

Specification and Incoterms

Specification Preparation

- In a procurement context, a specification can be defined as a statement of needs.
- It defines what the procurer wants to buy and, consequently, what the supplier is required to provide.
- Specifications can be simple or complex depending on the need.
- The success of the procurement activity relies on the specification being a true and accurate statement of the buyer's requirements.
- Apart from being a means of identifying the goods or services required, a specification will form part of any future contract that might result from offers received.
- Specification should state the requirements clearly, concisely and logically in functional and performance terms unless specific technical requirements are needed.

Specification Preparation...

- A specification is statement of needs to be satisfied
- **It defines:**
 - ✓ What the purchaser wishes to buy
 - ✓ What the supplier is expected to supply

Specifications have two basic functions:

- 1) **Communicate:** When prepared by the purchaser, specifications inform the supplier what is required. When prepared by the supplier they provide a prospective purchaser with a description of the attributes of a product.
- 2) **Compare :** Specifications also provide criteria against which the products and services supplied or available can be compared.

Specification Preparation...

There are basically 3 types of specifications:

1) Functional Specifications :

- These are specifications that define the function, duty or role of the goods or services.
- It nominates what the goods or services are broadly required to do.
- Functional specifications define the task or desired result by focusing on what is to be achieved rather than how it is to be done.
- They do not describe the method of achieving the intended result.
- This enables suppliers to provide solutions to defined problems.

Specification Preparation...

1) Functional Specifications :

Example

“An accessible device capable of conveying children from their school to their homes”

- It does not limit responses to bus operators alone.
- It allows different options for mode of transport.
- It allows innovations.

Specification Preparation...

2) Performance Specifications :

- These are specifications that define the purpose of the goods or services in terms of how effectively it will perform, that is, in capability or performance terms.
- Performance is a logical extension of function.
- Performance specifications define the task or desired result by focusing on what is to be achieved.
- They do not describe the method of achieving the desired result.
- This enables suppliers to provide solutions to defined problems.
- Tests or criteria are developed to measure a product's ability to perform and to last, as required.

Specification Preparation...

2) Performance Specifications :

Example

“An accessible device is required to convey at least 30 children every afternoon of the school week from their school in a safe manner to their homes within a radius of the school of 15 KM. The device shall be capable of achieving this within 1 hour. The device shall be capable of maintaining a comfortable environment for the children at an average temperature of 22 degrees Celsius in all types of weather. The device should allow equitable access by all children”.

- Such a specification does not limit offers to one type of transportation or one type of user.

Specification Preparation...

3) **Technical Specifications :**

- These are specifications that define the technical and physical characteristics and/or measurements of a product, such as physical aspects (for example, dimensions, color, surface finish), design details, material properties, energy requirements, processes, maintenance requirements and operational requirements.
- They are used when functional and performance characteristics are insufficient to define the requirement.
- Drawings can be used in a specification as technical characteristics or to provide guidance to suppliers.

4) **Combination :**

- All three types may be combined to form the one specification.

Specification Preparation...

Which type of specification is preferred?

- Generally it is encouraged to the use of performance and functional specifications rather than technical specifications because:
 - ✓ Suppliers can offer alternative and innovative ideas and solutions.
 - ✓ Suppliers can focus on providing the best solution.
 - ✓ The focus on outcomes should result in better value for money.
- However certain requirements may not be adequately defined in these terms alone.
- Technical characteristics may be needed to define some requirements more clearly mostly in construction.

Specification Preparation...

- A simple description may be issued in a number of ways such as:

Exemplar Specification

- This gives an example of a known product or service which would be appropriate and allows for alternatives by including the words “or equivalent” or “or similar”.
- It may be necessary to specify items when the equipment is genuinely necessary and does not reflect a bias towards particular items or suppliers.

Samples

- For some products it may be necessary to supply an actual example of the item required by the buyer department to the supplier.

Specification Preparation...

Samples...

- Suppliers must produce goods that are identical in all respects to the sample.
- Samples should only be used in appropriate circumstances with a complementary specification.
- Instances where samples may be used to specify requirements include clothing, footwear, Government badges etc.

Drawings

- Drawings can be used in a specification as technical characteristics or to provide guidance to suppliers.
- Examples include site drawings, custom-made furniture for fit outs, system drawings and schematics.

Specification Preparation...

To be considered:

- A specification should be sufficiently detailed so that the product or service will fit the users requirements.
- It should not be so explicit that it prevents negotiation or discourages buyers or suppliers from using their expertise to propose alternative solutions that may offer better value for money.
- Preparation of a specification should involve close communication between the user and the Procurement and Supply Chain Manager and, if required, assistance from technical experts.
- Involvement of potential suppliers may also be helpful in developing a specification.

Specification Preparation...

