of various natural resources in the world, this implies that Songas purchases various quality materials around the world in which in one way or another gives it a competitive advantage in terms of production capacity. That is to say, due to lack of such products from the domestic supply market. Up to ninety five percent (95%) of the Songas operation materials are sourced abroad due to the specificity of nature of operation of a power plant.

For this reason, this research paper explains the reasons for buying abroad when items have domestic source options. The following are the reasons that must be considered when making decision to source abroad.

(a) The seller's quality costs

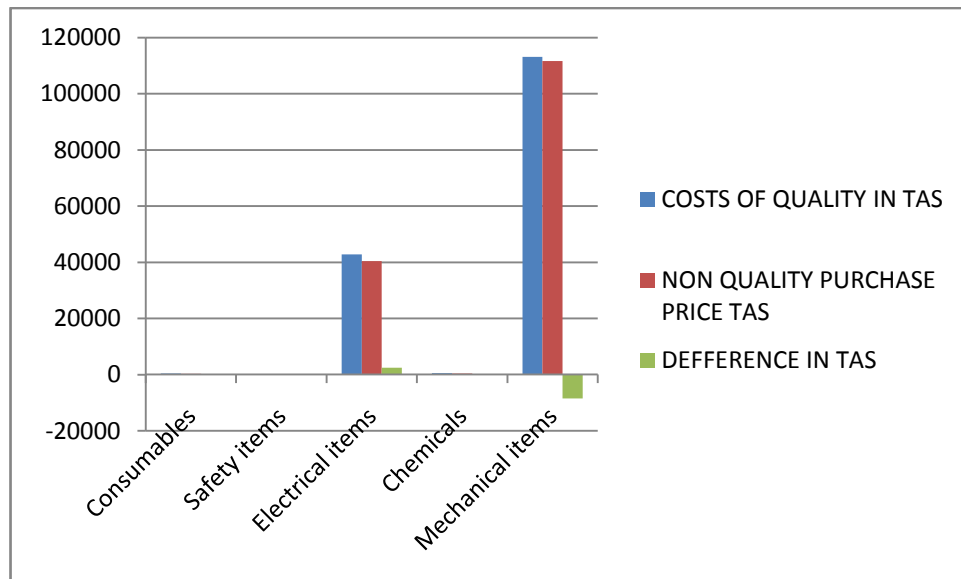
It's obvious that the prices of the quality product should be higher than non quality one, the purchase prices up to the goods inward station of Songas's warehouse, with the opportunity cost of keeping average stock included is indeed high for both foreign and domestic orders as shown below in table 4.6

Table 4. 7Comparative costs of quality Vs Non quality

PURCHASE ITEM	COSTS OF QUALITY IN TAS	NON QUALITY PURCHASE PRICE TAS	DEFFERENCE IN TAS
Consumables	409	306	89
Safety items	138	118	20
Electrical items	42,839	40,417	2,422
Chemicals	503	440	63
Mechanical items	113,148	111,686	-8,538

Source: Songas Procurement & Logistic department.

Figure 4. 7 : Comparative costs of quality Vs Non quality



It can be seen that the foreign prices of both consumables and safety items are lower than their domestic counterparts. Buying overseas can be the cheapest option in terms of quality of materials and hence competitiveness in the industry.

This implies that the purchase prices of electrical and mechanical items are higher for domestic sources than for foreign ones. (See table 4.6). Importing some of these items on the basis of purchase price reduction therefore, should be seen as cost effective.

On electrical items it is useful to note that the product is imported directly by domestic merchandisers or some times to only equipment manufacturer (OEM) who then sell it to Songas. The domestic stockiest suppliers add their mark-up on their imported items therefore found them to be very expensive to be bought domestically. An investigation by Songas on what it would actually take to procure these items domestically is worth their while less good than internationally.

The price cost effectiveness of imported consumables therefore, can perceptibly turn out cost ineffective through domestic purchase price reductions.

(b) Material and component quality

The quality levels for the five products for both foreign and domestic sources are described below.

