

Review of Procurement Management Capacity of the Social Marketing Company, Bangladesh

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ACRONYMS AND ABBREVIATIONS

| | |
|-------|--|
| BDT | Bangladesh Taka |
| DGFP | Directorate General of Family Planning |
| ORS | oral rehydration salts |
| IPPF | International Planned Parenthood Federation |
| UNFPA | United Nations Population Fund |
| PMT | per metric ton |
| QA | Quality Assurance [Department] |
| SMC | Social Marketing Company |
| SPS | Strengthening Pharmaceutical Systems [program] |
| STD | sexually transmitted disease |
| USAID | U.S. Agency for International Development |
| USD | U.S. dollar |
| VMI | vendor managed inventory |
| WHO | World Health Organization |

EXECUTIVE SUMMARY

In 2006, while acknowledging the social marketing program in Bangladesh as a world-renowned success story in the field of family planning, Sarah Alkenbrack, Courtney Bickert, and Margaret Rowan of the Futures Group International, Constella Group,¹ in a document titled “Social Marketing in Bangladesh: Is It Time for a Shift?,” raised the question of the sustainability of the program because most of the Social Marketing Company (SMC), Bangladesh’s commodities were donated at the time. “What happens to SMC if donors phase out?” they asked. They also questioned the role of SMC after it had transitioned users to the private sector. The authors argued that shifting higher-income users to the commercial sector, which currently cannot compete with SMC, would lead to greater sustainability but that it had to be done in ways that did not compromise SMC’s sustainability or its ability to serve its appropriate market.

Indeed, since then, SMC has moved to become nearly self-sustaining, and today, the organization is close to 85 percent self-sustaining, with little dependence on donations. This remarkable transition has been possible for SMC because it has always been ready to accept challenges. It has not lost its social marketing focus or its adherence to its core principles and objectives.

The challenge before SMC now is to sustain its self-sufficiency and move toward 100 percent self-reliance while not compromising on its core social marketing objectives. Although it cannot be classified as a commercial organization, it does need to adopt and better appreciate some aspects of commercialism if it is to sustain itself as a 100 percent self-reliant social marketing organization. Higher sales and lower costs, and net revenue, therefore, are key considerations for the SMC. The value or volume of sales, or sales strategy, is not the focus of this assessment. Ways and means of increasing net revenue through lower costs by more efficient and effective procurement is. The assessment therefore has considered avenues for improvements in procurement, both from a structural and from a process point of view, and looked at avenues for assisting production operations by redesigning and reengineering warehousing activities.

¹ Sarah Alkenbrack, Courtney Bickert, and Margaret Rowan. 2006. “Social Marketing in Bangladesh: Is It Time for a Shift?” Futures Group International, Constella Group, presentation at the 134th Annual Meeting & Exposition of APHA, November 4–8, Washington, DC.

BACKGROUND

An Introduction to Social Marketing and the SMC, Bangladesh

As described by Nedra Kline Weinreich,² widely recognized as an expert in the field of social marketing, the health and social communications field has been rapidly changing over the past two decades. It has evolved from a one-dimensional reliance on public service announcements to a more sophisticated approach that draws from successful techniques used by commercial marketers, termed *social marketing*. Rather than dictating the way that information is to be conveyed from the top down, public health professionals are learning to listen to the needs and desires of the target audience themselves and building the program from there. This focus on the “consumer” involves in-depth research and constant reevaluation of every aspect of the program. In fact, research and evaluation together form the very cornerstone of the social marketing process.

Social marketing was born as a discipline in the 1970s, when Philip Kotler and Gerald Zaltman³ realized that the same marketing principles that were being used to sell products to consumers could be used to “sell” ideas, attitudes, and behaviors. Kotler and Alan Andreasen define social marketing as differing from other areas of marketing only with respect to the objectives of the marketer and his or her organization.⁴ Social marketing seeks to influence social behaviors not to benefit the marketer, but to benefit the target audience and the general society. This behavior change technique has been used extensively in international health programs and is being used with more frequency in the United States at the national, state, and local levels for such diverse topics as drug abuse, exercise, and human trafficking.

Social marketing works to help people change their behaviors to become healthier or to improve society or the world in some way. On the continuum of methods to bring about health and social change, the two used most often are education, which uses rational facts to persuade people to change their behaviors, and coercion, which forces people to adopt a behavior under threat of penalty for not doing so. Somewhere in between those two points lies social marketing—the use of commercial marketing methods to persuade people to change their behaviors for reasons that go beyond the rational facts to appeal to their core values. Often, people know exactly what they should be doing and why, and they still disregard what their head tells them. Social marketing adds heart back into the mix and uses emotional appeals to resonate with the part of the brain that determines what people actually do rather than what they know they should do.

Social Marketing Company, Bangladesh

As described in its website, SMC was initiated to challenge the country’s rapid population growth by marketing contraceptive products in a widely accessible manner at a price

² Nedra Kline Weinreich, Weinreich Communications, 2006, www.social-marketing.com/Whatis.html.

³ P. Kotler and G. Zaltman. 1971. Social Marketing: An Approach to Planned Social Change. *Journal of Marketing* 35:3–12 (July).

⁴ P. Kotler and A. Andreasen. 1995. *Strategic Marketing for Non-Profit Organizations*. Upper Saddle River, NJ: Prentice Hall.

affordable to the general population and to bring about behavioral change through extensive mass promotion.

In 2010, SMC of Bangladesh is marking 36 years of operation. It is regarded as the largest privately managed not-for-profit organization in the world for a single country. The company is registered under the Companies Act, 1913, in Bangladesh and is governed by a voluntary board of directors.

The major social marketing programs SMC implements include family planning, child survival, maternal and child health, and a sexually transmitted diseases (STDs)/AIDS prevention program. In addition, SMC implements customer education and health communication programs.

SMC is now regarded as a significant contributor to the reproductive and child health services in Bangladesh by complementing the public sector distribution with a private sector social marketing model. In 2009, SMC provided 3.84 million couple years of protection by offering three modern methods: oral contraception pills, condoms, and injectables. As the Bangladesh Demographic and Health Survey shows, 35 percent of modern contraceptive users reported using SMC brands.

Under its family planning program, SMC socially markets a variety of contraceptives: nonclinical oral pills (Femicon, Nordette-28, and Femipil); condoms (Raja, HERO, Panther, Sensation, and U&ME); and clinical (SOMA-JECT injectable hormones). To make contraceptive products available and affordable to the less-privileged people of the country, SMC positions its brands of contraceptive products at different price segments so that revenue generated from the moderately priced brands can cross-subsidize the lower-end brands.

