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Purchasing and supply management. Electronic public
procurement.
CASE: Five Stars Ltd.

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Thesis Abstract

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Name of Thesis Purchasing and supply management. Electronic public procurement. CASE: Five Stars Ltd.		
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<p>The target of this project was to analyse the system of organisation of purchasing management and the process of participation in the electronic actions focusing on the case of an existing company Five Stars Ltd.</p> <p>The result revealed the advantages of electronic auctions: publicity, justice, profitability, efficiency, and accountability. As the Five Stars Ltd has a large number of competitive advantages, participation in government procurements became one of the main directions in the activity of the firm.</p> <p>In this thesis online resources and information from the company were used together with an interview. During research of the work, it was found out that the reliable communication with suppliers is necessary for favorable functioning of the organization.</p>		
Key words Purchasing, government procurement.		

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Introduction

The efficiency of managing the purchases and stocks can significantly affect success of the majority of the modern companies. The main objective of purchasing management is satisfying the needs of production for materials with the greatest possible economic efficiency.

Purchasing activity for trade enterprises plays a very important role, as it is necessary to competently build ways of delivery of goods for the purpose of minimizing expenses and existence of stocks in warehouses.

It is impossible to find a company, which could make itself all the material resources it needs in the production. Material resources pass through a chain of the organizations, which make the purchases of raw materials with the purpose to modify resources for sale. Another words the procurement process is an economical purchase of goods and services, which are produced not by the final consumer. After deciding on the manufacture a certain kind of product and acquisition of the necessary equipment the procurement process is carried out.

1 Mechanism of functioning of purchasing activity

1.1 Concept and mechanism of functioning of a control system of purchases

Purchasing management is management of material streams in the course of providing the enterprise with material resources in the shortest possible time with high profitability. In a chain of deliveries each organization buys materials from the previous suppliers, adds to them value and sells them to the following consumers. As each organization buys and sells materials, all of them move on all chain of deliveries further. (Lysons & Farrington 2006.)

Purchases is the function, which is responsible for acquisition of all materials necessary for the enterprise. Moreover there are non-standard transactions such as rent, leasing, performance of contract works, exchange, loans, etc. (Lysons & Farrington 2006.)

Any enterprise, in which material flows are processed, has the department of supply. This department carries out purchase, delivery and temporary storage of objects of the labor: raw materials, semi-finished products, products of national consumption. The department of supply is responsible for very important actions for purchase, rent and performance for the contract, etc. Besides this the department is responsible for the choice of suppliers which is also connected with negotiating, coordination of conditions, forwarding, monitoring of indicators of work of suppliers, freight handling of materials, transportation, warehousing and the acceptance of the goods received from suppliers. (Lysons & Farrington 2006.)

The purpose of purchasing management is the satisfaction of needs of production for materials with the greatest possible economic efficiency. The main issues that need to be answered when providing the enterprise with the objects of the labor are:

- what type of raw materials, materials or accessories need to be bought,
- in what quantity,
- who the suppliers of raw materials, materials and accessories will be,
- on what conditions purchases will be made.

Thus the aim of purchasing activity is to have the necessary product, in the necessary quantities, in right time, in the right place, at the profitable price.

The following scheme is applied to the search of suppliers:

Search of potential suppliers. For searching the suppliers the following options can be used: organization of competitions (tenders, quotes, auctions); studying of advertising materials (company catalogs, announcements in the mass media, etc.); visit of fairs, exhibitions; personal contacts with possible suppliers (correspondence, telephone call-downs, business meetings). The competitive auction (tenders) refers to the trade, where a winner offers the most favorable price. It is a widespread form of searching for potential suppliers. Quotes

mean the same as auction, however such trade is limited with certain a sum. Tenders are the trade competition for non-standard goods and are held in the case of intending to buy raw materials on a large sum of money or to establish long-term relations. The competitive auction is favorable both to the supplier, and the customer. The supplier gains an accurate representation about working conditions with the customer. The customer solves a problem of obtaining the demanded offer, at the same time choosing the best supplier. Organization of the tender is carried out according to the following scheme of actions: formatting of the conditions of the tender; developing and publishing of the tender documentation; advertising campaign; checking the estimated qualification of the participants of the tender; carrying out an analysis of tender offers; defining the winner of the tender. Following the results of the first stage the list of potential suppliers, which can constantly be supplemented, is formed. (Supply selection process 2015.)

Check of suppliers. Reliability and financial liquidity of the company provide the condition for long-term work with the new supplier. The company, which is ready to be a long-term supplier, becomes a partner of the organization. At a stage of acquaintance there is a check of the potential partner. If the supplier is unfair, the customer can have problems in production work that can lead to financial losses. Therefore it is important to evaluate the reliability of suppliers to the conclusion of the contract. For checking the reliability of the supplier, information can be acquired from the following sources: personal meeting with the management of the company; financial statements of the supplier; the local sources (operating in this territory of legal entities or “informers” of official bodies); banks and financial institutions; competitors of the potential supplier; trade associations; news agencies and the state sources (registration chambers, tax service, etc., possessing information, open for acquaintance). A result of the second stage there is a list of suppliers with the checked reputation. (Supply selection process 2015.)

Analysis of potential suppliers. The list of suppliers is analyzed on the basis of various criteria allowing carrying out selection of real suppliers. The number of such criteria can be rather great. The criteria on the basis of which the analysis of potential suppliers is made include the price and quality of production, and also the reliability of deliveries. The

reliability of deliveries includes the implementation of the obligations for their terms, the range, completeness and quantity of the delivered products. Other criteria include: financial position of the supplier; existence of reserve capacities; improvement of quality of products; remoteness of the supplier from the consumer; the organization of quality management at the supplier; ability to provide delivery of spare parts during all service life of the delivered equipment etc. As a result of the analysis of potential suppliers the list of specific suppliers, with whom the contracts will be made, is formed. (Supply selection process 2015.)

Assessment of reliability of deliveries. The assessment of results of work is carried out under already signed contracts. The purchased goods, raw materials and components are, as a rule, inadequate from the point of view of the purposes of production or trade process. The lack of the accessories, which are required regularly, can lead to a production stop (as well as deficiency of some goods in trade – to sharp falling of profit of trade enterprise). As the main criterion at a choice of the supplier reliability of delivery will serve. (Supply selection process 2015.)

The last step consists of the following points:

- Conclusion of the contract for purchase of necessary material resources. Realization of a task begins with negotiation, which lead to the conclusion of the contract under certain conditions;
- The preparation of the budget of purchases acts as an essential part of purchasing activity. Thus the following types of expenses are defined:
 - implementation of the order on the main types of material resources;
 - transportation, forwarding and insurance;
 - acceptance and check of material resources; information search about potential suppliers. (Supply selection process 2015.)

