



How Important is the Procurement Department in Your Organization?

Procurement / Purchasing Department Creation: An Important Process and Foundation for Long-term Sustainability!

Each Organization is Unique

Each organization we have worked with over the years is different than others. We have learned to listen, created methodologies that fit each organizations exact challenges and needs, and from this, we have been able to ensure our clients are provided with what is needed (an out-of-box solution does not work in most cases).

One of the most essential functions of an organization is how goods and services are purchased, at what cost, how they are managed, budgeted, and processed. Without these goods and services, an organization cannot service their clients and will not stay in business. In fact, 40% of goods and services are not delivered on time when ordered, thus causing a disruption in the supply chain – this usually causes a delay in an organization’s delivery of goods and services to their client. In other words, an organization’s purchasing department and/or outsourced purchasing department is critical to an organization’s success!

The creation of a procurement / purchasing department is not just about the organizations staff, it is about strategic partnerships that will bring sustainable long-term success. ATS has partnered with many organizations and their purchasing departments over the years resulting in upper management support, effective organizational strategies, and purchasing departments that provide sustainable support and growth to their organization.

We have had the opportunity to help establish purchasing departments for several clients, whether it was from scratch to enhance their global centralization. Because we have engaged several hundred organizations, we have found that there is not one organization alike – each one has unique needs and challenges.

Three Largest Reasons

Many small to medium organizations do not have a purchasing department or, if they do, they are not fully functional, and the results are minimal. Three of the largest reasons for not being fully functional are:

- Lack of resources (finances, budget, and human capital).
- Lack of knowledge (proper training and understanding).
- Lack of executive / upper management support.



Where do Organizations Lack?

Organizations are lacking in many areas and because of this they cannot:

- Effectively centralize.
- Reduce costs.
- Bring sustainable results.
- Implement and continue best practice.
- Oversee compliance.
- Ensure quality.
- Be initiative-taking.
- Effectively communicate to their staff, inter-departmental managers / directors and results driven.
- Provide vendor management.
- Develop and provide continued strategic partnerships.
- Provide the long-term results needed because they lack many other necessary purchasing functions.

Increasingly small organizations are utilizing procurement outsourcing companies to help them because they do not have a purchasing department due to lack of funds and resources. Many medium to large organizations is utilizing procurement outsourcing companies to bring more results to their bottom line and help enhance their purchasing department's results and organizations bottom line. Another major reason many organizations are starting to utilize procurement outsourcing – no overhead (no staff – hourly, benefits, desk space, etc.).

ATS provides procurement cost reduction work, along with the entire spectrum of procurement outsourcing, procurement services, and procurement training. In most cases, the procurement cost reduction work is done at no cost until we perform (if costs are not reduced with a selected procurement cost reduction project, we are not paid).

Purchasing Department Creation

For those organizations who are about to start or grow their purchasing department, below are some steps that can be of help to you as you go through this process. There are many steps beyond these that enhance and grow founded, effective, sustainable, and forward growing purchasing departments that will result in an organization that values what procurement is all about.

How to set up a Purchasing Department



We have found that purchasing goods and services (items or services a company needs to do business), inventory, and receiving, is usually managed by the accounting / finance department, until a company is large enough to support their own purchasing department. When this happens, it is important to set up the organization and the purchasing department by first establishing purchasing Standard Operating Procedures (SOPs). Your SOPs are the foundation to all that will take place and that is why this is one of the most important things your organization will do. We recommend that you customize your needs, goals, compliance issues, communications, etc. to your organization. Also, your SOPs are not just created and implemented once – they will need to be modified to meet your organizations needs as your organization changes.

It is important that a regular review of your SOPs take place by all involved in the purchasing process. Why? This is the gauge about how things are going, whether you are compliant, how the purchasing department is doing, the performance of other departments involved with purchasing (finance, receiving, IT, etc.), what your cost savings and cost avoidance is, how vendor management is going, how your procurement software is functioning, and many other components (you can determine what these are).

