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## A STUDY OF GOVERNMENT ORGANIZATIONS MEDICAL EQUIPMENT BUYING PROCESSES, THE CASE OF ETHIOPIA

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### ABSTRACT

*In recent years the government of Ethiopia has shown its commitment to improving the healthcare service of the country by building and equipping several healthcare facilities. The government's budget for a healthcare facility is also increasing from time to time. As a result, the medical equipment market size has recorded a significant growth and attracted different manufacturers. The objective of the study is to assess and develop the medical equipment buying process of Ethiopian government organizations to help scholars and marketers understand, analyze, and explain how government organizations in Ethiopia buy medical equipment. Initially, a comprehensive literature review was conducted to identify factors affecting the organization's buying process. Then Secondary data was used to understand the procurement methods and buying process of government organizations. Five tender documents, government procurement policies, directives and manuals were analyzed. Moreover, five-group discussions were conducted with experts of Medical Equipment buyers. The study has a significant contribution to understanding Ethiopian government organizations medical equipment buying process. It is not possible to have a standard buying process for different procurement methods and buying situation. The buying process of an organization will be determined by the procurement method to be used and the buying situation.*

### KEYWORDS

government buying behavior, government buying process, group purchase.

### JEL CODE

H50, H51.

## 1. INTRODUCTION

In recent years the government of Ethiopia has shown its commitment to improving the healthcare service of the country by building and equipping several healthcare facilities. The government's budget for the healthcare sector is also increasing from time to time.

The Ethiopian Pharmaceuticals Supply Agency (EPSA) is the primary medical equipment buyer in the country. In 2018 alone, the agency has made procurement of medical equipment worth 450 million USD. Besides the procurement made by PFSA, different regional Health Bureaus and Government University hospitals have made massive medical equipment procurement.

In order to tap the Ethiopian medical equipment market opportunity, the understanding of the organizational buying process is essential. While developing their marketing strategies, organizations are advised to base their strategies on the buying behavior of their target market (Frederick E., Webster Jr. and Yoram Wind 1996:52).

## 2. LITERATURE REVIEW

The understanding of organizational buying behavior is complex due to the involvement of different variables. In organization buying behavior, complex technical consideration has to be made, the purchasing value of goods is high, and many individuals within and outside of the organization are involved in the buying process (Kotler and Armstrong 2006). As a result, organizations take a longer time to make a purchase decision.

Since the mid-1960s, different scholars have defined organizational buyer behavior. One of the most popular definition found in different literature defined organizational buying behavior as "any structural conceptualization or framework to represent all or a part of the variables that explain the purchase and use behavior industrial good users as well as the attitudes and decision processes which occur before, during and after the product purchase." (Essien & Udo-Imeh, 2013:55)

Organization buying is a process that is affected by the type of procurement method and buying situations.

### 2.1 BUYING PROCESS

Most of the organizational buying behavior studies and organizational buying behavior models have considered the buying process as one of the most critical elements in organizational buying behavior model development (Wind & Thomas, 2010). The 1972 Webster and Wind and the 1996 Johnston and Lewin organization, buying behavior model, were such models where buying process was an essential element of their model.

While organizations are buying products and services, they go through different buying stages before making the buying decision. Several scholars suggested the organizational buying process with different buying stages. One of those scholars was Webster and Wind. In 1972, Webster and Wind suggested a five-stage buying process; Problem recognition/need identification, "Establishing specifications," "Alternative identification," "evaluation of alternatives," and "selecting suppliers" (Webster and Wind, 1972). In 1996, Johnston and Lewin came up with an eight-stage buying process; "need identification, Determining Characteristic, establishing specifications, Identifying the potential source, requesting proposals, evaluating proposals, selecting the supplier and post-purchase evaluation" (Johnston and Lewin, 1996). Further (Wind & Thomas, 2010) suggested a twelve-stage buying process "need identification, establishing specifications, alternative searching, establishing contact, set usage purchase and usage criteria, evaluate alternative buying actions, Determine Budget availability, evaluate specific alternatives, negotiate with suppliers, Buy, Use and conducting a post-purchase evaluation."

Even though identifying the stages of the buying process is an essential contribution to the organizational buying behavior literature, there cannot be a general buying process that will work for every buying problem, in different environment and industry.

In the real world, the Buying process depends on different factors, such as the buying situation, the nature of products to be bought, the number of people involved in the buying task, the procurement method, the type and ownership of the organization, etc. As a result, it will be challenging to define a general buying process that can be used by organizations all over the world.