To sum up, it is possible to tell that for successfully providing the enterprise with necessary materials the purchasing department has to have ready answers to the following questions:

- what to buy;
- how many to buy;
- from whom to buy;
- on what conditions to buy;
- how systemically to coordinate purchases to production and sale;
- how systemically to coordinate activity of the enterprise to suppliers, etc.

1.2 Description of the business procurement process

The method of carrying out a business process of procurement includes the following stages:

1) Definition of need for material.

At this stage the need for material is defined. The basic characteristics of the demanded material, possible deviation, necessary quantity and delivery time are defined.

Preparation of the demand for material. The demand for material represents the internal message to the purchasing department about the need for material. The type of the demand for material is specified in a certain position. The type of the demand for material defines the mission of material. (The process of purchasing 2010.)

Coordination of the demand for material. At this stage the manager who was preparing and making out the demand for material will agree on contents of demand with the head of functional department. If in the course of coordination changes are required, the manager carries out repeated preparation, registration and coordination of the demand for material. (The process of purchasing 2010.)

2) Choice of suppliers.

Preparation of the list of possible suppliers. An employee of the purchasing department makes a list of possible suppliers. The list consists of constant suppliers with whom

contracts for long-term cooperation are signed and perhaps new suppliers. (The process of purchasing 2010.)

Sending a request according to the demand for material. Correspondence with possible suppliers is organized or resumed with the help of the chosen communication methods, which can be:

- traditional mail;
- fax messages;
- email;
- personal delivery representative of the contractor (customer).

Preparation and execution of the request in accordance with the application for the material. The prepared and appropriately issued request is sent to the possible suppliers. (The process of purchasing 2010.)

Obtaining offers from possible suppliers. The manager receives commercial offers from potential suppliers. Then one makes a comparative list of price, terms of delivery and other additional conditions of operations from all potential suppliers. (The process of purchasing 2010.)

Approval of the received offers. In a case of some questions according to the received offers from potential suppliers, purchasing manager makes the explanation for points that require the explanation or some additional information. (The process of purchasing 2010.)

Choice of the most suitable suppliers. The choice of the most suitable supplier takes place on the basis of the prices, terms of delivery, the fact of existence of goods and also some additional information. (The process of purchasing 2010.)

3) Processing of orders.

Preparation and sending order. During the preparation of the order the manager gives a description about the ordered material or group of materials, identification number, the departure date and terms of delivery. Then the existence of contracts for long-term cooperation with chosen suppliers is checked. In case there are no earlier signed contract or the date of expiration, procedure of the conclusion or extension is respectively made. When the order is prepared, executed and coordinated as appropriate, it goes to the chosen supplier by using the preferred communication channel. (The process of purchasing 2010.)

Implementation of obligations for payment of the order. The customer gets the invoice from the supplier with the information about the number of the invoice, the date of sending the invoice, amount of material, terms of payment according to the contract with specifying the account number of suppliers. (The process of purchasing 2010.)

Coordination of the received invoice. In case of questions on the received invoice, they are coordinated with the supplier. (The process of purchasing 2010.)

Sending a notification on the fulfillment of payment obligations. As soon as obligations for payment are fulfilled, the customer will inform the supplier by sending a notice of fulfillment of payment obligations under the contract. (The process of purchasing 2010.)

Receiving a notification of terms of readiness for shipment. The supplier, when receiving information about the payments of goods from the customer sends notification of the readiness of the sending goods. In this notification the delivery time is specified according to the terms of the contract. (The process of purchasing 2010.)

4) Control of implementation of terms of the contract.

Monitoring the location of freight (material) during the delivery. Manager of the purchasing department controls the location and condition of freight (material) during delivery to the final point, according to the contract. The control starts after obtaining the notification by the customer that material is shipped from a warehouse of the supplier. The

manager fixes all derogations from control dates under the contract and all facts of violation of its points and conditions. (The process of purchasing 2010.)

Registration of the facts of violation under the terms of delivery

Violation of terms and conditions of the contract noted by the worker from purchasing department are registered to serve as material for possible further writing of claims to the supplier. (The process of purchasing 2010.)

5) Intake of material.

The organization receiving the freight in the established place. According to terms of delivery under the contract, the customer-company accepts freight (material) in the place established by the contract. Control of actually received freight is made. (The process of purchasing 2010.)

Comparison of characteristics of the received material and declared materials by the supplier. After receiving the material, the manager of the customer-company carry out a compliance inspection of characteristics, quality and completeness of the received material with materials, which were declared by the supplier, and the found deviations are registered. (The process of purchasing 2010.)

Setting claims on the fact of deviations from the terms of the contract. In case the supplier fails to meet separate conditions and points of the contract, the procedure of a claim is carried out. (The process of purchasing 2010.)

6) Material receipt.

After acceptance of freight by the customer the material receipt procedure is made. At this stage freight is placed in warehouses of the customer. The manager record in the database the following information about goods:

- Material identifier;
- A delivery date and identification number of the contract under which purchase was made.

- Quantity;
- Short description of material;
- Purchase purposes (Internal or external consumption). (The process of purchasing 2010.)

1.3 Legal bases of purchases

The main document regulating the conditions of interaction between the buyer and the seller is a contract of purchase and sale. It contains the conditions on the rights and obligations of the parties:

- the subject of the contract including the name, quantity and the short description of goods, the basic terms of delivery “Incoterms”.
- price. The price of the contract depends on the terms of the contract of purchase and sale. So, the price of the contract will be minimum under the condition ex-works as the price of goods does not include costs for transportation, loading/unloading, the customs duties, etc. (Leenders, Johnson, Flynn & Fearon 2007.)
- terms of payment. In modern trade calculations for wholesale commodity deliveries are performed in a non-cash form between banks of the seller and buyer. At this point the following factors are established: a type of currency of payment, a way and terms of payment, the list of the documents submitted for payment, protective measures against an unreasonable delay of payment of the contract. (Leenders et al. 2007.)
- delivery time. Delivery time is understood as the moment when the seller is obliged to transfer goods to the possession to the buyer. The quantity of goods defined in the contract can be put fully or fractionally. Delivery time can be

determined by definition of calendar day of delivery or the period during which delivery has to be made (Leenders et al. 2007.);

- transportation terms of contracts. This section of the contract of purchase and sale is the most important for the carrier as it defines the conditions of processing of the vehicle in a place of loading or unloading depending on the basic conditions. (Leenders et al. 2007.)
- insurance. Contracts of purchase and sale are followed by an insurance. Depending on terms of the contract this duty lies either on the seller or on the buyer. In the contract the parties must provide answers to the following questions: which freight is subject to insurance, from what types of risks should be insured, which of the parties carries out insurance and in whose favor it is made, the terms on which the insurance takes place. (Leenders et al. 2007.)

In addition to the listed main conditions the following factors can be included in the contract of purchase and sale: guarantees and claims, responsibility of the parties, penalties, order of settlement of disputes, accidents, etc.