- If supplier input is required it must not result in adoption of a specification that favors one particular supplier .
- **When preparing a specification the following should be considered:**
 - ✓ Use functional and performance criteria where possible.
 - ✓ Any technical specifications should be defined by reference to any International, National and quality assurance requirements, which are relevant.
 - ✓ References, which have the effect of favoring or eliminating particular suppliers, contractors, products or services, should be avoided.

Specification Preparation...

- ✓ It is not normally permitted to use brand names, sources of supply, trade marks, patent types, origins or other means of production when writing product specifications.
- ✓ In abnormal case when other means are not known, the brand names etc. must be accompanied by the words "or equivalent".
- ✓ Should serve the needs
- ✓ Should not be over specified
- ✓ Should be broad based
- ✓ Preferably standard specification
- ✓ Specification should be the latest

Specification Preparation...

- Don't copy specification from a brochure or catalogue of a specific brand of vehicle or computer or other office equipment. Instead collect such brochures of many brands as possible, prepare comparative table and set own specification
- Avoid too much details; put as minimum feature as possible to just meet your requirement
- Avoid unique and unnecessary feature which may limit competition
- Avoid other detail e.g. quantity, delivery schedule, evaluation criteria etc.
- Specification shall include life cycle costing, reliability, Maintainability, warranty etc.

Specification Preparation...

How to prepare specification ?

- It is essential that specifications are clear and concise and should accurately document a business unit's expectations of a supplier.
- Specification should reflect the needs of customer or user groups.
- The content of specification must :
 - ✓ Not restrict competition;
 - ✓ Not act as a barrier to the introduction of alternative products or new advanced technologies;
 - ✓ Encourage suppliers to offer innovative options or solutions which contribute to the department's ability to carry out its business in a more cost – effective manner and;
 - ✓ Support the standardization and validation of product

Specification Preparation...

How to prepare specification ? ...

- A professional specification should also include :
 - ✓ Clear and concise requirements
 - ✓ Functional and performance terms only, unless specific technical requirements are needed
 - ✓ Enough information to vendors to be able to appropriately determine and cost the goods or services that they will offer, and to what level of quality
- What should not be included in specification?
 - ✓ Conditions of tender;
 - ✓ Conditions of contract;
 - ✓ Questionnaires used by bidders to submit offers;
 - ✓ Aspects which may lead to discrimination directly or indirectly to particular supplier;
 - ✓ Over specified requirements etc.

Specification Preparation...

The importance of a clear specification

- A specification must be clear and accurately define the expectation imposed on the supplier.
- Ambiguity in the specification may result in appropriate or incomplete response from potential suppliers.
- A poor description of requirement may mean that the product or service is not delivered as required.
- Great care and consideration is required when writing the specification.

Before preparation of specification

- It may be necessary to undertake one or more of the following before writing a specification :
- ✓ Consult with the end users of the proposed goods or services to be purchased and ensure that their requirements are incorporated into the specification

Specification Preparation...

Before preparation of specification cont...

- ✓ Research the market, to determine currently available solutions, likely costing and time scales. This can be achieved by making general enquires of suppliers, purchasers or industry associations, or by making formal advertisements of request of information.
- ✓ Determine the scope including the likely demands on a supplier and the range of good or services which will be required and
- ✓ Determine the evaluation criteria so that specification clearly indicates the relative importance of each requirement.

Specification Preparation...

Writing specification

- Developing a specification means close involvement and continuous liaison between users of goods or services and other specialist or expert staff.
- For complex procurement, staged approach to developing and refining the specification should be considered.
- ✓ Specifying the requirement broadly and generally in the first instance in order to ascertain market capabilities and opportunities.
- ✓ As the process moves toward tendering phase, the specification should be more detailed and specific.

Evaluation criteria

- Generally the evaluation criteria my address issues as :
- ✓ Advantage of goods or services being offered;

Specification Preparation...

Evaluation criteria

- ✓ Ability of supplier to meet requirements, including technical and management competence, financial viability, risk and insurance requirements, relevant skills, expert and key personnel;
- ✓ Whole life cycle cost and;
- ✓ Assessment of risks or constraints associated with this offer.

Mandatory and desirable requirements

- The specification must clearly identify whether each requirement is mandatory or desirable.
- Mandatory requirements are typically prefixed with words must or shall

Specification Preparation...

Mandatory and desirable requirements

- Suppliers should not be considered if they have :
 - ✓ Failed to meet a requirement identified in specification as mandatory and;
 - ✓ Failed to demonstrate an alternative means of providing the outputs and outcomes required.

Vetting specification

- It is useful to have the specification to have been vetted by someone other than the author.
- The person vetting the specification should check that the specification :
 - ✓ Is easy to read

Specification Preparation...

