HUMANITARIAN ACADEMY · HUMANITAIRES JOBS

Mini MBA Humanitarian Logistics and Supply Chain: supplying fast, well and fairly

Course handout · Week 4 : Supplier contracts, Incoterms, total cost and quality control

A programme of exactly 3 months (12 weeks, 144 hours) to lead a humanitarian supply chain: mapping and landed cost, demand forecasting and safety stocks, procurement and competitive bidding, Incoterms and contracts, transport, warehouses and inventories, fleet and fuel, customs and exemptions, prepositioning and distributions, health products and the cold chain, performance, costs and the environment, constrained contexts and data protection. Corrected numerical exercises, three monthly exams with case studies, and a verifiable diploma from the Humanitarian Academy.

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Week 4 : Supplier contracts, Incoterms, total cost and quality control

Objectives

- Choose the appropriate Incoterm and draw the consequences for costs, risks and documents.
- Compare offers on total cost of ownership and negotiate protective contractual clauses (penalties, guarantees, payment).
- Organise quality control and supplier performance evaluation.

Incoterms

Incoterms (rules of the International Chamber of Commerce, 2020 version) set, for a sale, the point at which the **risks** pass from the seller to the buyer and who pays which **costs**. They govern neither the transfer of ownership nor payment.

- **EXW** (Ex Works): the buyer takes on everything from the factory, including loading and export. Maximum risk for the buyer.
- **FCA** (Free Carrier): the seller hands over the goods, cleared for export, to the carrier designated by the buyer.
- **FOB** (Free On Board, sea): risks are transferred when the goods are on board the vessel at the port of loading.
- **CFR / CIF** (sea): the seller pays the freight to the port of destination (and minimum insurance for CIF), but the risk passes to the buyer as soon as the goods are loaded at the port of departure.
- **CPT / CIP** (all modes): equivalents of CFR/CIF for all modes; CIP requires extended insurance cover.
- **DAP** (Delivered At Place): the seller delivers to the agreed place, not cleared for import.
- **DDP** (Delivered Duty Paid): the seller takes on everything, including customs clearance and import duties. Often impossible or unsuitable when the organisation benefits from exemptions, because it is the seller who imports.

> A common trap: under CIF, the seller pays the freight, but if the ship sinks, it is the buyer who bears the loss and claims from the insurer. Always check the level of cover.

Comparing on total cost

Two offers with different Incoterms cannot be compared on the displayed price. Each offer is brought back to the same point (the **landed cost** at the warehouse), and for equipment the **total cost of ownership** (TCO) is calculated: purchase + transport + installation + energy + maintenance + spare parts + negative residual value.

Generator example over 5 years:

Item	Generator A	Generator B
Landed price	12,000	18,000
Consumption	4 l/h	3 l/h
Fuel (8 h/day, 300 days/year, 1.20 USD/l, 5 years)	57,600	43,200
Maintenance over 5 years	9,000	6,000
Total cost	78,600	67,200

B, 50% more expensive to buy, costs 11,400 USD less over 5 years. Fuel for A: 4 × 8 × 300 × 5 × 1.20 = 57,600. The committee may select B if the announced criteria included total cost; otherwise, the next tender must include them.

Key contractual clauses

A purchase order or a contract protects the organisation through a few essential clauses:

- **Subject, quantities, specifications** (in an annex), Incoterm and place of delivery.
- **Delivery lead time** and **liquidated damages for late delivery**: for example 0.5% of the value per day of delay, capped at 10%.
- **Payment terms**: on delivery and after compliant receipt; avoid advances, or cap them (20 to 30%) with a bank guarantee.
- Technical **warranty** (12 months for equipment) and a **performance guarantee** for large contracts (often 5 to 10%).
- **Inspection and acceptance**: right to inspect before shipment; rejection of non-compliant items at the supplier's expense.
- **Ethical clauses**: anti-corruption, sanctions, child labour, sexual exploitation and abuse, right of audit.
- **Termination**, force majeure and dispute resolution.

Penalty calculation. Contract of 60,000 USD, delivered 12 days late, penalty 0.5% per day, cap 10%. Penalty = 60,000 × 0.5% × 12 = 3,600 USD (6%, below the cap of 6,000 USD). With 25 days of delay: 7,500 USD calculated, reduced to the cap of 6,000 USD.

Quality control

Quality control takes place at three points:

- **Before shipment**: inspection at the supplier's premises by the organisation or an inspection company, for large volumes, medicines and critical items.
- **On receipt**: counting, visual inspection, sampling according to a plan (for example 1 package in 20), checking of expiry dates and batches.
- **In use**: feedback from teams and beneficiaries (post-distribution monitoring).