1.4 Warehouse role in the organization of purchasing activity

According to Lambert, Stock and Ellram (1998, 47) warehouse is the buildings, constructions and various devices equipped with the special technical equipment for implementation of all complex on acceptance, storage, placement and distribution of the goods, which arrived on them. The main aim of warehousing is the storage and ensuring uninterrupted supply of orders of consumers. (Lambert, Stock & Ellram 1998.)

The positive aspect of warehousing is that warehouses provide production alignment and create necessary technical and organizational conditions for a complete set of freights, concentration and distributions of stocks. (Cooper & Ellram 1993.) A downside is the increase in cost of goods at the expense of costs for the maintenance of stocks in

warehouses. These are expenses on warehouse operations, rent of a warehouse, and operating costs for the maintenance of warehouses. Moreover, creation of warehouse stocks leads to freezing of considerable financial resources, which could be used by the organization for other purposes. Therefore warehousing of production is justified only if it allows to lower expenses or to improve the quality of logistic service (to respond faster to demand or economy on preventive purchases at lower prices). (Cooper & Ellram 1993.)

Therefore among the most important reasons for using warehouses the following factors should be indicated:

1. decrease in costs of production and transportation:
 - reduction of risk of a stop of production due to the lack of material resources;
 - rational use of the equipment;
 - transportation by large volumes, etc.
2. coordination of supply and demand, especially at their seasonal fluctuations that allows to work by the principle: sale on demand by uniform production.
3. satisfaction of needs of production as warehousing can be part of this process.
4. creation of conditions for effective marketing due to reduction of time of delivery of goods. (Cooper & Ellram 1993.)

1.5 Traditional system of procurement.

According to Chicksand and Watson (2012, 103) the traditional system of the organization of material procurement is based on the principle of existence of stocks. The manager of the company makes request for the necessary for the production material from the stock of it's own warehouse. In a warehouse the necessary materials are selected and are transferred to the recipient or are delivered directly to workplaces.

In case there is no material demanded to the enterprise is absent in its own warehouse, the request is made to the department of purchasing. Based on the request the purchasing department places an order and sends it to the supplier. The supplier receives the order and provides the requested goods. To an enterprise customer large consignments of materials are delivered, as a rule, by car or by rail. After arrival the ordered goods are accepted in a warehouse of the enterprise. The quality of materials is checked as well as their compliance to the demand by quantity and the nomenclature. After registration of the relevant documents on receipt of goods they are delivered to separate productions. The main lack of the traditional system of purchases is the need for large supplies and a complex of warehouses with administrative expenses and expenses of work inherent in them. (Chicksand, Watson, Walker, Radnor & Johnston 2012.)

In the last decades a number of the systems of purchasing activity focused on specific need of production is developed:

- System Kanban (card) - the method of management of deliveries in the conditions of line production developed in Japan. The essence of system Kanbang consists in supply of all organisation's divisions in limited quantity of material resources. Resources are delivered in that quantity and to such term which are required for performance of work on the order. (Weele 2009.)
- Manufacturing Resource Planning — the method based on use of planning of need for materials, including functions of management of warehouses, supply, sales and production. (Weele 2009.)
- System "just in time" - method of supply by means of which as a result of frequent ("fractional") deliveries the accumulated stocks are sharply reduced (Weele 2009.)
- The system of expected indicators – a system at which demand for big parties of purchases is formed at the certain level, and then the concrete volume of deliveries is made in accordance with the demand. (Chicksand et al. 2012.)
- System of electronic and information communication of the client and supplier a method of supply at which the inquiry arrives in the form of the order, and data on delivery and transportation are specified in direct intercomputer communication. (Chicksand et al. 2012.)

The most perspective and typical way of supply of operational system is "just in time", which can help to reduce the needs for warehousing. The meaning of this system is that during the manufacturing process the necessary parts are on the production line at the exact moment when it is needed, and in the right amount. This concept is the most effective for the enterprises where the need for deliveries is derivative of demand for the final products. (Weele 2009.)

1.6 Interaction of marketing, purchasing and logistics in the management of stocks

Not coordinating the actions of departments of logistics, purchases and marketing can result also to illiquid assets. There are three possible options for creating the system of purchases:

- the pushing-out system (marketing department provides necessary sales, and logistics department provides warehousing and transportation of those that purchasing department supplied);
- the extending system (purchasing departments and logistics provide timely delivery and transportation of the necessary materials, with the right characteristics and in the right time, which are determined by the marketing department);
- the balanced system (all three departments consider tasks of each other and try to solve them together, proceeding from the best result and optimization of the general expenses; thus logistics department is responsible for the accounting of direct and indirect cost at all stages and pronouncement of final administrative decisions).
(Hugos 2011.)

The pushing-out system

Usually such a system is formed by the branch of sales of the production company. At its use, as a rule, the management of the branch forms a sales plan, without being commensurate with real opportunities. The emphasis is placed on sales, but not on profit

and as a result even selling at a loss are possible. Thus the influence of one or several suppliers is noticeable. (Hugos 2011.)

Advantages of system:

- loyalty of branch to the strategic supplier;
- the branch has ample opportunities on the commodity credit;
- the possibility of positioning the branch as the supplier representative.

Disadvantages:

- using the warehouse of branch for needs of the supplier and as a result decrease in profitability;
- loss of some segments of potential clients and as a result possible profit;
- not always optimum replenishment of stocks – usually it adapts to the shipment schedule of strategic suppliers;
- slow reaction to changes of the market and, as a result, competitiveness loss. (Hugos 2011.)

The extending system

It is characteristic for a customer-oriented. The sales plan at its use usually is not formed, or it occurs from time to time – irregularly (logistics department forms a sales forecast to plan purchase and delivery). The influence of major customers is great, and nobody considers expenses, which go for their service. Emphasis is placed on satisfying the needs of the client, thus expenses either are not considered, or considered for the analysis of the general financial activity of the company. It is quite natural that at such a system of the relation with suppliers becomes “tense” and as a result there are constant problem with the timely delivery of positions. (Hugos 2011.)

Advantages of the system:

- maximum coverage of potential clients;
- loyalty of clients;
- insignificant illiquid assets (only that is necessary is purchased).

Disadvantages:

- high costs of delivery and non-optimal stocks;
- weak predictability - as a result emergency type of work;
- complexity of forming of the relations with suppliers. (Hugos 2011.)

The balanced system.

This system, as a rule, is formed in a distribution company (when this activity is the only or main source of the income of the company) or from the extending system when strengthening the competition in a niche of the market of the company. This system places emphasis on forecasting and planning of sales, purchases, and the movement of stocks. Thus the most common factors influencing planning are considered. Much attention is paid to all expenses in the supply chain of goods from the supplier to the client. Very often it demands using a system (as a rule, automated) that connects all departments and processes of the enterprise. (Hugos 2011.)