In May 2008, SMC introduced a small sachet of micronutrient powder, popularly known as “Sprinkles,” under the brand name of MoniMix, to address childhood iron deficiency anemia. It also started marketing zinc dispersible tablets in September 2008 to reduce the severity of diarrhea in children under five years of age. As part of its maternal and neonatal health program, SMC launched safe delivery kit branded as “Safety Kit” in 2008 to ensure clean child delivery at household level.

To combat diarrhea, the number-one killer disease among under-five children, in 1985 SMC initiated the Oral Rehydration Therapy Project under the Child Survival Programme to decrease child mortality and morbidity caused by diarrhea-related dehydration. Under the program, nationwide awareness building and behavior change communication campaigns were undertaken, and prepackaged oral rehydration salts (ORS) was introduced and distributed extensively, enhancing the ready availability of ORS.

The new World Health Organization (WHO) formula-based packaged ORS brand marketed by SMC is ORSaline-N, whose price is fixed by the government. To provide variety to consumers and to encourage children who are unwilling to take additional ORS, SMC introduced BNF-flavored ORS brand ORSaline-Fruity in August 2003.

With the objective of becoming self-sufficient and receiving an uninterrupted supply of ORSaline-N, SMC’s factory began operation in August 2004 at Bhaluka, Mymensingh. Since

its inception to September 2009, the factory has produced and supplied 768 million sachets of ORSaline-N. Currently, the annual production capacity of the factory is 208 million sachets.

The Blue Star Programme is a social franchise that seeks to enhance the capacity of private health providers to offer high-quality public health priority services and products through its 3,336 Blue Star providers/outlets.

Since 1995, SMC has been addressing the issue of reduction of the transmission of STDs and HIV/AIDS among the defined high-risk population through its Shurockkha (meaning “well protection”) program, which is currently being implemented under the Modhumita program.

To inform, educate, counsel, and motivate people into action, SMC takes a holistic communication approach to bring about desired behavior change. Along with mass media, SMC widely uses interpersonal media, which includes mobile film shows, outreach programs, and intensive training of frontline health providers through its nationwide Health Providers’ Training Programme.

SMC has increased availability and accessibility to its contraceptive products and ORS by regularly serving almost 220,000 retail outlets annually nationwide. It works through 12 strategically located sales offices around the country with about 91 sales personnel. SMC has also constructed its own 20,000-square-foot central warehouse and a three-story packaging unit, adjacent to its ORS factory in Bhaluka, Mymensingh, which was inaugurated on April 28, 2008. The warehouse provides all logistical support in packaging, storing, and distribution of all SMC products. The packaging unit at the central warehouse creates job opportunities for underprivileged female workers.

SMC’s telephone hotline—“TeleJiggasha”—program provides correct reproductive and health information, answers to problems faced by youth, and information on SMC products. SMC is one of the pioneers of social and market research in Bangladesh. Every year, SMC sponsors and conducts a number of research studies to gather empirical data and necessary information in developing and evaluating its various projects and activities. SMC employs around 445 personnel.

METHODOLOGY

The methodology adopted was primarily one of interviews with key managers of SMC, study of relevant documents, and visits to relevant departments and locations, such as the manufacturing and repackaging facility of SMC at Bhaluka.

KEY FINDINGS

Corporate Issues Experienced by SMC

SMC has passed through a period of corporate turmoil from August 2009 to February 2010 when board meetings could not be held on account of a court order. The last board meeting held prior to the court order was on August 3, 2009. During the period since this date, single procurements over Bangladesh Taka (BDT) 15 lacs (the maximum financial delegation of the managing director) could not be processed. Some mitigation measures were taken to maintain its obligations to its clientele—its revenue base—by keeping its sales targets to planned levels to the extent possible and producing adequate quantities to meet these sales targets. The first board meeting held after the court order was lifted was held on February 4, 2010, and several large-scale procurements were approved at this meeting. The resulting workload for the procurement department would have been an unusual phenomenon because such a concentration of orders would not have occurred under normal circumstances.

The board had approved purchases again in March, April, and June 2010, but not in May 2010. If monthly approvals are not made, procurement of various high-volume and high-value items may be delayed.

Document Routing System

A unique collective decision-making process exists at SMC: the “document routing mechanism” that requires procurement recommendations to be routed through a series of officers before it reaches the managing director. Although the managing director approves purchases within the delegation given, others are submitted as board papers to the board of directors by the managing director for approval. As the procurement policy manual states—

“in the routing process, each signatory has a separate role. The signature is not just for the sake of signature. After signing, it will be assumed that each signatory has taken the responsibility of the transaction to the extent of his/her part in the process with due diligence”

The due diligence responsibility that each signatory is expected to meet is clearly specified in the procurement policy manual. However, judging by comments made by some officials, it was not clear whether the due diligence intent of the procurement policy relating to the routing system was being followed as envisaged and being achieved in all instances, or whether it was being followed purely as an administrative process.

Strategic Planning

SMC did not appear to have a long-term strategic plan or an annual procurement plan, although annual or biannual indents for major purchases were available. The procurement department is responsible for value-adding services related to procurement (competitive procurement processes that provides best value for money for SMC) as well as purely administrative work, for example, raising of task orders (see below). The activities of the procurement department do not distinguish between what might be regarded as the “core business” of SMC and “noncore, or administrative business” of SMC.

Management Information Systems

Lack of time prevented ascertaining the extent to which the management information systems within SMC were assisting other key departments such as procurement, the central warehouse, and the ORS factory, to do their planning and management more efficiently and effectively. Although the central warehouse produces a monthly pipeline report that provides extensive statistics relating to the inventory position of the sale products, this review could not ascertain how well and how much SMC used this information for inventory planning and management purposes. It may be useful to mention here that the primary focus of a management information system should be to assist in better planning and management and to produce reports that will assist in planning and management, rather than being a repository of data.

Relationship with DGFP

No formal or informal arrangements existed for exchange of information with the Directorate General of Family Planning (DGFP) on the demand for reproductive health commodities from a national perspective although SMC holds a significant market share of the national demand for condoms, pills, and injectables.

Procurement Cycle Management

The procurement department currently manages the procurement of all goods and services required by all departments of SMC. The department processes procurement of raw materials and packaging requirements of the factory, finished products and packaging material requirements of the repackaging operation at the central warehouse, task orders for various products and services required by departments such as Marketing and Research and management information systems, as well as requisitions for goods and services requirements of SMC.