One such case is when organizations use different procurement methods, the buying process differs. When the international competitive tender procurement method is used, the technical specification preparation is completed before inviting suppliers to participate in a tender, and participants will be required to prepare and submit their proposal accordingly. However, in a two-stage bidding procurement method, the buying organization will prepare technical specifications after receiving a concept note or a proposal from potential suppliers. In two-stage bidding, the buying organization will announce the list of items (without specification) planning to buy and will request suppliers to submit their proposal. After assessing the proposals, the buying organizations will prepare its specification and will announce a tender. Based on the specification, tender participants will submit a new proposal.

### 2.2 FACTORS AFFECTING ORGANIZATIONAL BUYING PROCESS

Mainly, the organizational buying process is affected by the buying situation and the procurement method to be used. As a result, the stages of the buying process differs based on the buying situation and the procurement method to be used

**2.2.1 BUYING SITUATION**

Buying situations, also referred to as buy tasks (Johnston & Lewin, 1996), "Buy Class" (Robinson et al., 1967), are a critical element of the buying behavior (Wind & Thomas, 2010). The buying situation is one of the factors that affect the buying process. It has been categorized into three categories as "New Task, Modified Rebuys, and straight rebuys" (Wind & Thomas, 2010)

**New Task**

When organizations buy a product or service for the first time, the buying situation is referred to as a "New Task." As cited by Doyle, Woodside & Michell (1976) Robinson et al., Hill and Hillier, Webster and Wind and Nicosia and Wind, a new buying situation takes a lengthy buying process involving different departments and individuals in the buying process.

Since new buying tasks are influenced by different factors, It is difficult to generalize the buying process of buying task as a lengthy process involving different departments and individuals. In case of emergency new buying task, the buying process is short since the product needs are needed urgently. Moreover, if the value of the product to be bought is small the number of individuals and departments involving will be less and the buying process will be short. Therefore, new buying tasks shall be further classified based on the value of goods and the urgency nature of the goods to be bought.

**Modified Rebuys**

When organizations buy a product or service with prior experience with some change from the previous purchase, the buying situation is referred to as a "Modified Rebuy." And are considered as "less complex and uncertain, and associated with less risk". Lewin & Donthu (2005)

Change in technology, the value of goods to be bought, economic condition, and purchasing timeline determines a modified buying situation to be simple or complex, certain or uncertain, and the level of the risk. Therefore, characterizing all modified rebuy situation as less complex, uncertain and less risk will not be acceptable.

**Straight rebuys**

A straight rebuy is a routine buying situation where an organization buys products and services repeatedly. In a straight rebuy, organizations commit with a single supplier for the product to be bought unless the supplier makes a major mistake they will not go in a buying process Anderson, E, Chu, W and Weitz, B (1987).

**2.2.2 PROCUREMENT METHOD**

Mainly, there are six different types of procurement methods that can be used by organizations while buying goods and services. These include Single source, Request for a quotation, Two-stage tendering, Request for Proposal, Restricted tender, and Open tender. The selection of an appropriate procurement method is decisive for the success of the procurement activity Githinji, M. & Moronge, M. (2018).

**3. IMPORTANCE OF THE STUDY**

The study will help scholars and marketers understand, analyze, and explain how government organizations in Ethiopia buy medical equipment. Currently, little is studied about organizational buying behavior in the context of Ethiopia. As a result, the study will contribute its part in fulfilling the gap in the current literature and identifying future areas of research.

**4. STATEMENT OF THE PROBLEM**

Although government organizations make the largest purchase of medical equipment in Ethiopia, little is known about the medical equipment buying process of Ethiopian government organizations. As a result, it has been difficult for marketers to understand the buying process and base their strategies in systematically conducted studies. Due to this, salespersons are observed making an unsuccessful attempt to sell to Ethiopian government organizations.

**5. OBJECTIVES**

The objectives of the study are given below:

1. To examine the medical equipment buying process of Ethiopian government organizations
2. To model the medical equipment buying process of Ethiopian government organizations to help scholars and marketers understand, analyze and explain how government organizations in Ethiopia buy medical equipment.

**6. RESEARCH METHODOLOGY**

Initially, a comprehensive literature review was conducted to identify factors affecting the organization's buying process. Then Secondary data was used to understand the procurement methods and buying process of government organizations. Five tender documents, government procurement policies, directives and manuals were analyzed. Moreover, five-group discussion was made with a group of different experts from medical equipment buying organizations. Purposive sampling method was applied for the group discussion in order to include experts of organizations that buy a significant amount of medical equipment.