From advantages of the system it is possible to allocate the following:

- minimum costs of a unit of production;
- optimum stocks and way of their replenishment;
- profitable activity.

From disadvantages:

- the company can incur serious losses in the absence of coordination of actions or support of administrative decisions by different departments;
- difficult systems of calculations of the indicators necessary for work;
- the bulky systems of automated management demanding high-quality support of IT department. (Hugos 2011.)

2. Government procurement

2.1 Features of the organization of government procurements

According to Thai government procurement is the purchase of goods, works and services for needs of the state at the expense of budgetary funds. Purchases can cover all spheres of the market; they can be both acquisition of medicines, and purchase of cars, and construction. In order to ensure that there was no corruption, purchases are carried out according to a certain scheme. (Thai 2008.)

Concerning purchases for the state needs certain rules of their carrying out are regulated by the law in many countries. Financial institutions also introduce certain rules of implementation of purchases from the funds, which are given out to them as loans. In particular, there are most known and are widely applied in the world of procedure of purchases of goods and drawing up contracts for performance of contract works and services, established by the World bank. (Thai 2008.)

The sense of procurement is based on the following principles: publicity, justice, profitability, efficiency, and accountability. The basic principle of procurement - publicity - is that all stages of carrying out the competitive auction, since the establishment of conditions of their carrying out to the announcement of winners, are carried out publicly and each participant has the opportunity to examine them. (Thai 2008.)

The principles of profitability and efficiency externally seem similar, but it not so. Profitability means that procedures of the competitive auction have to be carried out with minimum possible costs. The principle of efficiency aims at the maximum end result of carrying out competitions. The results of such competitions is the purchases of the demanded resources with the maximum economic benefit for the buyer. (Thai 2008.)

It is extremely important when carrying out purchases to realize of principle of the accountability. Substantially it means that the representative of the customer is responsible for all clauses which customer included in the contract, and the management has no right to deceive. (Thai 2008.). The principle of justice is that tendering conditions, criteria and

the definition of the winner are established in advance, and they are identical to all participants. Moreover, a procedure of procurement does not allow to change the condition during the competitive auction. The categorical requirement of these procedures is the prevention of discrimination measures on any of participants. All this is urged to create conditions for free competition among potential suppliers and contractors for the purpose of increasing the efficiency of spending funds. At the same time in some cases also elements of restrictive trade practice can be used to promote development of the national industry, employment increase etc. (Thai 2008.)

The general mechanism of implementing purchases on a competitive basis consists of the following. The competitive auction begins with the decision of the state institution to purchase goods necessary for it (works, services). The suppliers are invited to take part in the auction, by publishing the invitation to participation in the auction in mass media (for the open auction) or dispatching by mail (for sealed bids). The customer has the right to ask the bidders to pass a preliminary qualification with certain requirements for the bidders. In this case only after passing of preliminary qualification suppliers have the right to participate in competition. (Thai 2008.)

Ready requests go in the sealed envelopes by mail or with the courier to the customer who receives and registers them. All requests are carefully studied and the correctness of their registration, as well as compliance with requirements of competitive documentation is checked. Having estimated the competency, qualification, technical and commercial parts of offers, the customer makes a list of more suitable suppliers. With the participant that offers delivery on the most favorable conditions, the contract is signed. The supplier who won the contract is invited for the signing of the contract. After conclusion the customer publishes in the mass media the announcement about the winner and also informs all participants of competition on the signed contract. (Thai 2008.)

However, the procedure of carrying out auction depends on the type of auction:
Two-stage auction. Representation and consideration of competitive demands happens in two stages. At the first stage suppliers submit the competitive request, which contains

technical details, qualitative characteristics of the offered production, works or services and possible conditions of sales without indicating the price. At the second stage only the suppliers whose requests were not rejected at the first stage are taken into auction and all information demanded by competitive documentation including the offered price is specified in competitive demands. (Afanaceva 2001.)

Sealed bids. The invitation is sent to each potential supplier personally. The invitation to participate in the auction is not published in the mass media. Participants of auction submit to the seller the offers in writing and sealed in a separate envelope.

Request of quotations and purchases from the only source. The customer, sends to suppliers a request for providing the quoted demand by them with the indication of the price on product realization. (Afanaceva 2001.) Purchases from the only source - the customer according to the conditions provided by the legislation, sends the offer on the conclusion of the contract only to one supplier. (Afanaceva 2001.)

2.2 Procurement in the EU

In the European Union the system of the supranational legislation is created and the information resources urged to provide the purchases process are formed.

The main the purposes of system are:

- optimization of purchases for the state needs at the minimum of expenses;
- providing equal conditions of the competition at the conclusion of the contract, including ensuring the equal competition in the national markets and in general in the EU market;
- ensuring the requirements of “publicity” are met;
- creation of condition for honest and open business;

- assistance to small and medium-sized enterprises in obtaining government orders. (Arrowsmith, Linarelli & Wallace 2014.)

Implementation of government procurements in the EU countries is regulated at three legislative levels: provisions of international law (first of all, the Agreement on government procurements of the WTO which signers were all EU member states), at the level of the European Union Directives of the EU on government procurements and the Contract on functioning of the EU, and also the national legislation of EU Member States. (Public contracts in the EU – rules and guidelines 2015.)

Government procurements in the EU countries are regulated according to the basic principles, which are established by the Treaties on functioning of the European Union (TFEU) and the changes to these principles are established by the Treaty of Lisbon. The Contract on functioning of the EU provides four categories of "freedoms": free movement of goods, freedom of rendering services, free movement of workers in the border of the EU and freedom of establishing a company in the territory of one of the 27 EU member states. EU member states are not allowed to create of the Uniform Market as well as create of preferential conditions for the companies of other EU member states, and to interfere with their participation in purchases. (Public contracts in the EU – rules and guidelines 2015.)

The principles of the Contract on functioning of the EU establish the equal movement of goods, non-discriminatory access to the market, mutual recognition, proportionality and transparency of purchases. These principles form the basis of the European legislation on purchases. It is also worth noting that the methods of cross-border purchases are of great importance along with the basic principles of realization of purchasing process. Within the EU cross-border purchases are realized in two ways:

- direct cross-border purchases when the companies send the request for the tender passing in the territory of other EU member state, being in the territory of its' own state;
- indirect cross-border purchases when the companies submit applications for participation in the tender through the intermediary. (Arrowsmith et al 2014.)

According to provisions of the document, the following means of communication and exchange of information will be available to EU Member States:

- electronic means;
- post or fax;
- oral communication;
- personal delivery confirmed by the corresponding extract.

Oral communication (including also telephone conversations) should not be used to determine the essential elements of the procedure of choosing of the supplier. Moreover, the content of oral negotiations has to be recorded on paper. (Arrowsmith & Treumer 2012.)

