Pricing is the process of determining what a company will receive in exchange for its products. As a cardinal component of the four P’s in the marketing mix, Price constitutes the only revenue generating element. A well chosen price should inter alia achieve profitability for a company, fit the realities of the market place and support a product’s positioning.

The element of pricing is even more crucial in the area of public procurement as it helps to ascertain the level of cost effectiveness in every procurement activity. Section 59 (3) of Act 663, clearly indicates that a successful tender must be one that has the lowest evaluated tender price. Be that as it may, it is worth noting that the final determination of a successful tender is not necessarily the tender with the lowest price but rather, the one with due conformance to specifications itemized in the tender documents.

Price has huge implications for both service providers and procurement entities at various levels of the procurement process. Entities in the preparation of their annual procurement plans sometimes use the market intelligence and spend analysis to estimate costs of each package in order to determine the type of procurement method to use (with due regard to the thresholds listed in Schedule 3 of Act 663) and the estimated lead time for that particular procure-

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**Online Activities**

List of entities that have submitted their 2012 Procurement Plans online As At February 24th, 2012

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### Tendering and contract Information for periods indicated

**Tendering Opportunities for Jan - Feb 2012**

**Contracts Awarded for Jan-Feb 2012**

**Restricted Tender Awards Jan - Feb 2012**

**Expression of Interest Requests Jan - Apr 2012**

The links above will take you directly to the PPA Website Reports for the months of period indicated.

The Authority urges all other entities who have not submitted their plans as yet to emulate the example of the above listed entities and comply accordingly.
1. INTRODUCTION
Pricing of items to be procured is an activity which requires the exercise of care. When the process is handled casually, an Entity may end up under-estimating what is to be procured and find itself with higher tenders after the procurement process. The reverse of this situation is to over-price and make the estimate so high that the procurement process is cancelled as the budget available may appear inadequate to fund it.

Price also becomes an issue when reviewing tenders received. At this stage the Entity should be able to state whether the tenders received are realistic or not. This paper seeks to discuss some key factors to consider when pricing estimates or reviewing tenders.

Procurement has been variously defined but for the purposes of this paper this one will be adopted as the operational definition:

“PROCUREMENT IS THE ACQUISITION OF GOODS, WORKS OR SERVICES AT THE BEST POSSIBLE TOTAL COST OF OWNERSHIP (RIGHT PRICE) IN THE RIGHT QUANTITY, RIGHT QUALITY AT THE RIGHT TIME AND IN THE RIGHT PLACE FOR THE DIRECT BENEFIT OR USE OF THE PROCURER.”

Everything done in relation to price review is to arrive at the best possible total cost of ownership which signifies the achievement of the right price. Please note that there are 5 rights in this definition; RIGHT PRICE, RIGHT QUANTITY, RIGHT QUALITY, RIGHT TIME AND RIGHT PLACE. For a procurement to be described as having been done well, all the five have to be in place. However the other four contribute to the achievement of the RIGHT PRICE.

2. QUANTITY
There is a maxim of trading known as volume discounts. A visit to any shop would show offers such as “buy 1 for GH¢4.00 and 3 for GH¢10.00.” Simple arithmetic shows that for an item with a unit price of GH¢4.00 buying 3 should cost GH¢12.00. However the Vendor is prepared to reduce the unit price because at that particular instance the Buyer would be leaving with three units of the item significantly reducing the Vendor’s overheads relating to stock holding in the process.

It is against this background that Procurement Entities are counseled to collate their requirements so that the packages that are put out for tender are attractive to the Vendors/Suppliers. When the packages are right, Vendors/Suppliers can reduce their margins to offer prices which they would normally not have agreed to.

3. QUALITY
Quality of items to be procured is spelt out in the Specifications that the Procurement Entities put out as part of their tenders. Specifications therefore should capture what the Entity requires and should be explicit as each description comes with a price. An example is the purchase of a desktop computer. Simple as this may sound, care has to be taken to specify correctly the size of screen, the size of the hard-drive, the processor speed among others as each of these has an impact on the ultimate price that the Entity has to pay for it.