From June 16, 2009, to June 14, 2010, the procurement department raised 1,377 purchase orders and 161 task orders, a total of 1,538 procurement instruments. Of this number, 39 were purchase orders and five were agreements relating to raw materials, packaging materials, and bulk finished goods for repackaging. The total value of these was about BDT 1.2 billion (approximately USD 17.5 million).

Because each purchase order had multiple deliveries and each delivery in an import order had a separate letter of credit opened prior to shipment, however, the effective number of purchase orders was more than 39 and maybe regarded as anything between 390 (if the average number of deliveries per purchase order is taken as 10) to 585 (if the average number of deliveries per purchase order is taken as 15). This factor is mentioned here because appreciating the work component that is associated with each delivery or shipment is important, and the relevance as to how any structural and process changes to the procurement function may improve the ultimate efficiency and effectiveness of the function for SMC.

Although the total value of other purchase orders was unavailable, it is likely to be a small proportion of the total procurement volume. In terms of effort and time, however, the procurement of a few pencils and pens through a repetitive competitive process could well be the same as for procuring a more expensive item of equipment or machinery.

The procurement cycle commences with indents, task orders, or requisitions being sent to the procurement department by indenting or requisitioning departments. Procurement is conducted in accordance with a *Procurement Policy Manual* issued on June 19, 2005, and effective as of July 1, 2005. No evidence indicated that this manual has been revised since, although the managing director issued directives from time to time by based on board decisions.

With the exception of task orders, as a rule, other items that are procured are subject to varying degrees of competition depending on the items and value, and also the urgency of the goods or services required.

SMC has a mechanism to enlist suppliers of various categories of goods and services every three years and to call for quotations from these enlisted suppliers when purchases are to be made. This method prevails mostly in the case of routine administrative procurement. Because of the limited time available for the review, and the need to prioritize aspects of the assessment, ascertaining the enlistment process or the degree of use of enlisted suppliers in routine procurement was not possible.

It was noted that a newspaper advertisement had been published on March 18, 2010, seeking enlistment with SMC for the following categories of items—

- General suppliers (gift items, bags, pen, mug, plastic items)
- Computer, computer accessories, and office equipment suppliers
- Vehicle workshop⁵
- Printers (printing, packaging, and corrugation)

The procurement manager, Mr. Luthfur Rahman, informed the consultant that the applications were being processed.

The consultant is of the opinion that the registration process should be made more meaningful and extended to raw materials and packaging materials as well. Suggestions are noted under recommendations.

Items such as raw materials, packaging materials, and finished goods required for repackaging are subject to public tender with two to three weeks' notice given for prospective bidders to submit bids. Bids are invited by publishing an advertisement in the newspapers.

If regular monthly board meeting were held, and board papers had been submitted in a timely manner seeking procurement approvals, more than likely a purchase order could be raised on items on indents within three to four months of raising the indent.

A review of a sample of tenders for raw materials and packaging (see annex 2) indicated that although SMC procurement policy processes were followed, the emphasis had been more on compliance with the process than on the best value for money outcome for SMC. Possible corrective measures are covered in some detail under recommendations.

⁵ For identifying workshops for repairing SMC vehicles.

ORS Factory and Central Warehouse Operation at Bhaluka

The comments made here are done with limited knowledge of the ORS factory and central warehouse operation, considering the short time spent at Bhaluka on June 25, 2010.

- The central warehousing operation is responsible for some production activity (repackaging contraceptives and safe delivery kits imported in bulk to the retail packs marketed by SMC), storage of finished products (both repackaged and manufactured items), as well as storage of packaging materials required for the repackaging operation.
- The ORS factory is responsible for all manufacturing activity of SMC (ORS and MoniMix) and for storage of packaging materials required by the factory.
- The raw materials warehouse of the ORS factory is air conditioned, well arranged, and well maintained. It is understood that it holds approximately one months' stock of some of the more bulky raw materials (for example, dextrose) and more of less bulky items. A factory expansion is planned, and along with it, an expansion of the raw materials warehouse.
- The ORS factory operations have been moved to another warehouse adjoining the central warehouse (same building, but separate section) that stores finished products in quarantine until batch quality testing has been completed and stores packaging materials required for the factory. This warehouse is as large or larger than the raw materials warehouse.
- The central warehouse is large, and a substantial area is underused because it has not been fully equipped with racking and shelving. The underused area appeared to be greater than the used area, with only the floor area was being used and not the cubic area of the store. It is understood that budgetary approval has been obtained to install racking and shelving and to procure more pallets.
- The central warehouse stores all finished products and packaging materials for the repackaging operation, which is also a production exercise managed by the central warehouse.
- The materials management function has some elements that are applicable for the factory as well as the repackaging operation; for example, issuing the monthly pipeline report that provides inventory information relating to all finished products. However, the extent of "management" done by the materials manager regarding the inputs required for production activities is not clear except in respect to repackaging items. The factory operation appears to be responsible for the materials management functions relating to inputs for what is produced in the factory.
- Opportunities exist for structural and process adjustments at Bhaluka that will benefit SMC that are outlined in the recommendations.
- The ORS factory raised indents for 12 months' stock of raw materials. For some items such as dextrose and trisodium citrate, up to 17 deliveries had been specified over the 12-month planning period, whereas other items had anything from 4 to 14 deliveries.

- The ORS factory and the central warehouse had a 6-month planning period for packaging materials required by the ORS factory and the central warehouse, and a 12-month planning period for raw materials.
- Their delivery schedules ranged from 2 deliveries to 17 deliveries. With respect to condoms required by the central warehouse for the 6-month period, delivery requirements ranged from one to eight deliveries.
- The ORS factory carried only about a month's stock of raw materials and packaging in the raw materials store, while the central warehouse carried about two to three months' stock of packaging materials and about a month's stock of condoms in bulk for repackaging.
- The primary reason attributed for this low stock level and multiple delivery requirement was the lack of warehousing space. However, the central warehouse has a large area, 30 feet in height, not yet equipped with racking and shelving. Md Mahbubur Rahman, Manager, Materials Management, confirmed that the board of directors had approved funding for the required racking and shelving as well as pallets and that indents will be raised soon to procure these. In the context where most of these items have to be imported and at times transshipped through two or more ports, and items such as packaging materials, although procured locally, also depending on imports rather than local manufacture, the staggered delivery requirements and low production stock levels place a significant risk on timely production and repackaging of items required for sale, and consequently to meet SMC's revenue targets.