Other regulations of government procurements of goods, works and services for ensuring needs of the EU define that:

- EU member states are obliged to form and place orders according to the principles of providing free economic space within European Single Market. Moreover the countries have to observe the rules provided by the General Agreement of the WTO on tariffs and trade (GATT) and the rules of ensuring the effective competition, ensuring transparency and maximum openness of purchases.

- Government procurements in the EU can be carried out in the following ways:

- internal purchases of the EU are made by the organization of open tender, the closed tender with the auction of participants, competitive negotiations with bidders, negotiations with bidders or without their participation (if the firm holds the patent and nobody else has the opportunity to sell these goods, service), electronic auction.
- internal purchases in EU member states are made by the organization of open tenders, which make about 95% of all auctions, of limited tenders with the auction of participants or without them (the specialized organizations receive invitations for participation in the auction).

- The bought production has to comply with the standards of the EU or national standards, thus not have a discrimination character. (Arrowsmith & Treumer 2012.)

It should be noted that government procurements in EU countries have to be considered not only as a way of satisfying the needs of the current activity of state bodies, but also as the instrument of social policy. In this regard, in the European Union a number of the documents connected with realization of social policy and ensuring compliance with environmental standards were signed. Thus, among the selection criteria of goods and services, on an equal basis with criterion of "the lowest price" there were criteria of ecological safety, social importance, reliability of the previous relationship with the supplier, and also the opportunity to estimate the benefit from acquisition of goods. (Arrowsmith & Treumer 2012.)

3. Supply chain management in purchasing.

SCM is a complex of approaches helping effective integration of suppliers, producers, distributors and sellers. SCM, considering service requirements of clients, allows to provide existence of the necessary product in due time in the right place with the minimum expenses. (Lambert, Stock & Ellram 1998.)

SCM represents the process of the organization of planning, execution and control of streams of raw materials, a work in progress, finished goods, and also ensuring effective and fast service due to receiving operational information about the movement of goods. By applying of SCM the problems of coordination, planning and management of processes of supply, production, warehousing and delivery of goods and services are solved. (Lambert et al. 1998.)

Management of a chain of deliveries includes the following stages.

1. **Planning.** Within this process the sources of deliveries become clear, generalization and arrangement of priorities in a consumer demand is made, stocks are planned, requirements to the system of distribution, and also outputs, supply of raw materials and finished goods are defined. The question of whether to make independently or to buy has to be solved at this stage. The decisions related to all types of planning of resources and to life-cycle management of goods are accepted also at this stage. These processes allow companies to find a balance between demand and deliveries for development of the direction of the actions which best meet the requirements.
2. **Purchase sources.** In this category the key elements of management of supply come to light and the assessment and the choice of suppliers, quality check of deliveries as well as the signing of contracts with suppliers is made. Moreover, at this stage the questions about acquisition, receiving, transportation, entrance control, statement on storage before receipt and posting are solved. It is important to notice that actions for management of deliveries of goods and services have to correspond to the planned or current demand.
3. **Production.** Production, performance and management of the structural elements meaning the control of technological changes, production cycles, quality of production, the schedule of production changes, etc. belong to this process. The specific procedures of production such as actually production procedures and cycles, quality control, packing, storage and production (intra factory logistics) are defined. All components of the converting process of the original product into a final product have to correspond to the planned or current demand.
4. **Delivery.** This process consists of managing of orders, warehouse and transportation. Management of orders includes creating and registration orders, formation of cost, a choice of goods configuration, and also creating and maintaining client base, along with the maintenance of a database on goods and the prices, and management of debtors and creditors. Warehouse management involves a set of actions for the selection and configuration, packing, creation of an extra packing / label for the client and shipment of goods. All these processes, including

stockpile management, have to be brought by transportation and distribution into accordance with the planned or current demand.

5. Return. In the context of this process structural elements of returns of goods (defective, excessive, demanding repair) are defined. It includes defining the product condition, its location, request for return authorization, scheduling of returns aimed at the destruction and recycling. Some elements of aftersales service also belong to these processes. (Tendencies of logistical market 2015.)

The chain of delivery performs two main functions.

- 1) Physical function of the delivery chain is visible: materials turn into details, and details turn into finished products.
- 2) Intermediary function of the delivery chain is less obvious, but it is not less important – on the market where consumer needs must be met. (Bowersox, Closs & Cooper 2002.)

Both functions are executed with some expenses. At the sense of physical function there are costs of production, transportations and storages. Intermediary function means other expenses. When the supply exceeds demand, it is necessary to reduce the prices and to sell at a loss and when demand exceeds the supply, there income is lost and dissatisfied clients appear. (Bowersox et al. 2002.)

Chains of deliveries can be considered from two mutually exclusive points of view: physical efficiency and reaction to conditions of the market. (Cooper, Ellram, 1993).

TABLE 1. Physical efficiency and reaction to conditions of the market for supply chains.
Adopted (Cooper & Ellram 1993, 95.)

	Physically effective process	The Process capable flexibly to react to conditions of the market
Main objective	to satisfy predictable demand with the smallest possible expenses	quickly to react to unpredictable demand to avoid obsolescence of commodity stocks
Production management purpose	maintenance of high level of loading of capacities	creation of excess buffer capacities
Purpose of management of production preparation	selection by criteria of cost and quality	selection by criteria of efficiency, flexibility and quality
Approach to selection of suppliers	the maximum quality at the minimum expenses	use of a modular design to refer differentiation of a product for later time
Strategy of management of commodity stocks	to shorten preparation time if it doesn't raise expenses	creation of considerable buffer reserves of materials, details or finished products

Under the conditions of predictable demand for functional products the intermediary expenses are relatively low. Therefore their companies making such products can concentrate the main attention on reducing physical expenses. In a case of the innovative products the intermediation expenses are the dominant and they become the center of attention of heads.

Functional products serve satisfaction of pressing needs and are bought often, in most cases without thinking about the acquisition place (it was required - I saw - I bought). Such products have more or less predictable demand, and their life cycle lasts relatively long. It is easy for competitors to imitate them and consequently, it is difficult to make them highly profitable. (Cooper & Ellram 1993.)

Innovative products represent state-of-the-art technology or fashions. It is difficult to predict demand for them, and their life cycle is much shorter. As compensation for risk and brevity of existence of such goods one producer receives relative freedom from the competition and the opportunity connected with it to achieve higher profitability. A functional product requires a physically efficient supply chain, and innovative products require a supply chain that can respond flexibly to market conditions. (Cooper & Ellram 1993.)

The purpose of supply chain management is to maximize is the total cost created by a chain of deliveries. All methods and the SCM tools for increase of profit of the company are directed on achievement of two main effects:

- increase in the income from sales of production due to increase of level of service, accuracy of deliveries and forecasting of demand;
- reduction of expenses due to decrease in a stock rate, reduction of consignment notes and transactional expenses in purchases, warehousing and sale, and also improvements of use of production and logistic capacities. (Bowersox et al 2002.)