Sequential mixed method research was conducted in order to understand and explain the Ethiopian government organization's medical equipment buying process. Initially, a comprehensive literature review was conducted to identify factors affecting the organization's buying process.

The target population of the study is government organizational buyers who buy medical equipment's and are located in the major cities of Ethiopia (i.e Addis Ababa, Hwassa, Dire Dawa, Bahirdar, Adama, Gonder, Jijiga, Assosa and Mekele) except military hospitals.

**7. FINDINGS AND DISCUSSION****7.1 PROCUREMENT METHOD**

Government organizations in Ethiopia are expected to follow the procurement directive issued by the FDRE Public Procurement and Property Administration Agency. According to the directive, there are six methods of procurement that can be used by government organizations. These are Open bidding, restricted bidding, Request for quotations, Single source/Direct procurement, Request for proposal and Two-stage bidding.

With the exception of request for proposal method, five of the six procurement methods can be used by government organizations in Ethiopia to buy medical equipment. Request for proposal is used by government organization in order to buy consultancy service.

**OPEN BIDDING**

An open tender is a procurement method, open for the general public. In this kind of buying method, buying organizations are expected to prepare a tender document and invite suppliers to submit their proposal; all legal suppliers can participate in open bidding. After preparing the bid document, the buying organization shall invite suppliers to submit their proposal by announcing on newspapers, Websites, Radio, or Television.

Open bidding can be either National Competitive Bid (NCB) or International Competitive Bid (ICB) based on the value of the procurement.

- ✓ **National Competitive Bid (NCB)** is an open tender method, where only local suppliers are allowed to participate in the bidding process.
- ✓ **International Competitive Bid (ICB)** is an open tender where all participants from all over the world participates with the exception of companies who has a trade embargo with Ethiopia.

For an open bidding to be international Competitive Bid, the value of the medical equipment to be bought shall be more than 50,000,000 Ethiopian Birr. But, with a special permission from the Federal Public Procurement & Property Administration Agency (PPA), organizations can buy medical equipment whose value is more than 50,000,000 Ethiopian Birr by using NCB Tender.

In an open Bidding, the buyer can request the supplier to submit its proposal in two ways as Single Envelope or Two Envelope. In a single envelope method, the supplier is required to prepare and submit its technical and financial tender response document as one document in one envelope. But in the case of two envelopes, the supplier is required to prepare and submit its technical and financial tender response in a separate document and into different envelopes.

In the case of a two-envelope tender, the technical response document will be evaluated first, and those suppliers who passed the technical evaluation will be considered for financial evaluation. If the supplier fails the technical evaluation, its financial proposal will be returned without opening it. A supplier who passes the technical evaluation and with lowest price will be the winner.

**REQUEST FOR QUOTATIONS**

Government organizations can also make procurements of medical equipment by a means of collecting quotation from a minimum of three suppliers and by comparing their offer. But the value of the equipment to be purchased shall not exceed 200,000 Birr.

**SINGLE SOURCE/DIRECT PROCUREMENT**

Government organizations can buy medical equipment directly from a single source in the case of emergency purchases where the delay of purchase creates a problem in the operation of the organization. In case of absence of competitions due to for technical reasons, government organizations can also make procurement directly from a single supplier.

Direct procurement is also allowed when “additional works, which have been not included in the initial contract, have, through unforeseeable circumstances, become necessary since the separation of the additional works from the initial contract would be difficult for technical or economic reasons” (Proclamation No. 649/2009). Moreover, when additional medical equipment is needed, the government organization can buy up to 25% of the original order from the existing supplier without increasing the price of the original order. Consumables and spare parts of existing medical equipment can also be purchased employing direct procurement method

**RESTRICTED BIDDING**

Restricted tender is a procurement method where the buying organizations invite a limited number of suppliers to participate in a tender. Organizations usually use this type of procurement method in a situation where an open bid fails because of zero or lower number of participants and when there are a limited number of suppliers for the product and service to be bought. In order to use the restricted procurement method, the buying organization shall get approval from the PPA. Similarly, to open tender, the buyer may instruct bidders to submit their tender response either in one envelop or two envelop.