Table 4. 8: Item Respective Quality Levels for Foreign and Domestic Sources

Item Quality Variables	Supply Sources	
	Foreign Level	Domestic Level
Consumables	75%	65%
Safety items	1.5%	1.5%
Electrical items	99%	66%
Chemicals	44.01	44.01
Mechanical items	20.05	20.05

Source: Songas Purchasing Dept.

It is clearly seen that (75%) of consumable from abroad has higher quality than domestic yield consumables which at most is sixty five percent (65%). Indeed, the retention of domestic suppliers of these supplies is in this case a “make-or-buy” decision in purchasing which is guided by factors more than cost. Songas has judged that although the domestic quality and indeed, even the price (table 4.5 above) are less competitive, they must nevertheless retain the domestic source because of the already invested capacity in domestic production. Basing on testing quality, however, superior foreign quality is a convincing reason for the Songas to verify quality of the existing the domestic option

This implies that of the five categories of items studied, safety items are the category whose domestic quality is inferior to that bought abroad. Yielding sixty five percent (65%) of the total raw input against the foreign yield of seventy five percent (75%). Fewer yields mean more input, and more input means more cost. On the basis of cost alone therefore, importing of safety items is the right and cost effective decision to make. Indeed, a truly cost effective policy on the basis of quality would be to buy all safety requirements abroad.

4.4 The extent to which after sale services of the imports can influence competitiveness.

Another objective of this research paper was focusing on how can the Songas Limited after sale services of the imports can lead to reduction of the cost in international buying where importation is required.

Looking at the international buying process at the Songas, one sees certain patterns of conduct which feedbacks patterns can be disclose the extent to which they have paid attention to the factors generally acknowledged as important for cost effectiveness on international buying

(a) People

This factor requires that people involved in international buying be given specific skills needed in international buying. These skills refer to language, negotiations, freight forwarding and importation procedures, and any other specific to the international procurement profession. Songas acknowledge the cruciality of people in international buying by taking advantage of the experience of one of their group members.

These play the role of agents in supplier evaluation and selection, both from the South African, USA and Europe supply market and beyond. This ensures cost effectiveness on quality, quantity, time, source and price this also takes care of market research and intelligence.

(b) Communication

The physical distance between suppliers and buyers Songas require handy and fast means of communication. By this way straitening of e-procurements is a recommended priority as order expediting requires basic components of e-procurement.

This reduces lead times as decisions take shorter time to make. Songas is installed with telephone, telex, fax and e-mail facilities.

(c) Establishing suppliers goodwill

Songas apparently have been keeping their contractual obligation to pay their suppliers on time. And their concern for the goodwill of their suppliers has paid off now potential suppliers travel all the way from South Africa and Europe to the Songas in Dar es Salaam seeking for sales orders. It is therefore not surprising that the majority of their suppliers accept documentary collection terms of payment. And this is what supplier goodwill is supposed to achieve. That is, cutting down the cost of documentary credit payment terms and thus offering best and competitive prices hence cost effectiveness.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.0 Introduction

This chapter gives a complete discussion of the findings in relation to research question and objectives so as to provide the existence of the problem under study with the support by reference made from literature.

5.1 Costs associated with International purchasing

The objective aimed at identifying various costs associated with international purchasing in accordance to the findings as discussed here below:-

Transport and freight forwarding costs

Transport or freight is the word used in international buying to mean the main mode of carriage costs between the port of dispatch and the port of destination. Transport operations from the supplier's to the port of departure/dispatch (freight forwarding) and those between the port of destination/entry and the buyer's stores are all left responsibility of the clearing agent who delivers the consignment door to door.

The Incoterms generally used by Songas is CIF. Thus put the selection of a carrier into the hands of a supplier. However, the supplier is not obliged to search for other suppliers to Tanzania so that he can group or consolidate with them for economies in freight rate. It is for this reason that the Tanzanian government established the Tanzania Central Freight Bureau (TCFB) so that though elected freight forwarders, pool for Tanzania importers and exporters. By so doing the Songas has achieved favorable transportation rates for most of its international purchasing

Songas must make sure that they are not paying more for international transport because of not using the services of the TCFB. Otherwise, this component of order costs shall be managed cost-ineffectively.