Sources of increasing economic efficiency:

- 1) Increase in accuracy of planning due to uniform information channels, synchronizing business processes, joint forecasting demand, reducing time of a product entering to the market.
- 2) Improving the quality of operational management due to continuous monitoring of the supply chain, timely identification of deviations and violations in the central processing unit.
- 3) Reducing the cost of marketing and logistics by eliminating the business processes connected with the uncertainty in purchases, warehousing and sale. (Bowersox et al 2002.)

One of typical problems, which the organizations face, is a choice of a good location. Placement is connected with the search of the best geographical points for location elements of the supply chain (plants, warehouses, shops, restaurants, offices, etc.). Decisions on the allocation of the elements of supply chains are extremely important as they influence indicators of activity of the organization for many years, i.e. they have long-term character. If an organization makes a mistake and builds a construction in an unsuccessful place, having made in it considerable investments, to rectify the situation by moving to a new place will not be easy. It will demand major financial, labor, time expenditure and will lead to loss of time, clients, to freezing of the capitals and decrease in competitiveness. (Defee, Brent, Randall & Thomas 2010.)

When choosing the location of the logistics terminal it is necessary to consider the following factors:

Location of customers. The proximity to consumers is important for the industrial enterprises in cases of high cost or duration of transportation, and also for the commercial enterprises and the enterprises of services industry, such as shops, stations, libraries, restaurants. (Defee et al. 2010.)

Location of suppliers and materials. For producers it is favorable to take place near the suppliers' terminals of logistics and extraction places of raw materials, especially, if

materials are heavy, volume or perishable. For example, thermal power plants are built near coalmines, cellulose combines are built near the woods and the vegetable-processing enterprises are built near the agricultural enterprises, etc. (Defee et al. 2010.)

Culture. It is much easier to place the business and the terminal of logistics, especially in case of the enterprises distributing the production in this territory in regions with similar laws, culture, language and a way of life. This applies, for example, distinctions of the Western and East cultures, American and European cultures, market and centralized types of economies, etc. (Defee et al. 2010.)

Relation of authorities and their plans. National or local authorities can seriously change the attractiveness of the territory by encouraging some concrete branches, for example, financial or hi-tech, or preventing ecologically harmful types of production, for example, nuclear harm, chemical harm, etc. It is necessary to familiarize with the features of the local legislation, to consider the possibility of attracting local investments, which are important for selecting the logistics terminal locations. (Defee et al. 2010.)

Factor and indirect cost. Using this factor it is necessary to consider that the low wage in the region can be followed as well by the low productivity or quality and vice versa. Moreover, it is necessary to consider local taxes, social and pension payments and control of property of the company (for example, through control of the local partner in questions of currency exchange and export arrived abroad). (Defee et al. 2010.)

Size and configuration of a site. A large number of the vehicles serving entrance and output streams demands a sufficient area for parking and maneuverings. Their absence can lead to jams and to loss of time and clients. In addition, in the territory of the enterprise there should be office, sanitary and household rooms, a security post, the places for collecting and processing of waste, etc. (Defee et al. 2010.)

Competitors, their number, power, arrangement. Steady superiority over competitors from the point of view of preferences of consumers can be reached due to skillful application of

logistics. For obtaining competitive advantage a firm should make the delivery of value to the clients through a more effective implementation of these activities in comparison with its competitors. (Defee et al. 2010.)

The choice of locations is a hierarchical decision-making process, which is presented in Graph 1. From the graph and description above (see p.29-30) it can be seen that the following factors (business strategy; culture, expenses, suppliers, consumers, competitors, local conditions and available places) have emphasis on the choice of location of the infrastructure supply systems.

The geographical factors such as landscape, climate, and nature influence the choice of business strategy. Strategy should be developed according to the features of the given regions. For instance, if a company plans to build a wood-working factory, emphasis should be placed on the regions with high amount of forests. (Defee et al. 2010.)

Culture, expenses, suppliers, consumers, competitors influence the location of the supply chain's terminals. The culture of countries is not homogenized. Each country is individual and has its own customs such as holidays, behavior pattern and business methods. Moreover, each country has different social and government expenses such as pensions, tax, insurance and so on. (Defee et al. 2010.)

Local condition according to the chosen city. It includes the impact of local authorities on business development. In addition to this the authorities can set some restrictive rules for local construction, safety, restriction on types of buildings, which unemployment rate is in this city. (Defee et al. 2010.)

The available places against individual places. At this point, one has to take into account the availability of appropriate area for location of supply chain department, the ratio of the planned size of the space to the actual, remoteness of logistics departments from each other. (Defee et al. 2010.)

GRAPH 1. The choice of locations. Adopted (Defee et al 2010, 65.)



4. Activity Five stars Ltd in area government procurements

Five Stars Ltd is one of the major enterprises in the Murmansk market. The company is engaged in supply organizations. Generally the organization specializes in participations in the government and municipal procurements as the supplier. Therefore for a more detailed study of the operating principle of electronic government purchases the whole purchase process, from the beginning to the end is considered, on a concrete example with participation of Five Stars Ltd. (The guide of Five Stars Ltd 2010.)

4.1 General characteristic of Ltd. “Five Stars”

The Five Stars limited liability company was founded by the Decision of participants on 01 Dec 2010 and works according to the Civil Code of the Russian Federation, the Federal law of the Russian Federation “About limited liability companies”, established on 08 Feb 1998. The full trade name of the society in Russian is limited liability company “Five Stars”. The reduced trade name of the society is Five Stars Ltd.

The location of society is defined by a place of its state registration, which is Murmansk city. The place of location of society is 183053, Murmansk, Marat St. 14.

The main objective of Society is receiving profit. The activity of society is directed also on creating additional jobs, unemployment reduction, and development of social infrastructure. (The guide of Five Stars Ltd 2010.)

The principal activities of the company are:

wholesale of bar and restaurant tableware and related products;

wholesale of household goods;

wholesale of detergents;

wholesale trade of the car and washing equipment;

production of construction works;
rent of the equipment;
the supply of goods for state institutions. (The guide of Five Stars Ltd 2010.)

The society bears responsibility for its obligations by all property belonging to it. The society is not responsible for the obligations of its members and in turn, the members of society are not responsible for its obligations and bear the risk of losses related to the company's activities within the cost of the contributions made by them. (The guide of Five Stars Ltd 2010.)

Responsibility of the company's director:

- 1) without power of attorney acts on behalf of the society, including representation of its interests and conducting transactions;
- 2) issues powers of attorney to act on behalf of the society;
- 3) takes employees for working positions, on their firing, the transfer to another position , applies measures of encouragement and imposes disciplinary punishments;
- 4) carries out other powers, which are not referred to exclusive competence of general meeting of participants of society.