Raising of Task Orders by the Marketing and Research Departments

Raising of task orders by the procurement department was purely an administrative function, and no value was added to the process by the Procurement Department. These task orders were raised for promotional and advertising expenditure or for research-oriented contracts, where the actual procurement aspect was handled by the respective departments, marketing and research. In the case of advertising and promotion work, appropriately qualified companies undertook the procurement aspect by calling for quotations from service providers for promotional work, such as radio programs, TV spots and programs, or print media promotion. Procurement aspects relating to procurement of promotional goods (complementary gifts such as ceramic mugs) is also understood to be handled by these companies.

Although this activity could not be looked into in detail, the marketing department has an advertising and promotion budget projection of BDT 160 million in 2011, BDT 168 million in 2012, BDT 176.4 million in 2013, BDT 185.22 million in 2014, and BDT 194.48 million in 2015. These figures represent approximately 8 to 10 percent of the forecast annual sales revenue. In the current financial year, approximately 13 percent of the total value of procurement instruments⁶ raised by SMC were for task orders, some of which were for marketing and promotion work.

⁶ See second paragraph in Procurement Cycle Management section of this report.

The Marketing Department selects suitably qualified and experienced advertising companies by way of a competitive process for each product range that is marketed by SMC. These companies then are responsible for hiring professional companies or individuals for carrying out different marketing and promotional campaigns for each product range (including the procurement of promotional goods) in consultation with the marketing manager and others at SMC.

The advertising companies operate on an agreed fee for services. The selection of such professional companies or individuals is also done through some type of competitive process although there was no opportunity at the time to explore these in any depth.

SMC did not appear to have a major input or a say in how the selections were made, besides taking comfort in the fact that most professional players with some competence in the advertising and promotional field are generally known, because Dhaka/Bangladesh had had a niche market for such activity among competent professionals. SMC made the final decision as to who would be given a particular advertising or promotional contract based on recommendations made by the advertising companies.

An organization like SMC needs to be very market oriented because it could lose market share, therefore its revenue, to other organizations if this does not happen. In this context, it is prudent to permit a degree of independence to the marketing function because its processes or outcomes are not measurable in ways one would measure more tangible outcomes in supply chain management. Strict procurement principles are difficult to be applied for expenditure related to some aspects of marketing and promotional work, especially when it comes to selecting various service providers.

This, however, should not exclude strengthening accountability processes and introducing some structural reforms in the procurement process to prevent real or perceived notions of inadequateness in this regard. A possible way to improve the accountability process as well as ensuring compliance with fundamentals of service procurement is proposed in the Recommendations section.

Analysis of a Random Sample of Bids

An analysis of a random sample of 13 bids (see annex 2) was conducted by the consultant, who made the following observations.

- In a general sense, the competition SMC has attracted for its major procurement items is low although public tenders were invited. This cannot be for lack of interest on the part of possible bidders because the amount of money spent collectively for these items is in the range of USD 17 million per annum. Possibly, either adequate publicity has not been given (advertising is understood to be only in local newspapers) or adequate research has not been done to attract more bidders. For example, for male condoms, only nine bidders made submissions while potentially another 25 bids may have been possible had the 25 prequalified suppliers of the United Nations Population Fund (UNFPA) been invited to submit bids. In almost all cases, bids appeared to have been awarded to existing sources, which were the only acceptable bidders in the bidding process.
- The assessment shows that price fluctuations for raw materials are real, and some new entrants to SMC tenders have quoted substantially lower prices than existing suppliers. SMC has commenced a process to test some of these suppliers by giving them trial

orders, which is good procurement practice. However, considering the amount of money spent on some of the raw materials and the importance of production cost containment or reductions for SMC, the company does not appear to have taken a proactive approach to researching likely suppliers of some of these raw materials. Instead, SMC has relied on public tendering (with limited exposure, as stated earlier) to attract lower prices. Perhaps a public sector attitude, rather than a private sector enterprising attitude toward actively seeking greater competition, may be contributing to SMC resigning itself to a reactive way of undertaking procurement.

- The price increases of some of the inputs for production, although not excessive in most cases, are still high, and in the absence of a cost-monitoring mechanism, the impact of these increases on the net revenue of SMC from sales of finished products could not be ascertained.
- In regard to packing materials for the repackaging operation, one company that had not submitted any samples had been visited by an inspection team, although some others who had submitted samples had not been visited. An inspection template was not available. The reason for not visiting certain suppliers who had submitted samples was not clear; possibly they had been inspected during the enlistment process. Although samples were required only from suppliers of packing materials (in A4 size), this requirement was not very clearly stated in the bid documents. Some bids may have been rejected on the basis of samples not being provided.

RECOMMENDATIONS

Social marketing can be done by an institution that is focused only on creating behavioral trends while leaving the supply side of the equation—that is, supplying the demand that arises as a consequence of social marketing—to be managed by other organizations. SMC of Bangladesh has been created to do both. SMC's business activity revolves around selling various products at different prices to varied segments of society, and this sales activity is an outcome of SMC's marketing and promotion work. SMC either has to manufacture or import in finished form products to meet the supply side of its mandate. SMC's core business therefore can be regarded as twofold. First, in terms of the demand side, it may be stated as influencing behavioral trends through marketing and promotion. Second, in terms of the supply side, it may be stated as increasing net revenue through increasing sales and lowering costs. To achieve the objective of lowering costs requires commercial thinking and a focus on supply chain management, including better procurement and more effective warehousing.

Recommendations are therefore made in the context of SMC developing some aspects of a commercial manufacturing organization while meeting its social marketing obligations. Its focus also should include an awareness of becoming a 100 percent self-sustained organization that has no dependence on donations to generate revenue. Its existence will therefore depend on generating net revenue from the sales of manufactured or repackaged products. Considering that the selling prices of items sold by SMC do not vary in the short to medium term, the following variables that are within SMC's control: (a) revenue—by increasing sales volumes, and (b) cost reduction—by improving procurement and materials management, and by creating an efficient and cost-effective administrative structure. Although some of the SMC processes, such as the routing process for decision making, are laudable, one must ask whether it serves SMC to be a more efficient and effective social marketing organization that has recognized the need for adopting at least some aspects of a commercial manufacturing organization, if for no other reason than for its survival as a social marketing organization.

Recommendations are considered within this context and from the perspective of supply chain management; hence, they extend beyond the immediate purview of procurement to areas such as production and warehousing.

Organization and Management

The following recommendations are made.