The domestic side on the other hand, has relatively more controllable participants because of the registration of domestic suppliers to Songas's data base. The researcher has already suggested that the use of Songas's vehicles to collect international purchases from ports to Songas has a potential for reducing its cost on transportation.

It still must be said, all the same, that together with domestic freight being less expensive and therefore cost effective than foreign freight.

Insurance in transit

Songas has set one insurance company to carry out most of its insurance issues, on the other hand, do not insure their cargo in transit for domestic orders. The explanation given by management is that they rely on the insurance for the vehicles transporting their domestic consignment. Ocean going vessels or air freight carriers, however, cannot dare to enter into water or air without being themselves extensively covered by underwriters. But none of them can rely on their cover for the cover of cargo they carry. Cargo must be separately insured.

Generally using CIF terms therefore, Songas insures their international cargo in transit are covered with insurance for all risks equivalent to 0.2% of the total value under transportation, the premiums are therefore paid in hard currency. At the time of instituting the TCFB, Tanzania importers were mostly using FOB terms, instructed to ensure their foreign-borne cargo with domestic insurers at that time the National Insurance Corporation (NIC).

Domestic adventures, on the other hand, seem to be doing well by relying on the premiums for the vehicles that carry them.

International transport carriers a lot more risk than domestic. Indeed, buyers are not allowed to clear cargo out of ports without evidence that the cargo involved had been insured. This is another cost component that recommends domestic buying against foreign buying.

Packing and packaging

All buyers whether engaging suppliers by tender, negotiation or directly, should make a cost analysis of the materials they buy in way that shall permit them to specify the costs of packing (the unit sizes) and packaging (the material protecting the product). Packing and packaging will affect safety of products in transit, their security, their handling, their storage and indeed, even their cost of holding in store in terms of the average stock value.

At Songas the records do not specify the packing and packaging cost components of their orders, domestic or foreign as “packing and packaging”. It is; however, known that both laboratory reagents and equipment is transported in pellets and then into container for those from abroad, for domestic is merely pellets. While this general packing and packaging is sufficient for all domestic orders, foreign orders, foreign orders have many times had to add another level of packing and packaging to enhance protection for the much longer lead times, cutting through different climates between its trading nations and Songas, and different degrees of risk for pilferage, plus to economize on transport cost and handling operations. This other level of protection is afforded by the use of containers

Import duties

Import duties are another premium on foreign buying costs that Songas has to pay for when buying overseas. In Tanzania currently it is equal to the VAT on imports which is computed as eighteen percent (18%) of the trading CIF value. As a power generation company, Songas has been contributing to large percentage of Tanzania import duties. Attached sample of import duties request from TRA to Songas by Songas’s clearing agent.

Port charges

The Songas sometimes pays Tanzania Port Authority (TPA) for handling and storage costs for all sea borne imports that exceed normal twenty one days of clearance. And it pays the same to the Swiss port for all air borne imports. The

import of Songas's spare parts mostly attracts payments of port charges for over storage.

For purposes of comparison or contrasting with domestic buying, the aspect of packing and packaging that was seen as clearly making a difference between foreign buying and domestic buying was the use of containers in international purchasing.

International transport particularly on the sea mode, has improved in cost substantially through the use of container on account of enhanced cargo security, safety and particularly handleblity. Gladly, the port of Dar es Salaam has a container terminal. The use of containers by Songas for their international transport packing and packaging therefore, must be seen as cost effective.

Cost of documents

All enterprises incur costs of printed forms, loose papers and pens, pencils and ink which are used to write on those forms and papers. Supply management especially, in an interface with marketing management, consumes a lot of documentation, whether the supply chain is national or international. Documentation never escapes the books of account. In supply management these materials are expensed as "expendables" or "consumables" or even "supplies". They therefore affect negatively the net profit of the entity. Given a desired return on investment therefore, these materials' expenses must be absorbed by an appropriate level of profit. And this means an appropriate level of price.

As delineated under the literature review, importing involves much more documentation than domestic buying. This means an expense to the foreign supplier which must be absorbed by the price he quotes for the buyer. Extra documents are involved at the cargo clearance stage also. The research shall not restate these extra documents but will simply observe that the extra paper work means extra cost in foreign buying.