The total number of staff of society makes 10 people. The administrative board consists of the director, the chief of a department of managers and the accountant. The organizational management structure includes the establishment of the power by the management of the department over the department. (The guide of Five Stars Ltd 2010.)

The structure and scale of divisions of the enterprise depends on objectives, quantity and volume of orders, etc. The number of employees is defined so as to avoid overload and downtime in the manufacturing process. The main departments, divisions and services of society are the main division, accounts department, warehouse and sales department. (The guide of Five Stars Ltd 2010.)

At distribution of responsibilities of Five Stars Ltd has a clear division of tasks. Thus, each employee is responsible for accurately a certain activity. In a situation when employees are

not competent or cannot independently find the decision, the head of department takes the obligation to resolve the situation.

The organization is focused on versatile clients. Clients of the organization are restaurants, kindergartens, hospitals, the industrial enterprises, state institutions, trade enterprises and educational institutions. Within a year the society signed a set of contracts for delivery of equipment, purchase and sale of the restaurant equipment, consulting works, installation works, commissioning, delivery of household goods and detergents, purchase and sale of expendables. The main area of the company's operation is the participation in auctions and tenders, which are generally announced by public institutions. (The guide of Ltd. Five Stars 2010.)

Suppliers of the society are various organizations all over Russia. Long-term cooperation and a long-established system of cooperation with suppliers gives positive results as the uninterrupted supply of requested position, discounts and favorable conditions of work. As it can be seen from Table 2, the majority of the company's suppliers are from Saint Petersburg. The choice of supplier is largely dependent on the cost of transportation. (Kenzhebaeva 2015).

TABLE 2. Suppliers of Five Stars Ltd (From the interview "The choice of supplier").

Supplier	Location	The item of delivery
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(continues)

GRAPH 2. (continues)

Complex-bar	Saint-Petersburg	restaurant and bar equipment
Trading-House “Petrovskiy”	Saint-Petersburg	wide range of items for house
Klen-Market	Moscow	restaurant and bar equipment
Logotip	Perm	production of printed materials
Oldi	Moscow	electronic items
Alpak	Saint-Petersburg	household goods
Plast-Mix	Moscow	plastic ware
Sew-time	Saint-Petersburg	sewing accessories
Expro	Tula	furniture
Mebelcore	Ulyanovsk	office chairs
Viva	Saint-Petersburg	pulp-and-paper production

The activities of society can be divided into the product range and services. The range of services includes repair and service of equipment, installation and dismantles of the equipment, cleaning services, and rent of the equipment. The product range includes wholesale and retail of bar and restaurant ware and the accompanying goods, household goods, the technical equipment, coveralls, account materials and spare parts, etc. The Table 3 provides the list of customers and the list of supplied goods and services for the last year.

It is notable that the majority of the customers are state institutions. (The guide of Five Stars Ltd 2010.)

TABLE 3. Customers of Five Stars Ltd. (Kenzhebaeva 2015.)

Organization	The item of contract
Nuclear fleet	The delivery of ware
Nuclear power plant	The delivery of sewing accessories
Ltd ASService	The delivery of disposable tableware
Ltd Mega	The delivery of restaurant and bar equipment
Ltd Mega	Cleaning service
Department of Internal Affairs	Cleaning service
Nuclear fleet	The delivery of furniture
The state organization of the social help	The delivery of furniture
Administration of the Kola area	The delivery of sportswear
Municipal Hospital	The delivery of cleaning agent

4.2 The analysis of work of the enterprise on electronic trading platforms

Due to the constantly changing market conditions and the orientation mainly on state customers and municipal organizations of Five Stars Ltd involved in quotes, auctions, tenders (see p.2-3). In connection with the action of the Federal Law “On placing orders for goods, works and services for state and municipal needs” of July 21, 2005, since July 1, 2010 all purchases for public institutions are carried out through the Electronic Trading Platforms (ETP). Moreover, since January 1, 2011 purchases for needs of municipalities and the commercial organizations are made in the same way. (Scheme of carrying out electronic auction 2014.)

For participation in electronic auctions it is necessary to pass free accreditation according to Regulations of accreditation of the participant of ETP (electronic trading platform) (see Appendix 2). In addition to this, it is necessary to prepare the following documents:

- The application for opening of the account for carrying out operations on ensuring participation in electronic auctions (in this case, this condition is necessary because before the participation in the auction the participant must pay the guarantor of the seriousness the participation in the auction and the guarantor of providing work).
- The copy of the certificate on registration in tax authority – data on identification number of the taxpayer.
- The copy of an extract from the Unified state register of legal entities received not earlier than before six months before the date of the application for accreditation.
- Copy of constituent documents of Five Stars Ltd of placement of the order (charter, foundation agreement).
- Copies of document the confirming the director (the decision on appointment of the head).
- The decision on approval or on commission by results of open auctions in an electronic form of transactions on behalf of the legal entity with the indication of data on the maximum sum according to one such transaction. (Gorbunov-Posadov 2004.)

The following step is sending the application for accreditation. Sending is made after adding all the necessary documents according to regulations. One fills the patterned form with indicating the number of the attached documents and the form is sent to an operator. The operator considers the request and makes the decision on accreditation or on refusal in accreditation no later than in 5 working days from the moment of receiving. If the participant passes the accreditation, the operator will send to the participant the account requisites for carrying out operations to ensure the application for participation in the electronic trading. (Scheme of carrying out electronic auction 2014.)

After receiving the accreditation of Five Stars Ltd can submit applications for participation in auction. According to requirements, certified copies of documents are attached to each part of the requests, and then are sent. Within one hour the request is considered by the

operator. In case of a positive answer the member receives the notice of date and a place of registration of the request with assignment of serial number.

In spite of the fact that Five Stars Ltd participates in the electronic auction for long time, still in work process, there are some mistakes. The main mistakes are the following: Mistakes in paperwork. If insignificant typographical errors are still admissible in work with people, on electronic platforms where documents are automatically read by robots, any of such mistakes can lead to a failure of system or removal of the applicant from participation in the auction. (Scheme of carrying out electronic auction 2014.)

Moreover, the procedure of registration on an electronic platform is difficult. In many cases, the reason for refusing entry are not so much gaps in the paperwork as the absence of warranty sum on the participant's account. In addition, the rules of registration on all platforms of the electronic auction are different. As a result of negligence or carelessness participants simply forget to transfer money. Besides this, it is difficult to trace the auction on all main platforms in real time of work. (Scheme of carrying out electronic auction 2014.)

On the basis of the revealed shortcomings it is possible to formulate recommendations about improvement of work in the electronic trading:

- to assign obligations for filling the documentation by an attentive and responsible employee;
- to exercise additional control of process of registration and submission of documents on electronic platforms;
- in advance to submit documentation on electronic platforms, in order to have the opportunity in the future to make sure of timely registration on a platform and the admission to the interesting auction. (Gorbunov-Posadov 2004.)