Knowing what you want is different from being able to describe it in terms that make sense to the Supplier and as such where the expertise is not available in-house, an Entity may have to seek help from outside. In instances where there are close alternatives to what is needed, extra care has to be exercised in stating the quality requirements as there are cost implications to be borne in mind.

4. TIME
There are two sides to the place of time in the price that has to be paid by the Entity. These are the time of purchase of the item and the time of paying for it. If the Entity has a history of placing orders on time after
the tender period and paying for it within the payment period stated in the tender document, then Suppliers would definitely offer prices that are realistic. Where the Entity takes the Suppliers for granted and misses these times, it would get unrealistic prices and then wonder why others get better prices for the same items. The Suppliers also need adequate time to put their tenders together. If they are given shorter times than the minimum stated in the Public Procurement Act, 2003, the Tenderers would miss out certain important factors and compensate for it by over-pricing. The tendency to under-price is also present as the lack of time means rushing through to put tenders together and missing important pieces of information. The time of delivery also has an impact on the price offered as a tight schedule will mean a Supplier expediting certain steps which normally comes at a cost.

5. PLACE
The place of delivery together with the associated costs is something that is often glossed over when estimates are being prepared for the procurement of items. More often than not Entities outside Accra expect to pay the same price for items as their counterparts there forgetting that the items have to be transported to where they are. Unlike taxes which are uniform throughout Ghana, transportation costs are not and glossing over this fact leads to cases of under-estimation which ultimately results in budget over-runs as extra money has to be found to cover for this.

6. PUTTING IT ALL TOGETHER
To arrive at the best possible total cost of ownership - right price – the impact of each of these variables or factors has to be considered carefully. To estimate the cost of an item, an Entity will have to carry out a market survey to gather prices for the inputs. PPA has provided a price database for common User items (http://www.ppaghana.org/CommonItems/CUI_Search.asp) to assist in the conduct of this survey for the preparation of estimates.

The database can also be used to assess how realistic or otherwise the tenders received are. In making the judgment on the reasonableness of the tender price compared to what is in the database, the impact of each of the factors considered above should considered and allowed for.

Eric V. Appiah
Director - BM&E
PPA

PRICING IN PUBLIC PROCUREMENT Cont.

(Continued from page 1)

ment. On the part of service providers, several factors may influence the determination of price for any commodity be it in the category of goods, works and services. In addition to the manufacturing cost, market place competition and the quality of the product, the quantity of items/extent of works to be procured all culminate into the final tender price that is quoted and also gives an indication of the amount of tender security to be submitted if so required.

Since time is of essence in every business endeavor, procurement entities must be wary of practices that may result in undue delays in their procurement processes which can result in delayed payments so as to ensure that tenderers do not take gratuitous advantage to inflate their prices anytime they are participating in public tenders. Procurements processes and payments issues will therefore have to be streamlined in order to attract favourable pricing and pass on value to ordinary taxpayers who are the ultimate financiers of these procurement activities.

Given the aforementioned importance of pricing in public procurement, we have dedicated this edition to the subject matter and hope to critically examine how several elements such as Timing, Quantity, Quality, Place and even the price of Tender Documents can influence pricing. We will also explore opportunities in E-procurement interventions that would provide better alternatives in the delivery of effective public procurement processes in Ghana.

Rhoda Appiah
Principal Public Affairs
Various factors account for the price of tender documents. Service Providers’ decision to participate in any tender process includes an assessment of the price of the tenders, matched against the probability of winning the tender. Where the price of tender documents are set very high, Tenderers may decide not to participate in the process especially where Entities have not done enough to assure them of a fair and transparent procurement process. This accounts for the low rate of responses to adverts by some Entities.

To generate a competitive process including the ability to attract sufficient number of tenders, that gives Entities a large number of offers to make a choice from the impact of pricing of tender documents in Ghana’s young public procurement process cannot be over emphasized.