Cargo clearing

Cargo clearing is another cost item which at the Songas, as it does in the majority other trading relations, is exclusive to foreign buying. During 2010 the Songas incurred substantial sums of money in clearing foreign-borne purchases from the sea and air ports of Dar es Salaam. Data accessed by the researcher revealed a total of TAS 25,610,832 in clearing costs, excluding costs of using Songas personnel when Songas do the clearing themselves, which as indicated under 4.5 above, is in twenty seven percent (27%) of all occasions of clearing operation, against 2010 operations.

As already described above, the researcher maintains that an opportunity exists for improved cost effectiveness in cargo clearance through deployment of Songas's clearing staff more than they do clearing agents.

However in Songas much of the imported materials are cleared by their clearing agent Kuen - Nagel and Freight Forwarder Tanzania whose clearing charges per each single waybill is not less than united state dollar four hundred, thus as stated earlier this is not small amount of money and with the frequency of importation Songas can establish its own clearing section and clear its own consignment. This way much of the costs will be served.

Domestic buying incurs no cargo clearing costs, hence making it a more cost effective supply source for Songas against foreign buying.

Opportunity cost on money tied in-transit stock

Because the Songas pays their suppliers on average thirty (30) days from the date of dispatch, cargo has nearly arrived if not actually arrived in their stores before they have paid for its price. This keeps to a minimum any financial costs on account of non-performing stock while it is in transit.

This implies that, the cost of unutilized opportunity make financial gains because investable money is tied in in-transit stock is a function of the order quantity and the time of payment to the supplier.

Regarding the time of payment, Songas are doing well not to tie most of their money in cash cover for letters of credit and in remittances to execute letters of credits well ahead of the arrival of goods, by achieving with the majority of their suppliers documentary collection terms of payment.

Opportunity cost on average stock value

It is imperative to take note of the immense differences in average stock values between foreign and domestic orders. With levels of average stock values are also levels of opportunity cost on those values on account of, at least, not leaving such sums in a bank account for interest on deposits. Such costs of investment opportunity not utilized simply increase order values.

Opportunity cost in average stock value in stores shall be optimized when the order values are available. The savings in average stock value Note that this savings in average stock value is achieved without increasing the purchasing workload as measured by the numbers of orders per year.

It was found out that in order to eliminate the said challenge in controlling stock; the right training should be provided to staff to enable them to effectively utilize the system in place.

Also there should be effective and efficient planning of raw material purchases, this should be a joint effort between marketing personnel who are supposed to present their order to production personnel who plan and schedule production, stores section which is supposed to update stock levels and determine fast moving materials.

Best use of International Commercial Terms (INCOTERMS)

The International Chamber of Commerce (ICC) published the 8th and current version of its International Commercial Terms (INCOTERMS), These are set of three-letter standard trade terms most commonly used in international contracts for the sale of goods. First published in 1936, INCOTERMS provide internationally accepted definitions and rules of interpretation for most common commercial terms.

These terms are subdivided into two groups, terms for any mode of transport and terms for marine means of transport.

TERMS FOR ANY TRANSPORT MODE

EXW - EX WORKS (... named place of delivery) - The Seller's only responsibility is to make the goods available at the Seller's premises. The Buyer bears full costs and risks of moving the goods from there to destination.

FCA - FREE CARRIER (... named place of delivery) - The Seller delivers the goods, cleared for export, to the carrier selected by the Buyer. The Seller loads the goods if the carrier pickup is at the Seller's premises. From that point, the Buyer bears the costs and risks of moving the goods to destination.

CPT - CARRIAGE PAID TO (... named place of destination) - The Seller pays for moving the goods to destination. From the time the goods are transferred to the first carrier, the Buyer bears the risks of loss or damage.

CIP - CARRIAGE AND INSURANCE PAID TO (... named place of destination) - The Seller pays for moving the goods to destination. From the time the goods are transferred to the first carrier, the Buyer bears the risks of loss or damage. The Seller, however, purchases the cargo insurance.