After the end of auction within an hour the protocol of holding the auction with the taken places of participants is published. Within six days from the date of obtaining the draft contract the participant, having entered on the page of signing of the contract and downloads electronic documents of the contract with the following information (see p.12):

- conditions about goods, i.e. its name, quantity and. Discussing the subject of the contract, it is necessary to specify precisely the name of products (goods), and also the number of standards, specifications, articles and other necessary documents. The detailed description of object of the transaction allows to avoid disagreements, and also to exclude the possibility of the unfair relation to the duties any of the parties.
- The quantity of the delivered goods in the contract of delivery is defined by an agreement between parties based on the buyer's needs and taking into account the production or other capabilities of the supplier. It is possible to define the quantity of goods in the following ways: according to standards, the technical specification, on samples, catalogs or prospectuses of the supplier, which are an integral part of this contract.
- Quality of the delivered goods is understood as compliance of the products' properties to level of requirements of the contract or law, and also set of signs, which define its suitability for use to destination.
- Delivery time represents the temporary periods coordinated by the parties and provided in the contract during which the supplier is obliged to report production (goods) to the buyer.
- The conditions of payment. (Gorbunov-Posadov 2004.)

Then is necessary, parties make changes, sign the contract and allocate it on the platform (see p.28). When both parties sign the contract the process of supplying begins. The enquiry is formed and sent to suppliers. Mostly Five Stars Ltd works with suppliers and usually its producers or dealers are from Saint Petersburg because of the close location to Murmansk (see pp. 3-4). Even if goods are cheaper for example in Moscow, then in Murmansk, because of the transportation costs the final price could be higher. (Kenzhebaeva 2015.)

Sometimes it is impossible to find the goods specified in the contract of the customer or goods have a higher price, than the price in the contract, the price for which Five Stars Ltd sells to the customer. In this case the director of Five Stars Ltd conducts negotiations with

the customer about the possibility to deliver similar goods instead of goods specified in the request or possibility of increasing in the contract's price. (Kenzhebaeva 2015.)

When all nuances and controversial issues are resolved, the request is sent out and goes to suppliers (see pp. 3-4). From the all possible suppliers one is selected, the one that offers the most attractive price, terms and conditions of delivery, taking into account the cost of delivery to Murmansk. The contract of delivery is signed with this supplier, requisites are sent and the supplier makes out the invoice for payment. The invoice is checked by the manager of Five Stars Ltd. In addition to this, the manager checks the information about the ordered goods: the description of goods, quantity and the price, because quite often there are mistakes and as a result comes wrong goods are delivered or in a larger or smaller quantity. Then the account is transferred to payment to the director of Five Stars Ltd. At the same time the issue of transportation of freight is resolved, i.e. which transport company will deliver the freight to Murmansk, usually it is the First Shipping Company or Murmansk Transport Company. Sometimes the freight can be delivered by the company's own car. It depends on volume and the weight of freight. Large-size freights are delivered shipment by own car as the delivery by such way costs less than the delivery by transport companies. Moreover, when exporting by company's own car, freight is delivered directly to the customer. (The guide of Five Stars Ltd 2010.)

After the payment, the manager contacts the supplier for the purpose of specification about payment: whether the supplier has received the payment for goods as sometimes there can be failures of a banking system, mistakes in the supplier's requisites or other mistakes (see p.9). In addition to this, the manager provides information on a method of delivery of freight. (The guide of Five Stars Ltd 2010.)

The next stage is the loading of goods. The transport company sends the invoice and it is also transferred to the director for payment (see pp. 7-8). For shipment of goods the manager needs to send to the supplier the grant for taking the freight with the following information:

- name of the document;
- place and date of drawing up;

- data of the principal (who grants the rights and duties);
- full data of the authorized representative;
- assignment;
- signature principal / stamp of the organization.

When the freight comes, the transport company informs manager by e-mail or a call.
(Kenzhebaeva 2015.)

At freight intake its state and quantity is checked according to the supplier's delivery note as quite often freight is transported inaccurately and as a result it is damaged or even is lost (see p.10). In the case of damaged goods, the manager contacts the representative of the transport company. The representative fixes the damage and after that the manager makes the claim. (Kenzhebaeva 2015.)

The documents that come from the supplier are forwarded as follows:

- one copy with the signature and the stamp of the director of supplier - accounts department
- the second copy with the signature and stamp of the director of Five Stars Ltd is returned to the supplier. (Kenzhebaeva2015.)

After that the bookkeeper makes the invoice and consignment note in the accounting program «1C». The director of Five Stars Ltd signs the documents and puts a stamp. The documents are processed in duplicate. Then the goods with documents are given to the customer. The representative of the customer organization checks the correctness of the completed documents, the quantity of goods and its properties concerning the specification attached in the contract and existence of defect and damaged items. In case the acceptance of goods takes place without remarks, the documents are scribbled either by the representative or the director and the stamp is set. One copy remains at the customer; the second comes back to the bookkeeper of Five Stars Ltd.

In case of a mistake in the documents, the errors are corrected and documents come back for the signature to the customer. If damaged items are found, the information in the

documents is corrected according to the rejected items and those items are replaced under the warranty. (Kenzhebaeva 2015.)

5. Conclusion

In the modern mixed economy the system of government procurements is an obligatory element of management of public finances and other resources of public sector of economy. This system is created to perform not only the functions of ensuring social needs, but also to perform the functions of state regulation of economy.

Orders can be placed by tendering (competition, auction) or without tendering (request of quotations, at the only supplier, at commodity exchanges). The state order is the set of the concluded state contracts for delivery of goods, works, rendering services at the expense of means of the state budget. Thus, it should be taken into account that at placement of the state and municipal orders certain principles have to be observed: transparency, equality, responsibility, efficiency, profitability, legality, and also principle of control.

The Five Stars Ltd is an organization, which can be characterized as a steady enterprise that has operated at the market for more than 10 years, has well developed technical base, and qualified personnel. The company has extensive experience in government procurements, first in paper form, and due to the changes of legislative base in the electronic trading. It was found out that Five Stars Ltd is a firm fulfilling the obligations in full and qualitatively, is able to be responsible for the performed work, and is also an organization having a base for implementation of difficult, hi-tech projects. As the firm has a large number of competitive advantages, participation in government procurements became one of the main directions in the activity of the firm. Five Stars Ltd is one of the few trading firms, and in some way it is possible to say that it is only the company, which can perform such a wide range of activities.

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APPENDIX

Themes of the interview:

The choice of supplier

Supply of the items according to the contract

Transportation issues

Issues about damage items

Payment terms

Invoice and accounting issues

Customers

APPENDIX 2

Process of participation in electronic auction.