1. *SMC should prepare a five-year corporate plan with annualized sales, revenue, and raw materials and repackaging material projections.* Such an exercise would permit the organization to focus on its core activities with a long-term view of the procurement function, in particular, to undertake ongoing procurement research to explore avenues for procuring raw materials and repackaging items at lower prices from reliable suppliers of quality materials.
2. *SMC's finance function should produce periodic reports indicating the effect of variations in sales and cost of materials on net revenue from each product sold by SMC.* These reports would assist management to focus on the contribution made to the net revenue of SMC by each product that it sells and the impact of variations in

sales and cost of materials on the net revenue. The primary objective of strategic procurement should be to contain or reduce the cost of materials that are required for a product line, and the objective of sales should be to achieve forecast sales targets.

Procurement

As stated earlier, the procurement activity at present does not have an adequate focus on core business. By handling all procurements for the organization, from pens and pencils to raw materials, machinery, and equipment, its attention has been spread equally over what might be termed “core” business and “noncore” business. The core business, and therefore the focus of the procurement department, should be the procurement of materials of assured quality required by the manufacturing operation in a timely manner and at the least cost. All other procurement activity that is being carried out currently by the procurement department, although important for the organization, may be referred to as “noncore” procurement.

The following recommendations are made.

1. *Review the organizational structure for procurement.*
 - a. Option 1
 - i. Create a Strategic Procurement Department reporting to the General Manager–Factory, which will handle only procurement of items required by the manufacturing operations of SMC, currently centralized at Bhaluka.
 - ii. Create an Administrative Procurement Department reporting to the General Manager, Administration, which will handle all other procurement requirements of SMC.
 - b. Option 2
 - i. Create two distinct divisions within one procurement department, one called the Strategic Procurement Division, which will handle only procurement of items required by the manufacturing operations of SMC, currently centralized at Bhaluka, and the other called the Administrative Procurement Division to handle all other procurements.
 - ii. Each division will be managed by a Divisional Procurement Manager, who will report to a Senior Procurement Manager.
 - iii. The Senior Procurement Manager will report to the General Manager, Administration.
2. *Form an SMC Procurement Committee.* The Procurement Committee will be composed of the managing director; general managers of the factory, administration, and sales and marketing departments; and the chief financial officer. It will function as a senior management committee to oversee the activities of the two procurement departments, which will make decisions and recommendations (to the board) in regard to procurement beyond a predetermined financial delegation. It is suggested that the delegation given to this committee be set at BDT 100 lacs. This committee should also prepare a five-year strategic procurement plan and annual procurement plans. The general manager, administration, should function as the secretary and convener of this committee. There will be no routing mechanism regarding matters placed before this committee.

Approval of minor purchases within the levels of delegations given to senior managers should continue without being referred to the procurement committee. The purpose of the committee is to make decisions on purchases above such delegations.

3. *Revise the SMC Procurement Policy Manual.* In view of the numerous recommendations being made, and the fact that the manual has not been substantively revised since its issuance on the July 1, 2005, it is suggested that the Strengthening Pharmaceutical Systems (SPS) program extend its assistance to SMC to implement recommendations that have been made, and as part of that support, assist in revising the manual.
4. *Use purchase orders for service procurement.*
 - a. The practice of raising different procurement instruments such as task orders should cease, and SMC should use only purchase orders for any type of goods or services required as the only valid contractual document between the purchaser (SMC) and the supplier of goods or services. A specific task order detailing the nature of a service required by an individual department within SMC may be attached and referred to in the purchase order.
 - b. For the procurement of services, including current task orders that are raised by the Procurement Department for the Marketing and Research Departments, a staff member from the department concerned as well as the Procurement Department should be jointly engaged in the procurement process from the beginning, rather than using the Procurement Department to perform a purely administrative function. The responsibility of the representative from the Procurement Department should be to ensure that procurement fundamentals are adhered to during any service procurement process in accordance with policies contained in the SMC procurement manual.
 - c. The procurement of material items (promotional items) required by departments such as marketing should be carried out by the Procurement Department in accordance with procurement principles of competition and transparency. This implies that the specification of what might be required should be provided to the Procurement Department by the marketing (or any other) department, and then the Procurement Department should process that request. Purchase orders instead of task orders should be raised for such items.
5. *Broaden competition.* Findings outlined earlier in this assessment indicate that inadequate attention is given to exploration of avenues to broaden competition and thereby lower the cost of core production and repackaging materials procured by SMC at a cost totaling approximately USD 17 million per annum. Following are suggestions to help broaden competition in procurement—
 - a. Conduct market research to determine the characteristics of the market for manufacturers of raw materials and packaging materials required by SMC and how they could be attracted to participate in SMC tenders. Making use of processes already undertaken by international agencies such as the UNFPA, the International Planned Parenthood Federation (IPPF), WHO to prequalify suppliers, and using relevant suppliers already prequalified by these agencies should be a focus of SMC procurement. There was little evidence that the easiest of research tools, the Internet, had been used to do such research. Undertaking market research should be one of the key functions of the proposed Strategic

Procurement Manager, and this should be included as an essential item in the job description of this officer.

- b. Improve the registration of suppliers or enlistment of suppliers. SMC should make a greater effort to improve the suppliers' enlistment process. A separate prequalification process to register suppliers for raw materials and repackaging materials should be undertaken. Wherever international organizations such as the UNFPA, WHO, or the IPPF have undertaken a similar prequalification process for some products, SMC should consider them as prequalified for itself as well. This step would automatically increase the database of suppliers. It is understood that some products would need to be registered with the Drug Authority of Bangladesh. In such instances, companies that are drawn from a list of prequalified suppliers for any international organization should be requested to undertake the registration process as required by the government of Bangladesh. A prequalification process is no different to a bid invitation; the only difference is that quantities of an item SMC intends procuring are not given, and prospective bidders are asked to apply for registration for supply of that product only. A prequalification could be for two to three years, but with yearly renewals. A copy of a prequalification template is attached to this report as annex 4. SMC could consider using it with any adjustments considered necessary.
6. *Provide greater clarity about sample submission requirements for tenders.* It is also suggested that this be undertaken well before the actual calling of bids, as an Expression of Interest (EOI) from prospective bidders. Often, suppliers find complying with sample submissions difficult at short notice.

Factory Operations at Bhaluka

The following recommendations are made to improve the operations.

1. *Consolidate manufacturing and repackaging operations.* SMC should consider both the manufacturing and repackaging activity as one production operation and undertake reorganization to reflect the operational seamlessness as a manufacturing entity. The reorganization should reflect the following three key areas of operations.
 - Production: This area includes manufacture of ORS and Monimix, and all repackaging activity.
 - Warehousing and materials management: This area includes responsibility for managing all warehousing activity, materials management, and inventory control management for the entire production operation.
 - Quality control: This area includes quality assurance responsibility for the entire production operation.