DAT - DELIVERED AT TERMINAL (... named terminal at port or place of destination)- The Seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the Buyer's disposal at a named terminal at the named port or place of destination. "Terminal" includes any place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. The Seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

DAP - DELIVERED AT PLACE (... named place of destination) - The Seller delivers when the goods are placed at the Buyer's disposal on the arriving means of

transport ready for unloading at the named place of destination. The Seller bears all risks involved in bringing the goods to the named place.

DDP - DELIVERED DUTY PAID (... named place) - The Seller delivers the goods - cleared for import - to the Buyer at destination. The Seller bears all costs and risks of moving the goods to destination, including the payment of Customs duties and taxes.

MARITIME-ONLY TERMS

FAS - FREE ALONGSIDE SHIP (... named port of shipment) - The Seller delivers the goods to the origin port. From that point, the Buyer bears all costs and risks of loss or damage.

FOB - FREE ON BOARD (... named port of shipment) - The Seller delivers the goods on board the ship and clears the goods for export. From that point, the Buyer bears all costs and risks of loss or damage.

CFR - COST AND FREIGHT (... named port of destination) - The Seller clears the goods for export and pays the costs of moving the goods to destination. The Buyer bears all risks of loss or damage.

CIF - COST INSURANCE AND FREIGHT (... named port of destination) - The Seller clears the goods for export and pays the costs of moving the goods to the port of destination. The Buyer bears all risks of loss or damage. The Seller, however, purchases the cargo insurance.

5.2 Quality effects on imported materials

Quality of goods and services imported affects much more supply security for Tanzanian Sources, Reference to table 4.7 in the chapter above illustrates that up to about sixty five percent (65%) of total consumable and electrical material required by Songas were purchased abroad. This implies that it is more secured to have these consumables purchased internationally to cover company's competitive strength to have an edge in production and supply of electricity. Foreign sourcing has brought about diversify in supply source and hereby enhance supply security.

The decision for going to International purchase for all five categories of items for Songas has no account of supply security and reliability for the product as some international suppliers will tend to benefit out of transactions and thus increasing cost of the material. For Tanzanian industries electricity problems and power scheduling affects the production capacity with Tanzanian industry in which Songas gets its domestic supplies. When these factors are put together, the decision by Songas to import some of its needs must be considered as cost effective

5.3 Warranty issue on after sales services of imports

In finance, a **warrant** is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed exercise price until the expiry date.

Warrants and options are similar in that the two contractual financial instruments allow the holder special rights to buy securities. Both are discretionary and have expiration dates. The word warrant simply means to "endow with the right", which is only slightly different from the meaning of option.

Warrants are frequently attached to bonds or preferred stock as a sweetener, allowing the issuer to pay lower interest rates or dividends. They can be used to enhance the yield of the bond and make them more attractive to potential buyers. Warrants can also be used in private equity deals. Frequently, these warrants are detachable and can be sold independently of the bond or stock.

In the case of warrants issued with preferred stocks, stockholders need to detach and sell the warrant before they can receive dividend payments. Thus, it is sometimes beneficial to detach and sell a warrant as soon as possible so the investor can earn dividends.

A warrant is exercised when the holder informs the issuer their intention to purchase the shares underlying the warrant. The warrant parameters, such as exercise price, are fixed shortly after the issue of the bond.

The risk of trade warranties includes time decay. Value diminishes as time goes by, the rate of decay increases the closer to the date of expiration.

5.4 Synthesis of the study

Songas is commended for providing an environment that facilitates the development of domestic quality of materials and its imports. The potential for switching a substantial amount of foreign orders to domestic orders is still great, given better than foreign prices affordable by domestic developed suppliers.

It has been demonstrated that order quantities for foreign purchases can be made more optimal than they are presently, for reduced opportunity costs on money invested in in-transit and storehouse average stock values.

The purchase price of domestically available products can have some of its purchase cost taken out through the use of Songas's internal inward transport services more than external hired transport.

External adventure insurance involves the payment of the premiums in hard currency and therefore, an increased risk on exchange rate fluctuation for international purchasing.

The potential costs of international buying as defined in this research mean that at any time foreign buying costs can get out of hand on account of, among other things,

a disastrous foreign exchange loss, a protracted contractual impasse, a sovereign cat by a supplier's government or difficulties falling on the consignment in transit. An adequate domestic supply market therefore, is always a blessing. And Songas have encouraging experience in domestic supplier development for the items locally available.