Goods received note. It records the quantities received, missing, damaged and non-compliant. It is signed by the storekeeper and a witness, never by the requester alone. A receipt "with reservations" is noted on the carrier's delivery note, otherwise a claim becomes very difficult.

For **medicines and health products**, specific rules apply: prequalified suppliers (for example by WHO or recognised humanitarian procurement centres), good distribution practices, control of dates and storage conditions. Buying a medicine on an uncontrolled local market exposes you to the risk of falsified products.

Evaluating and managing suppliers

Each major supplier is evaluated after each contract, on a simple grid:

- **Lead time**: share of deliveries on time and complete (OTIF, on time in full).
- **Quality**: non-compliance rate on receipt.
- **Price**: stability and competitiveness.
- **Service**: responsiveness, correct documents, handling of claims.
- **Compliance**: ethics, adherence to the contract.

OTIF example. 40 deliveries over the year: 34 on time, of which 31 complete; 6 late. OTIF = 31 / 40 = 77.5%. A target of 90% is not met: meeting with the supplier, improvement plan, and search for alternative suppliers.

Managing the relationship also means **paying on time**: an organisation that pays at 90 days loses the best local suppliers or pays a higher price.

Local procurement and markets

Buying locally reduces lead times and supports the economy, but requires a **market analysis**:

- Can the market supply the quantities without driving up prices for the population?
- Is the quality consistent?
- Do suppliers have the financial capacity to accept payment on delivery?

Price effect example. A local market usually sells 50 t of beans per month. An organisation wants to buy 40 t at once. That is 80% of the monthly supply: high risk of price increases for households that receive no assistance. Options: spread the purchase over several months, combine local and regional procurement, or use cash transfers if the market can respond gradually.

Market analyses (for example MSMA-type tools or WFP price monitoring) help decide between in-kind assistance, local procurement and cash transfers.

Exercise: two offers, two Incoterms

Situation. Purchase of 2,000 rolls of plastic sheeting. Offer 1: 28 USD per roll EXW (factory abroad); costs borne by the buyer: loading and export 0.80 USD, sea freight 4.20 USD, insurance 0.30 USD, customs clearance and port charges 1.20 USD, transport to the warehouse 1.50 USD. Offer 2: 36 USD per roll DAP warehouse (not cleared); customs clearance borne by the buyer 1.20 USD. Lead time: offer 1 = 12 weeks; offer 2 = 7 weeks. Penalties provided: 0.5% per day, cap 10%.

Tasks. 1) Landed cost per roll for each offer. 2) Total difference. 3) If offer 2 is delivered 15 days late, what penalty? 4) Which offer, under what conditions?

Answer. 1) Offer 1: 28 + 0.80 + 4.20 + 0.30 + 1.20 + 1.50 = 36 USD; offer 2: 36 + 1.20 = 37.20 USD. 2) Difference: 1.20 × 2,000 = 2,400 USD in favour of offer 1. 3) Value of offer 2: 72,000 USD; penalty 0.5% × 15 × 72,000 = 5,400 USD (7.5%, below the cap of 7,200 USD). 4) If the need falls within less than 12 weeks, offer 2 wins despite the 2,400 USD extra cost (3.3%); under EXW, the organisation also bears all the risks from the factory and must organise the export, which requires a reliable freight forwarder. If the lead time is not critical, offer 1, with a freight forwarder and proper insurance.

Key takeaways

- Incoterms govern risks and costs, not ownership or payment.
- Under CIF and CFR, the risk passes to the buyer as soon as the goods are loaded at the port of departure.
- Compare on landed cost and, for equipment, on total cost of ownership.
- Capped penalties, payment after compliant receipt, guarantees and ethical clauses protect the organisation.
- Buying locally requires a market analysis so as not to drive up prices.

Quiz

1. Under the CIF Incoterm, when does the risk pass to the buyer?
   A. On arrival at the port of destination
   B. At the buyer's warehouse
   C. On loading on board at the port of departure
   D. At the factory

2. Contract 40,000 USD, 8 days late, penalty 0.5% per day, cap 10%. Penalty:
   A. 1,600 USD
   B. 4,000 USD
   C. 160 USD
   D. 3,200 USD
3. 50 deliveries, of which 42 on time and 38 on time and complete. The OTIF is:
   A. 84%
   B. 92%
   C. 76%
   D. 50%
4. A generator consumes 2 l/h, 10 h/day, 300 days per year, fuel 1.50 USD/l. Annual fuel cost:
   A. 6,000 USD
   B. 4,500 USD
   C. 3,000 USD
   D. 9,000 USD
5. Why is the DDP Incoterm often unsuitable for an exempt NGO?
   A. It is too expensive
   B. It is the seller who imports, and the NGO's exemption does not apply
   C. It is prohibited by donors
   D. It does not exist for sea freight

Quiz answers : 1. C · 2. A · 3. C · 4. D · 5. B