The organization chart in figure 1 reflects this thinking.

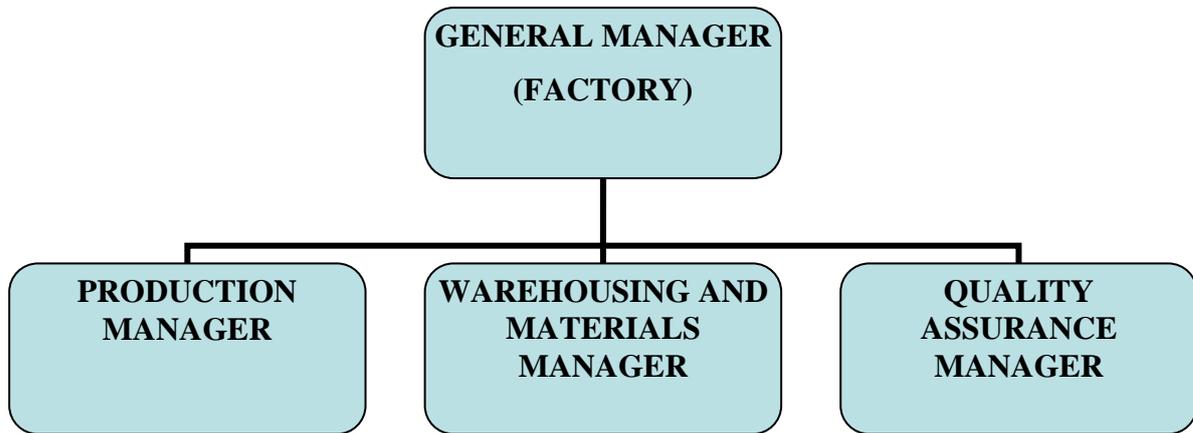


Figure 1. Suggested reorganization of SMC of Bangladesh

The suggested reorganization would allow other efficiencies to be gained, especially in the domain of warehousing. For example, single management of the warehousing operation would make better use of available space possible. Expeditious action to fit the underused area in the central warehouse with racks and shelves, making maximum use of the height of the building, will provide nearly 100 percent more storage space within the central warehouse, which will allow storage of packaging materials required for all production items (including repackaging items) within the central warehouse. This will free the storage area currently occupied by the factory operation to store its packaging materials and make that area a storage area for raw materials.

This area is either the same size or even bigger than the current raw materials store, and by air conditioning it to meet required regulations, the storage capacity for raw materials could be doubled, immediately increasing stockholding to an average of two to three months' stock.

Besides mitigating the risk of production not being able to meet the sales forecast and revenue projections because of a shortage of raw materials, in terms of increasing procurement planning and work load efficiency, the ability to store more raw materials will help in reducing the current number of deliveries specified when procuring these items.

2. *Consolidate materials and inventory management function.* By consolidating the materials management and inventory control functions for the entire production operation, efficiencies will be gained for the overall production operation in the factory. By placing the entire warehousing operation under the materials management function, more efficient inventory control will be possible.
 - a. By instituting closer links between the two functions.
 - b. Through better use of store space.
 - c. Through more efficient and effective delivery planning like having yearly or half-yearly delivery of items of small volume and value, and a greater number of deliveries of higher volume and value items.
 - d. By exploring opportunities for vendor managed inventory (VMI), especially for locally procured items such as packing materials where the vendor is given the responsibility of managing storage of SMC stock as part of the procurement

agreement, and delivering in installments as required by SMC. The VMI concept is being increasingly adopted to free buyers' warehouse and shift the responsibility of storing buyers' goods to suppliers of those goods, depending on market conditions prevailing in different countries and for different items. At SMC, if this concept is to be considered, it should be made clear to suppliers when they are asked to submit bids for items under consideration for VMI.

- e. Because only one production planning operation and one materials management function will exist at Bhaluka, these two functions will be able to work closely and ensure the timely flow of inputs that are needed to manufacture or repackage the range of items that are sold by SMC.

Staffing

The following recommendations are made.

1. If SMC selects Option 1 in relation to reorganization of procurement operations, one additional procurement manager will be required to manage administrative procurement, assuming that the current procurement manager is assigned the task of doing strategic procurement. The position of administrative procurement manager will have substantial responsibility attached to it considering the volume of work involved.
2. If Option 2 is selected, a senior procurement manager and two procurement managers, one for Strategic Procurement and another for Administrative Procurement, will need to be recruited. Although three positions are mentioned, if the incumbent procurement manager is considered for one of these positions, only two officers will have to be recruited. Considering the importance of the procurement function for achieving the core objectives of SMC, the criticality of SMC investing in two additional competent procurement professionals cannot be understated.
3. Two staff members will be required to assist each procurement manager—strategic procurement and administrative procurement, which can be managed with available staff. If Option 2 is selected, the senior procurement manager will not require additional staff.
4. Two staff members are required to assist this position, and it is understood that these staff members are currently available.
5. No additional staff positions are suggested although existing funded positions, if they are currently vacant, should be filled once the recommendations in this report are accepted for implementation.

Beyond what has been mentioned, this report cannot comment in detail about staffing because doing so would have to be preceded by a detailed work study exercise and a capacity gap analysis to ascertain staffing needs.

Coordination with DGFP

The DGFP is understood to be setting up a Forecasting Working Group to discuss and finalize forecast requirements of reproductive health commodities for the public sector to which SMC will be invited to send a representative.

Because it has been proposed here that the responsibility for finalizing the strategic plan and annual activity plan within SMC should be with the proposed procurement committee, this committee should nominate a senior manager to represent the SMC in the DGFP Forecasting Working Group. Such participation will introduce a formal mechanism for SMC and the DGFP to exchange information on public and private sector demand estimates and would lead to closer interaction on supply chain management issues that affect each other.

CONCLUSION

SMC has been supported by in various ways by the U.S. Agency for International Development (USAID) for a considerable time, and at present SMC is passing through a transition phase arising from a planned and agreed withdrawal of much of that support. SMC is nearly on its way to becoming a self-sustaining organization. However, what is not very clear at this stage is whether it has changed its mindset to that of a self-sustaining organization. A strategic approach to planning, a focus on sales and revenue supported by well-thought-out marketing campaigns, and a keen eye toward lowering cost of production, including cost of raw materials are all hallmarks of a not-for-profit social marketing enterprise with a commercial orientation, which is what SMC is.