CHAPTER SIX

STUDY SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

This chapter presents the conclusions and recommendation based upon the findings of the study. It also summarizes the study, implications and future area of study will also be dealt upon.

6.1 Summary of the study

The overall objective of this study was to examine whether it is cost effective to purchase internationally the materials that can also be obtained domestically. Further to this main objective the other objectives strives to obtain competitive advantage between purchases made abroad and locally obtained purchases.

The findings from the study revealed that it is further more economical to purchase internationally though the cost may be high due to the following distinction of cost for International Buying Practices at the Songas

It is effective to import electrical items and mechanical ones due to higher domestic prices towards a lower net per unit cost when combined with domestically supplied lots.

It is cost effective to import over eight percent (80%) of total requirements for mechanical and electrical items due to superior foreign quality because it reduces the net per unit purchase cost when combines with domestically sourced quantities.

Importing of twenty five percent (25%) of annual safety items requirements and sixty percent (60%) of annual requirements for chemicals due to lack of adequate domestic capacity at home is cost effective for it averts down time in the production of the final product and loss of sales.

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It has been cost effective for the Songas invest in modern communication (e procurement) facilities including fax, telex and e-mail for the reduction of order lead time, which affects re-order levels and therefore safety stocks which in turn affect average stock value.

It is very cost effective for the Songas to have earned their foreign suppliers' goodwill which has facilitated favorable payments terms.

6.2 Conclusions

Purchasing processes are the essentials to adhere for organization to be cost effective; the best thing of them all is to obtain the right goods or services at the equivalent value for money spent.

The purpose of the study was to identify whether it is cost effective to purchase internationally the materials that can also be obtained domestically and the main findings pointed out. The following were found to be the causes of Cost ineffective in International Buying Practices at the Songas

The use of the purchase requisition note by purchasing staff to support the need for foreign buying when the stores order request has been raised already by stores personnel is a cost ineffective duplication of purchase requisitioning.

It is a cost ineffective over-information to dispatch the shipping arrival advice note and the title documents at different times by foreign suppliers to the Songas.

It is cost ineffective to insure foreign cargo in transit with foreign underwriters on account of the involvement of foreign currency and exchange rate fluctuations.

It is cost ineffective on international supplier payment costs to continue with even a single supplier on documentary credit terms of payment, under very favorable Songas-foreign supplier relationships.

It is cost ineffective to use clearing agents for foreign-borne cargo on hundred percent (100%) of total annual clearing occasions because there can be internal clearing unit that can serve both purposes.

All extra activities on foreign buying over domestic buying mean that foreign buying is a cost ineffective option relative to domestic buying. When there are no equivalent domestic suppliers, however, these same foreign activities actually become cost effective operations provided that they shall themselves individually be cost effectively managed.

6.4 Recommendations

In view of the findings and discussion from the study the researcher recommends the following to Songas to do much more cost effective international purchasing.

6.4.1 Professional Training

Purchasing and logistics team should have the training on how to make international purchasing much more cost effective, this training will enable Professionals to reduce eighty percent (80%) of the cost used extras from international purchases and thus making international purchasing the best source of supply for Songas's spare parts and consumables.

6.4.2 The best selection of Incoterms

Even if CIF terms are the cost effective terms for purposes of efficient international buying transport management, Songas need to restructure its imports and provide the best Incoterms with less risk and costs for it to be cost effective.

6.4.3 Proper specification

Songas needs to ensure proper specification for all its internationally purchased items as these specification has direct implication on cost of the items, the implication of this appears when supplier has shipped items of wrong specification of the required one, in this regard there must be re export of the consignment finally the company is paying related cost twice due to incorrect specification.

6.4.4 Order consolidation

Songas should arrange to alter its internationally imported products with others orders imported from the same continent or place to obtain the best freight costs, much more of insurance and clearing costs. In this regards will have served great money spent on such criterion.