Vetting specification cont...

- ✓ Is easy to understand;
- ✓ Is clear;
- ✓ Is consistent with the specifications for the same or similar goods/ or services
- ✓ Has a logical structure; and
- ✓ Contains only essential information.

Approval of specification

After vetting has been completed, the specification should be endorsed by competent authority :

- To certify that the requirement is valid to meet the need;
- To indicate that the requirement is effectively defined;
- To state that the specification is free from bias.

Specification Preparation...

Structure of specification

- Introduction
- Scope
 - ✓ Background
 - ✓ Other documents
 - ✓ Service conditions and environmental factor
- Statement of requirements (Mandatory)
- Technology, systems and management techniques
- Quality requirements
 - ✓ Occupational, health, safety and welfare
- Whole life support
 - ✓ Availability, reliability, maintainability
 - ✓ Service history

Specification Preparation...

Structure of specification cont...

- ✓ Security
- ✓ Training
- ✓ Documentation
- ✓ Transition requirements
- ✓ Implementation timetable
- ✓ Glossary
- ✓ Attachment

Understanding of Incoterms

Incoterms

- The **Incoterms** rules or **International Commercial Terms** are a series of pre-defined commercial terms published by the [International Chamber of Commerce](#) (ICC).
- Widely used in International [commercial transactions](#) or [procurement](#) processes.
- Incoterms are an internationally recognized set of terms that define the responsibilities and obligations of the parties involved in the transport of goods.
- A series of three-letter trade terms related to common contractual sales practices.
- Are intended primarily to clearly communicate the tasks, costs, and risks associated with the international transportation and delivery of goods between the seller to the buyer.
- Incoterms define the respective obligations, costs and risks involved in the delivery of goods.

Incoterms...

- Are accepted by governments, legal authorities, and practitioners worldwide for the interpretation of most commonly used terms in international trade.
- Are intended to reduce or remove altogether uncertainties arising from different interpretation of the rules in different countries.
- As such they are regularly incorporated into sales contracts worldwide.
- First published in 1936, the Incoterms rules have been periodically updated ICC to conform to changing trade practices. Recently Incoterms rules have been revised in 2020.
- "Incoterms" is a registered [trademark](#) of the ICC.

Incoterms...

- **Incoterms rules give the answer of:**
 - ✓ Who is responsible for the cost of transporting the goods, including insurance, taxes and duties ?
 - ✓ Where the goods should be picked up from and transported to ?
 - ✓ Who is responsible for the goods at each step during transportation ?
- Incoterms apply to both national and international sales.
- VAT isn't covered by Incoterms. We need to specify who pays the VAT on both imports and exports.

Incoterms Rules

Two groups of rules:

- Rules for any mode of transport
- Rules for sea and inland waterway transport

Incoterms Rules

Rules for any mode or modes of transport

- EXW | Ex Works
- FCA | Free Carrier
- CPT | Carriage Paid To
- CIP | Carriage and Insurance Paid To
- DAP | Delivered at Place
- DPU | Delivered at Place Unloaded
- DDP | Delivered Duty Paid

Rules for sea and inland waterway transport

- FAS | Free Alongside Ship
- FOB | Free On Board
- CFR | Cost and Freight
- CIF | Cost Insurance and Freight

Incoterms Rules.....

EXW – Ex Works

- This term represents the seller's minimum obligation, as the seller only has to make the goods available at its location.
- The seller does not load the goods on the collecting vehicle and does not clear the goods for export.
- The buyer bears all the costs for transportation, export and import duties, and cargo insurance, as well as the risks of bringing the goods to their final destination.
- The buyer also carries out all customs formalities.
- This term can be used for any mode of transportation.

Incoterms Rules

FCA – Free Carrier

- The seller delivers the goods to the carrier and clears the goods for export.
- Once the goods have been delivered to the carrier, the buyer takes over all the costs and risks.
- The buyer is responsible for procuring and paying for cargo insurance and all import formalities.
- FCA is the most commonly used Incoterm – it is used in ~40% of all international shipments.
- FCA is one of the most favorable terms for the buyer who wants to have control over costs at origin and international transportation through a nominated freight forwarder.
- This term can be used for any mode of transportation.

Incoterms Rules

FAS – Free Alongside Ship

- The seller delivers the goods alongside the vessel at the named port of shipment and is required to clear the goods for export.
- The risk of loss of or damage to the goods passes to the buyer when the goods are alongside the vessel.
- The buyer bears all costs from that moment forward, including loading the cargo on board the vessel, and is responsible for procuring the cargo insurance and carrying out all import formalities.
- This term can only be used for ocean and inland waterway transportation.