A strategic action plan with annualized sales and revenue projections and production inputs are essential elements of such a plan. As mentioned, the role of the financial operation within SMC will have to be enhanced because it needs to assist management to chart the course for SMC to run as a sustainable organization. Considering SMC's selling prices are not variable in the short to medium term, and therefore revenue cannot be increased or the contribution to net revenue cannot be increased by increasing selling prices, SMC has two choices. To achieve sales and revenue targets, but more important, to meet net revenue targets, SMC either has to sell more or has to contain or reduce the cost of production. In this context, the role played by the procurement function assumes great importance for SMC.

Procurement needs to be strategic and needs to undertake far more procurement research if it is to provide an effective service to SMC. More time has to be spent on trying to find ways and means of attracting greater competition, so that SMC can procure the inputs for production at lower prices. SMC will also have to consider strategic procurement options such as long-term agreements with some suppliers of raw materials suppliers and repackaging material so that a competitive price obtained can be maintained for some time, giving SMC some certainty in regard to keeping its cost of production static over that period. In other words, SMC should be more innovative and not be bound by rules that are more public sector oriented, where options are limited.

It is hoped that the recommendations made here will assist SMC to do better procurement and better supply chain management by reducing the number of deliveries, exploring possibilities for VMI, and more effectively managing materials through changes to delivery planning. It is also hoped that the factory and warehouse restructuring and reengineering suggested will immediately add to the available warehouse space, providing opportunities to double the stock levels of raw materials, giving a greater degree of certainty to the production operation for ensuring a continuous flow of products.

ANNEX 1: SCOPE OF WORK

Review of Procurement Management Capacity of the Social Marketing Company, Bangladesh

Background

USAID/Bangladesh has requested the Strengthening Pharmaceutical Systems program of Management Sciences for Health to provide technical support to the Directorate General of Family Planning of the Ministry of Health and Family Welfare for procurement of contraceptives and other essential reproductive health commodities. Under the Health, Nutrition and Population Sector Programme, the DGFP is responsible for preparing the procurement plan, writing bidding documents, conducting bid evaluations, tracking procurement, and ultimately ensuring the distribution of procured products to service delivery points throughout the country.

Over the years, the DGFP has received technical support and training on procurement from other USAID-funded agencies. However, problems in the procurement process exist, and stock-outs of contraceptives and other key commodities have become regular occurrences. Although many documents that describe the problems plaguing the system have been written, few describe the root causes of these problems. Furthermore, it is not clear why the recommendations provided in many of these documents have yet to be implemented. The objective of this consultancy is to identify the strengths, weaknesses, opportunities, and threats of the current procurement management system and to propose viable recommendations for its improvement.

A review of the procurement capacity of DGFP was carried out and a report issued with several recommendations contained therein. One of the findings was the lack of a holistic national approach to forecasting and quantifying reproductive health commodities, and more widely, in the supply chain management activities; and the lack of involvement of the private sector in such processes. In particular, it was noted that SMC, the agency with the largest stake in the private sector for some reproductive health commodities, was not adequately associated with the DGFP in the planning process for forecasting and supply chain management.

During subsequent discussions with the USAID and SPS, SMC has also expressed a strong desire to be associated more in a national effort to ensure reproductive health security. Considering the interdependencies of the supply chain at various points, SMC has expressed a wish for an independent consultant to examine the policies, procedures, structure, and functioning of the procurement function within the broader ambit of supply chain management at SMC. As a consequence of the discussions, MSH/SPS agreed to assign an international consultant to conduct the assessment in June 2010.

Scope of Work for Consultant

Conduct a review of the current procurement capacity and supply chain management structure of SMC for reproductive health commodities. Within the context and ambit of procurement and supply chain management, this review should include the following areas: procurement cycle management, organization and functions, support and control systems,

record keeping, staffing, general procurement environment, administrative, and financial risks to the procurement process, and its supply chain management structure.

Consultant should produce a report on his findings along with recommendations that SMC could consider for implementation.

ANNEX 2: BID INFORMATION FOR RAW AND PACKAGING MATERIALS

Note: Information tabulated below is not an audit of the bidding process or the outcomes, purely a quick assessment for the benefit of SMC.

| No. | Item | Number of Bids | Number of Acceptable Bids | Price Increase over Previous Tender | Comments |
|-----|----------------------------|----------------|---------------------------|-------------------------------------|--|
| 1 | Dextrose BP | 5 | 1 | 2.97% | Existing source. Price negotiated at USD 958 per metric ton (PMT). Alternate trial order price is USD 643 PMT. |
| 2 | Potassium chloride | 6 | 1 | 2.07% | Existing source. SMC Quality Assurance (QA) Department had stated that one supplier may be considered after settlement of trial order that had black particles. Noted that price quoted is USD 849 PMT while existing source is USD 1748 PMT. QA had also stated that another company may be considered once it produces a validation certificate. Alternate trial order price is USD 849 from supplier A and USD 896 from supplier B. |
| 3 | Sodium chloride | 7 | 1 | | Existing source. QA comment: One company had not provided a validation certificate. |
| 4 | Trisodium citrate | 6 | 1 | 11.65% | Existing source. QA comment: Another company who bid for the tender may be considered for trial order subject to providing certificate and confirmation of year of BP standard offered. Noted that price quoted is USD 896 PMT while existing source is USD 1350 PMT. |
| 5 | Aluminium foil, ORSaline-N | 5 | 1 | 5.98% | |
| 6 | Aluminium foil, Fruity | 4 | 2 | 4.25% | |
| 7 | Sucrose BP | 1 | 1 | 5.15% | Existing source. Noted that current supplier has requested price increase from USD 645/= to USD 1020/= |
| 8 | Fruuctose | 1 | 1 | | Existing source. |
| 9 | Femipil | | | | Noted board had approved procurement of 15 million pills from 2008/09 supplier from same company at same price USD 0.125/cycle. |
| 10 | Progestin-only pill | 1 | 1 | | Existing source. |
| 11 | 50 million Hero condoms | 9 | | | Note: UNFPA has 25 prequalified manufacturers for male condoms. SMC would benefit by inviting bids from these prequalified suppliers who have gone through a rigorous prequalification process. |

| No. | Item | Number of Bids | Number of Acceptable Bids | Price Increase over Previous Tender | Comments |
|------------|---|-----------------------|----------------------------------|--|--|
| 12 | Packaging (ORS) | 18 | | | |
| | ORSaline-N dispenser | 9 | 5 | | |
| | ORSaline-Fruity (mango) | 8 | 6 | | |
| | ORSaline-Fruity (orange) | 8 | 6 | | |
| | ORSaline-N shipping carton | 7 | 4 | | |
| | ORSaline-Fruity (mango) shipping carton | 6 | 4 | | |
| | ORSaline-Fruity (orange) shipping carton | 6 | 4 | | |
| 13 | Packing materials for repackaging operation | 14 | | | Noted price increases/decreases between -12.05% and +20.77%. A comment has been made that the price increase of 20.77% (for Hero 3's inserts) may be due to quantity reduction from 1.7 million to 138,500. Otherwise the maximum price increase is 11.11%. Notes: received as a consequence of this possible misunderstanding. |
| | Pack | | 5 | | |
| | Dispenser | | 7 | | |
| | Insert | | 9 | | |
| | SDK booklet | | 4 | | |
| | Shipping carton | | 4 | | |
| | Sticker | | 5 | | |