6.4.5 Management contribution

For Songas to have a cost effective international purchasing it will not only be the job of procurement and logistics team, However, much more support is needed from Management. Management's role is to support purchasing in terms of payments to suppliers and others involved so as to get the best discounts and credits from suppliers and thus cost effectiveness.

6.5 Implication of the study

6.5.1 Implication for management and employee

The findings revealed that when costs associated with international purchases are dealt effectively management will enjoy international purchasing and much bonus will be granted to purchasing and Logistics employee.

6.5.2 Implication for Suppliers

Suppliers of inputs to the buyers will however be highly motivated and thus provision of quality supplies. There is a need of providing extra involvement of suppliers for quality and cost improvements.

6.5.3 Implication for Policy makers

To policy makers, this study reveals that through learning from costs associated with international purchasing there is a need of putting much efforts to train staffs who are directly involved with international purchasing, this will help the management enjoy as best international costs as possible. Further to trainings the need to procure locally available products arises with the view of developing the locally available industries even though their costs might be high.

6.6 Future area of study

This study was conducted to assess the cost effectiveness on domestic and international purchasing with the main objective of examining whether it is cost effective to procure internationally materials that are also available domestically. However, there still a room of broadening the study to assessment of suppliers contributions on cost effectiveness international purchasing this topic could cover much more of what has been left from this study.

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QUESTIONNAIRE

Dear Sir/Madam

The Purpose of this questionnaire is to explore the cost advantage/disadvantage on International Purchasing at Songas for the research paper titled “Cost effectiveness in International Purchasing”

This research is intended for academic purposes in partial fulfillment of requirements for award of Masters of Science in Procurement and Supply Chain Management of Mzumbe University.

You have been chosen to be one of the respondents in this research; your answers will be highly appreciated and will be used for this academic purpose and be treated as confidential.

Part One

RESPONDENT’S SELF INTRODUCTION

a) **NAME:** (Optional)

b) **GENDER:** Male / Female

c) **PROFESSIONAL QUALIFICATION** (Use $\sqrt{}$ or X wherever applicable):

Procurement qualifications	
Engineering qualification	
Finance/accounting	
Others (Please specify)	

d) **DEPARTMENT:**

Procurement / Finance.....☐

Operations.....☐

Maintenance.....☐

Others.....☐

e) EMPLOYMENT LEVEL:

Top Management (Director/Assist)	☐	Middle level Management.....	☐
Low level Management.....	☐	Non Management.....	☐

f) EXPERIENCE IN INTERNATIONAL PROCUREMENT:

Less than a Year.....	☐	1-3 Years.....	☐
3-5 Years.....	☐	Over 5 Years.....	☐

1. What is your opinion on your organization's cost effectiveness on international procurement? Please mark with X or tick where relevant.

1. They are integrated with overall organization's strategies (fully linked).	
2. They are supportive but not fully integrated to overall organization strategies (there is some missing few links to overall firms' strategy).	
3. They are completely independent (unrelated) to overall organizational strategies.	
4. There is no strategic direction; the focus is on getting cheaper prices and transaction management.	

2. To what extent do you agree that your organization has gained competitive advantages as a result of the following international purchasing cost reduction practices?

Benefit experienced	Strongly disagree (1)	Somehow disagree (2)	Neutral (3)	Somehow agree (4)	Strongly agree (5)

Please mark in the column reflecting your opinion

Benefit experienced	1	2	3	4	5
a) Having proper technical specification for the quality and quantity of materials required.					
b) Having a guaranteed warranty of services after sale					

c) Improvement in procurement efficiency (e.g. Speed, quality, lead times).					
d) Reduced paper work.					
e) Effective integrated record keeping and data processing.					
f) Improved product designing and shorter time to market.					
g) Enhanced contract management due to information availability.					

3. Are there any other benefits ENJOYED from adopting best procurement practices that reduce costs on international purchasing? (Please specify)

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.....

4. Is there a link between cost serving strategies and international strategic sourcing at Songas? (if Yes, Please specify)

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5. Is there a difference (advantage) in after sales services of imported materials from local manufactured materials? (Please specify).

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.....

6. Does organization practice make/buy decision as cost reduction technique? (if Yes, Please specify)

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The End.....Thank you for your time