Incoterms Rules

FOB – Free on Board

- The seller delivers the goods to the vessel nominated by the buyer, loads the goods on board the ship, and clears the goods for export.
- The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onward, including cargo insurance.
- The buyer is responsible for all import formalities.
- This term can only be used for ocean and inland waterway transportation.

Incoterms Rules

CFR – Cost and Freight

- The seller arranges transportation and pays for the goods to be delivered to the final port of destination.
- The seller is responsible for clearing the goods for export.
- As the risk of loss of or damage to the goods passes to the buyer when the goods are loaded on board the vessel, the buyer is responsible for procuring and paying for the cargo insurance.
- The buyer is responsible for all import formalities.
- This term can only be used for ocean and inland waterway transportation.

Incoterms Rules

CIF – Cost, Insurance & Freight

- The seller clears the goods for export and covers the costs of insurance (to at least the port of destination) and main carriage while in transit to the port of destination named in the sales contract.
- The risk of loss of or damage to the goods passes to the buyer when the goods are loaded on board the vessel.
- The buyer is responsible for on carriage costs, all import formalities, and unloading costs.
- The buyer should note that the seller is only required to procure the “minimum” insurance coverage.
- This term can only be used for ocean and inland waterway transportation.

Incoterms Rules

CPT – Carriage Paid To

- The seller clears the goods for export and pays for pre carriage and main carriage to named place of destination.
- The seller may pay on carriage costs, which should be noted in the contract.
- The buyer is responsible for procuring cargo insurance and handling all import formalities.
- This term can be used for any mode of transportation.

Incoterms Rules

CIP – Carriage and Insurance Paid to

- The seller clears the goods for export and pays pre carriage and main carriage to the named place of destination.
- The seller may pay on carriage costs, which should be noted in the contract.
- Seller requires to purchase “nearly maximum” insurance coverage that is equivalent to Clause A (Institute of Cargo Clauses).
- The risk passes to the buyer when the goods are loaded on the first truck. The buyer is responsible for all import formalities.
- Can be used for any mode of transportation.

Incoterms Rules

DAP – Delivered At Place

- The seller pays for carriage to the named place of destination and assumes all risks until the goods are ready for unloading by the buyer.
- The buyer is responsible for all costs related to import clearance.
- Unloading is the responsibility of the buyer.
- Can be used for any mode of transportation.

Incoterms Rules

DPU – Delivered at Place Unloaded

- The seller clears the goods for export and pays for pre carriage, main carriage and on carriage costs.
- The buyer is responsible for all import clearance formalities.
- DPU is the only Incoterm explicitly tasking the seller with unloading.
- Can be used for any mode of transportation.

Incoterms Rules

DDP – Delivered Duty Paid

- This terms represents the maximum obligation to the seller.
- The seller is responsible for delivering the goods to the named place of destination.
- The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods for export and import and to carry out all customs formalities, including the payment of all duties, taxes and customs fees.
- The parties are advised not to use DDP if the seller is unable to directly or indirectly obtain import clearance.
- Can be used for any mode of transportation.

Incoterms Rules

Incoterms 2020: Responsibilities of Parties

	Any Mode		Sea Transport Only				Any Mode				
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
	Ex-Works	Free Carrier	Free Alongside Ship	Free On Board	Cost and Freight	Cost, Insurance, Freight	Carriage Paid To	Carriage and Insurance Paid	Delivered At Place	Delivered at Place Unloaded	Delivered Duty Paid
Risk transfers when:	Goods placed at buyer's disposal	Goods placed at buyer's disposal	Goods arrive alongside ship	Goods loaded on ship	Goods loaded on ship	Goods loaded on ship	Goods taken in charge by carrier	Goods taken in charge by carrier	Goods arrive at named destination	Goods unloaded at named destination	Goods arrive at named destination
Loading and inland transport	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export taxes, clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unloading of the vehicle in the export port	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading fees in export port	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Main carriage	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unloading fees in import port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Negotiable	Seller	Seller	Seller	Seller
Loading to the transport vehicle in import port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller
Transport to the delivery address	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Import formalities, duties, fees	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Unloading at named destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer
Insurance	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	Seller Clauses (C)	Negotiable	Seller Clauses (A)	Negotiable	Negotiable	Negotiable

Incoterms Rules

- **Previous terms from *Incoterms 2000* eliminated from *Incoterms 2010***
 - ✓ DAF – Delivered at Frontier
 - ✓ DES – Delivered Ex Ship
 - ✓ DEQ – Delivered Ex Quay
 - ✓ DDU – Delivered Duty Unpaid
- **Previous terms from *Incoterms 2010* replaced by *Incoterms 2020***
 - ✓ DAT – Delivered At Terminal **is replaced by** DPU – Delivered at Place Unloaded

For more information on Incoterms visit: www.iccwbo.org

Any Question?