ANNEX 3: STATUS OF UNFPA 2010 CONDOM PREQUALIFICATION

| Factory | Country | Qualified |
|--|----------------|------------------|
| Beiersdorf Medical Latex (DUA) | Malaysia | Yes |
| CPR Produktions und Vertriebs GmbH | Germany | Yes |
| CUPID Limited | India | Yes |
| Dongkuk Vietnam | Vietnam | Yes |
| Guangzhou Double-One Latex Factory | China | Yes |
| Guilin Latex Factory | China | Yes |
| HLL Lifecare Limited – Peroorkada Factory | India | Yes |
| INAL | Brazil | Yes |
| Innolatex | Malaysia | Yes |
| Indus Medicare | India | Yes |
| Karex | Malaysia | Yes |
| Polar Pharma Ltd | India | Yes |
| Qingdao Double Butterfly Group | China | Yes |
| Suretex Ansell | Thailand | Yes |
| Suretex Prophylactics Ltd. | India | Yes |
| Suzhou Colour-way Enterprise Development Co. Ltd | China | Yes |
| Thai Nippon | Thailand | Yes |
| Tianjin Human Care Latex Corporation | China | Yes |
| TTKLIG Puducherry | India | Yes |
| TTKLIG Virudhunagar | India | Yes |
| TTKLIG Pallavaram | India | Yes |
| UNIDUS China | China | Yes |
| UNIDUS Korea | Korea | Yes |

ANNEX 4: SAMPLE SUPPLIER REGISTRATION FORM

Section 1: Company Details and General Information

| | | | |
|--|--------------|------------|----------|
| 1. Name of Firm: | | | |
| 2. Street Address: | Postal Code: | City: | Country: |
| 3. P.O. Box and Mailing Address: | | | |
| 4. Telephone Number: | | | |
| 5. Fax Number: | | | |
| 6. E-mail Address: | | | |
| 7. WWW Address: | | | |
| 8a. Contact Name: | | | |
| 8b. Contact Title: | | | |
| 9. Parent Company, if Any (Full Legal Name): | | | |
| 10. Subsidiaries, Associates, and/or Overseas Representative(s), if Any: | | | |
| | | | |
| 11. Nationality of the Firm: | | | |
| 12. Type of Business: | | | |
| 12a. If Other, specify: | | | |
| 13. Nature of Business: | | | |
| 14. Year Established: | | | |
| 15. Key Personnel: [include name of candidate, position, professional qualifications, and experience] | | | |
| Technical | Production | Management | |
| 16. Dates, Numbers, and Expiration Dates of Current Licenses and Permits: | | | |
| | | | |
| 17. Current health authority registration information: | | | |
| | | | |
| 18. Proof of product and facility registrations with purchaser's country regulatory authority and international agencies (e.g., WHO Certification Scheme, GMP) | | | |
| | | | |
| 19. Name of government agency(ies) responsible for inspecting and licensing of facilities in the country of origin of the raw material and or processing of the goods: | | | |
| | | | |
| Date of last inspection: | | | |
| | | | |
| 20. Quality Assurance Certification (Please include a copy of your latest certificate with the PQ application): | | | |
| | | | |
| 21. Production capacity: <i>[insert peak and average production capacity over the last three years in units/day or units/month, etc.]</i> | | | |
| | | | |
| 22. List of names and addresses of sources of raw material: | | | |
| | | | |

| |
|---|
| 23. Raw materials tested prior to use: |
| 24. Presence and characteristics of in-house quality control laboratory: |
| 25. Names and addresses of external quality control laboratories used: |
| 26. Are all finished products tested and released by quality control prior to release for sale? <input type="checkbox"/> Yes <input type="checkbox"/> No If not, why? |
| 27. Control tests done during production? If so list. |
| 28. Procedures for dealing with rejected batches: |
| 29. List tests conducted after production and prior to release of product on market: |
| 30. List product recalls linked to defects during the last 36 months. Include reason and date of recall. |
| 31. Are technical documents available in English? <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 32. Working languages of bid and contract is English? |

Section 2: Financial Information

| | |
|---|-------------------|
| 33/34. Annual Sales Value for the last 3 years: | |
| Year | Total Sales (USD) |
| | |
| | |
| 35. VAT No./Tax I.D.: | |
| 36. Social Security Number: | |
| 37a. Bank Name: | |
| 37b. Swift/BIC Address: | |
| 37c. Bank Address: | |
| 37a. Bank Account Number: | |
| 37b. Account Name: | |
| 38. Please mail a copy of the company's Annual or Audited Financial Report of the last three years. | |

Section 3: Current Contract Commitments/Contracts in Progress

| |
|---|
| 39. Name of Contract(s) |
| 40. Purchaser Contact Information <i>[insert address, telephone, fax, e-mail address]</i> |
| 41. Value of outstanding contracts <i>[current US\$ equivalent]</i> |
| 42. Estimated delivery date |
| 43. Average monthly invoices over the last six months (US\$/mo.) |

Section 4: Experience

| 44. Contracts over <i>[insert amount]</i> during the last three years: | | | | |
|--|-------|------|-------------------------|------------------------|
| Purchaser | Value | Year | Goods/Services Supplied | Country of Destination |
| | | | | |
| | | | | |
| | | | | |

Section 5: Other

| 45. Please list any disputes your company has been involved in over the last 3 years: | | | |
|---|--------------------------------|--|--|
| Year | Award FOR or AGAINST applicant | Name of client, cause of litigation, and matter in dispute | Dispute amount (current value, USD equivalent) |
| | | | |
| | | | |

46. We hereby certify that the information provided in this form is correct, and in the event of changes, details will be provided as soon as possible.

Signed: _____

Date: _____

in the capacity of: *[insert title or other appropriate designation]*