Section 49 (3) of the Public Procurement Act 2003 (Act 663) provides that “The Price that the Procurement Entity may charge for the tender document SHALL reflect the cost of printing them and providing them to the suppliers or contractors.”

- This presupposes that fixing/setting the price of tender documents has nothing to do with:
- The expected value of the procurement
- The cost of advertisement
- The Entity’s cost incurred in Evaluation
- Other Administrative costs including servicing of meetings

Over the years some Entities who claim the cost of undertaking procurement processes must be borne by the supplier for which reason they fix high prices for the tender documents have been impressed upon by the Public Procurement Authority to comply with the provision referenced above.

Public Entities may have to note that, the benefits of an effective/competitive procurement process far out-weight the cost of tendering (adverts, tender opening and evaluation approval etc). When competition is encouraged, “value for money” is one of the eventual benefits.

Considering that Entities are required to make Tender Documents available to all interested/qualified Tenderers when open tenders are launched, the requirement that tenders be sold is in order to avoid situations where having picked up documents they are not responded to. It is expected that firm/persons who purchase documents place value on the process and are more likely to respond to them. This is also because the Act requires that purchasers are given the opportunity to inspect and convince themselves of their ability to respond before purchasing the documents.

Some Stakeholders have suggested that the Public Procurement Authority recommends a formula for fixing the price of tenders. This poses a challenge, considering the content/volume of specific tenders may vary. The onus therefore lies with Entities to fix prices for Tender Documents in accordance with section 49 (3) of Act 663.

Contractors, Consultants and Suppliers must also draw the attention of the Public Procurement Authority when they come across exorbitant prices for Tender Documents. Tenders must note that their submission of Tenders is not a guarantee for winning a contract; it is therefore in their interest to question exorbitant prices of tenders. Note that Entities are not obliged to refund monies paid in respect of tender documents.

In conclusion, it is important to note that the price of tender documents must not be stretched by Entities to discourage competition in the procurement process. It is expected that the demand side (Public Entities) and the supply side (Service Providers/Tenderers) will work together to encourage competition in the Public Procurement Process to the mutual benefit of the state and the citizenry.

Yvonne Vanderpuye
Principal Operations Officer (CD/HR)
PPA
Tender documents provide tenderers the format in which to present information on pricing, specifications and other relevant details with respect to a specific tender notice launched by an Entity. Tender Documents are often obtained by paying a price to the advertising Entity. Prices of Tender Documents are determined and set by the Procurement Entity.

Prospective Tenderers travel to offices at different locations to obtain Tender Documents, in some cases tender documents have to be sent by courier at extra cost to recipients in addition to the price of the Tender Document. It is also a known fact that price of Tender Documents have also deterred prospective suppliers from taking part in tendering processes.

As established from preceding paragraphs, price of Tender Documents do affect the tendering process. With the application of internet and computing technology (e-procurement) to the procurement process, expected benefits will include timely and cost effective preparation and distribution of tender documents.

On the e-procurement platform, Procurement Entities will prepare tender documents and carry out all relevant activities and then upload the tender notice on the e-Procurement system. Distribution of Tender documents is instantaneous once document is uploaded, allowing its access to prospective tenderers.

In situations where e-procurement is not fully implemented, tenderers can download Tender Documents and submit a completed hardcopy to the concerned Entity. On the other hand on a fully implemented e-procurement system, Tenderers on a successful log on to the e-procurement system are able to prepare and submit tender documents online in a timely manner.

To sum up, using e-procurement, prices of tender documents will be affected by:

- Remote printing and submission of tenders – Entity does not incur cost in printing of tender documents
- Advertising Cost – Entities will not have to advertise tenders in newspapers with its limitation of time, space and cost, as tender notices will be available online.

No more dependence on procurement officials – procurement officials will not use their prerogative of creating artificial shortage of Tender Documents and sell at high prices.

It is expected that with e-procurement, prices of tender documents will be reduced to a minimum if not eliminated all together, leading to higher participation by suppliers in the procurement process.

Thomas K. Bondzi
PPA