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Procurement Best Practices

Corporate leaders who adopt best practices for procurement add a powerful weapon to their fight against global competitive pressures because they are better able to meet demands for increased productivity and greater profitability.

Definition of *best practice*

a procedure that has been shown by research and experience to produce optimal results and that is established or proposed as a standard suitable for widespread adoption



PROCUREMENT BEST PRACTICES

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Procurement best practices are a set of activities adopted to maintain business excellence and improve productivity in the procurement process. These practices are designed to be cost-effective, increase efficiency, visibility, and control on all stages of the procurement process and are also capable of boosting a company's revenues. When properly established and followed these practices will improve the effectiveness of purchasing decisions and increase your supply chain performance giving the organization a valuable advantage in today's competitive world.

There are many activities that can be considered best practices so let's focus on those that are more fundamental and are widely used in most modern organizations regardless of their activity.

- 1. Define your vision for procurement.** Everything else must be guided by this. What do you want the procurement function in your organization to be? Best practices will help you attain your vision regardless of how flawed or adequate your vision is so, be incredibly careful when defining your vision. What is it exactly you want to attain and what results you expect to obtain?
- 2. Define and implement procurement policies properly.** Eliminate uncertainty by designing and implementing clear policies that regulate the procurement process. Communicate these policies properly
- 3. Maintain a procurement policies and procedures manual.** This gives structure to the function and provides a place to go to for clarity and company guidelines of what is expected of you to maintain control, efficiency, and visibility to the highest level.
- 4. Properly document every step of the process.** Always write down key information about the progression of every order. The more data, the better.
- 5. Train the team.** This practice can not be overstated. It does not matter how refined, updated, or futuristic your processes, vision, and goals are, if the team is not professionally trained the procurement function will fail to add real value to the organization.
- 6. Plan and implement strategic procurement policies.** Create a procurement strategy to eliminate uncertainty in the procurement team and maximize ROI. Share these rules with everyone in your organization so that all those involved understand company's expectations and goals and ensure that procurement actions are fully aligned with those goals.
- 7. Digital procurement tools.** Going digital eliminates the repetitive activities of procurement diminishing potential errors and freeing up team members to focus on strategic roles while preparing the function to be ready for the future and the constant wave of changes in the business environment.

A complete digital transformation for procurement activities is inevitable. High-performing organizations are leading the way in this area. The adequate choice of a technological platform will allow procurement, among other things:

- a. Gain full visibility on all stages of the process
- b. Improve supplier management
- c. Efficient spend analysis
- d. Better and faster management of all purchase requests and orders
- e. Integration with all other company systems
- f. Etc.

- 8. Implement a supplier selection strategy.** Define the criteria to select the best suppliers, those that will allow you to reach your business goals (quality, price, technical merit, after sales service, etc.)
- 9. Create, manage, and update the approved supplier lists often.** Keep contact information of reliable sellers while staying on the lookout for new contacts and opportunities.
- 10. Measure your suppliers' performance.** In today's competitive environment there are many factors that can impact your supplier's effectiveness and you need to be prepared to detect changes as they might affect your performance and service levels.
- 11. Create fool-proof procurement contracts.** Store contracts electronically so implementing them is as simple as drag, drop, and complete.
- 12. Conduct audits frequently.** This means internal (to employees) as well as external (to suppliers) audits. Make sure every employee is following policies and procedures and no deviations are taking place. Hold your suppliers to high standards. Evaluate their performance regularly to ensure your demands are being met at competitive rates.
- 13. Focus on the total cost of ownership (TCO).** Purchasing based only on the price of a product is no longer a viable or productive strategy as it entirely disregards many elements that will create additional spend derived from the product purchased (maintenance, insurance, etc.). This requires close collaboration between buyers and sellers. Move your procurement from "**price mentality**" to a "**price model approach**" and your bottom line will be drastically improved.
- 14. Optimize company-owned inventory.** This is fundamental to avoid unnecessary purchases, improve the use of financial resources, reduce inventory holding cost, and increase revenue. Companies everywhere are always looking to grow their revenues while keeping their working capital to a minimum.
- 15. Establish a strong partnership with key suppliers.** Supplier/vendor relationship management (SRM or VRM) is more than just signing the deal after both parties have agreed to terms. Business deals are only the start of a relationship with a supplier, and effective and constant communication is key to successful business ties. The buyer and the supplier must collaborate to strengthen the relationship, with the objective of creating value for both parties and ensuring that business objectives are met.
- 16. Aim vigorously for sustainability. Go Green!** Responsible companies are working on reducing their carbon footprint. Procurement policies and processes must include green practices, in line with

customers becoming increasingly partial to suppliers who go green. Customers now request information about a company's green initiatives before deciding where to buy and are increasingly concerned about a company's corporate social responsibility (CSR) practices. Being socially responsible means putting in place measurable corporate policies and procedures that benefit the workplace, its workers, and the community. CSR is becoming increasingly important in supply chain management and affects purchasing decisions and risk evaluations. A company that does not have a meaningful, measurable, and verifiable CSR program in place risks backlash from its workers and consumers.

17. **Develop and implement an adequate set of KPIs.** Measure all steps of the order-to-pay purchasing process to detect variations from the desired results. This will enable you to pinpoint problems and take corrective actions and maintain visibility of the entire process.

Best practices involve improving productivity at the workplace by streamlining external and internal operations. By strengthening the consistency and efficiency of business processes, the goals and objectives of the company can be achieved with ease.

Implementing best practices is a cornerstone for any cost reduction program that promotes sustainable goals, motivates employees, increases customer satisfaction, promotes strategic development, facilitates problem detection, creates an environment of full visibility, enhances efficiency.

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