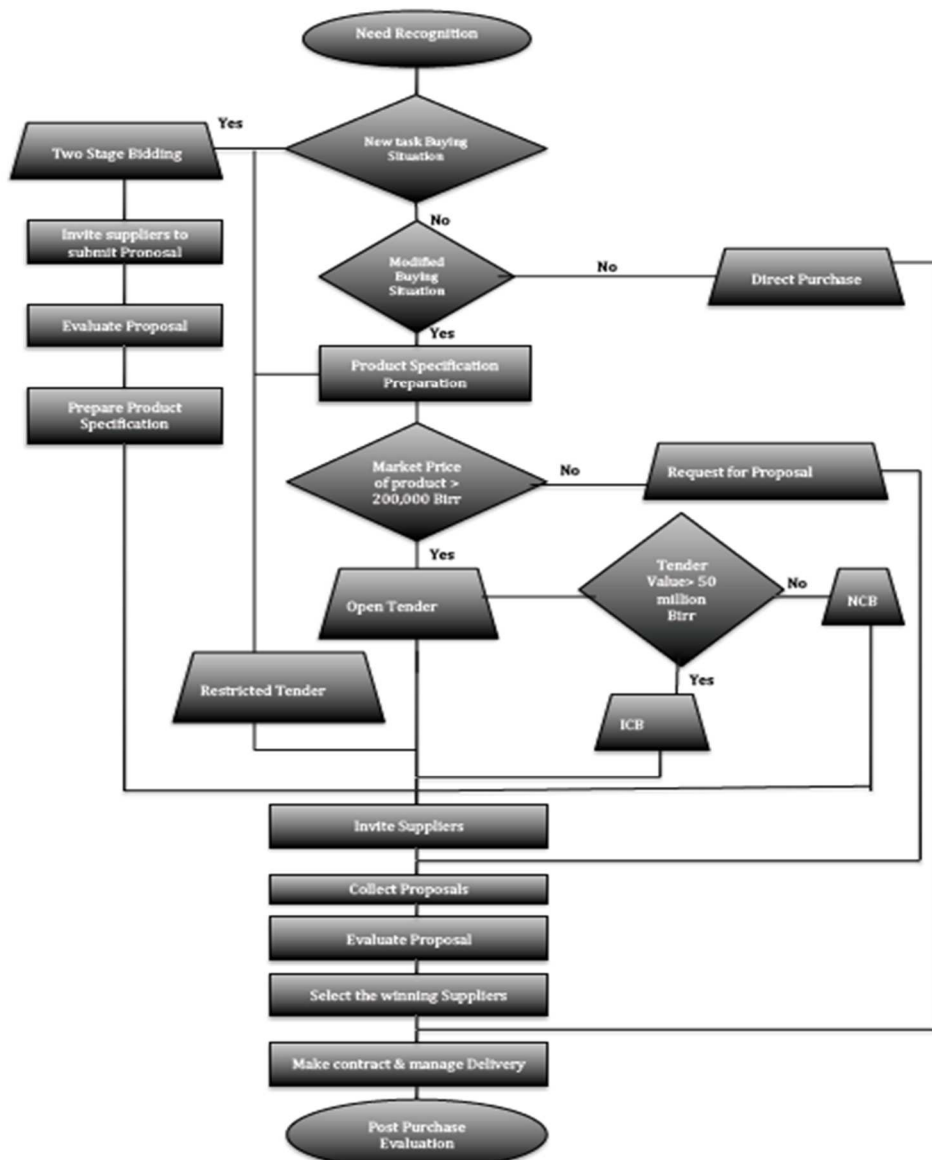
**TWO STAGE BIDDING**

Two-Stage Tendering Is a procurement method, where buying is accomplished in two stages. Buyers usually use this method of procurement when they are not able to prepare a detailed specification for the pharmaceutical and medical equipment to be bought because of the technical character of the product to be bought. In two stages tendering, suppliers will be asked to submit their proposal for the items to be purchased without a price. Then based on the proposals of the suppliers, the buying organization will develop a specification for the products to be bought and invites suppliers to submit their proposal with a price based on the new specification developed by the buying organization.

**7.2 GOVERNMENT ORGANIZATIONS MEDICAL EQUIPMENT BUYING PROCESS**

After conducting focus group discussion, interview and analyzing different documents, the below Ethiopian government organizations medical equipment buying process is developed.

FIGURE 1: ETHIOPIA GOVERNMENT ORGANIZATIONS MEDICAL EQUIPMENT BUYING PROCESS



## 9. CONCLUSION

It is not possible to have a standard buying process for different procurement methods and buying situation. The buying process of an organization will be determined by the procurement method to be used and the buying situation. For example, when the direct source procurement method is used, the buying process will go through the three stages buying process. However, In the case of the two-stage procurement method, the buying process will go through nine stages. Therefore, marketers need to understand the Ethiopian government organizations medical equipment buying process and prepare their sales strategies accordingly

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