Each Organization's Steps

As you read each step, keep in mind that each organization's needs are different. This means that you might add some steps, start with steps that are further down the list, or not include some at all. The steps below are listed to provide you with some guidance and ideas.

Step 1 – Mission, Vision, Goal

The most important step you will take is to determine the purchasing department's mission, vision, and goal within the organization, with your vendors, with your customers, and with any other stakeholders as it relates to the purchasing department and the organization.

This is important – if you do not know where you are going, you will end up where you do not want to go.

Step 2 – Upper Management Support

Without upper management support, the purchasing department is doomed even before it starts. Support means many things, such as: Authority; Financial; Encouraged change; Communications encouraged; Empowerment; Open to ideas; Doing what is right for the entire organization; and many other areas. This is a crucial step where support must be defined, established, and created for the proper foundation.



Step 3 – Purchasing Department Staff

Hire the right staff for the department. If you do not have the right person to direct and oversee the purchasing department, it can be disastrous! Ensure all involved with the purchasing department (CFO, Controller, COO, etc.); interview the person that will oversee the purchasing department. In other words, will this person be good with: Our organization; Our culture; People; Policies; Procedures; Vendor Management; Compliance; Standard Operating Procedures (SOPs) Development; Contracts; Negotiations; Listening; Organization; Project Management; Audit; File Structure; Software; eProcurement; and whatever else you define as important to the new or growing purchasing department of your organization?

Step 4 – Company Spend List

Establish an approved staff list to make company purchases. In other words, who will initiate Purchase Requisitions (PRs), who will sign off approving these PRs, who will sign the Purchase Orders (POs), and who will sign contracts and approve company expenditures on behalf of the company? This may involve setting limits at \$500, \$1,000, \$5,000, or more.

Step 5 – Purchasing Department Policies

Develop purchasing department policies / SOPs. We addressed this in the introduction because it is so important. Without documented expectations, people in the organization and out will be confused, which will cause things to lead to failure.

For example, some organizations have policies that employees cannot accept gifts or favors from vendors that may influence a person's buying decisions. Establish the policies that apply to your organization and the industry you work in.

Step 6 – Company Purchase Procedure

Decide if your organization will conduct purchases without POs. If so, set these procedures for purchases that do not require a PO – such as, dollar amount, spend limits, how do PRs integrate with this, will a P-card be used, and will there be other forms of payment.

Step 7 – Blanket Purchase Agreements (BPAs) / Contracts / Spend Limits

Review previous purchases made by the company and establish limits of authorization for set purchase amounts. For instance, managers authorized for purchases up to a limit of \$1,000 would require approval for expenditures beyond that amount from department heads or other upper management personnel. If your organization has purchased a considerable amount from a vendor, set up a BPA so that purchases are more effective, easier, more efficient, and time



saving. Review the contracts in place and centralize them. Develop overall procedures about how this will work within the organization.

Step 8 – Purchase Order System

Create a PO system. POs authorize expenditures, but also provide the amounts of the expenditures, or agreed upon price between the purchasing department and the vendor. Because POs authorize expenditures within the amount specified, it allows quicker payment processing for the vendor. POs also allow tracking of expenditures and provide opportunities to reduce spending by arranging contracts with vendors.

Step 9 – Purchase Order Copies / Organization

Calculate the number of POs you will need. You need to determine what is needed. An example would be: One copy would go to the vendor, one to accounting, one to purchase, another to the person generating the purchase request, and one to receiving.

Step 10 – Receiving Goods

Establish a receiving department. This involves creating receiving SOPs for reconciliation of goods and services against POs, how receiving interacts with purchasing, communications, back orders, inventory management, etc.

Step 11 – Inventory Level

Define the inventory levels of goods (raw materials) needed for the organization to operate efficiently. Use these when scheduling purchases of inventory items. Review the organization's use of inventory over a period of a year and note purchasing trends to establish needed inventory.

Step 12 – Vendor, Supplier, and Partner List

Establish a list of credible vendors. Review accounting vendor reports to verify current vendors. Ensure vendors meet company qualifications, such as providing the necessary documentation and backup. This would consist of W-9s, insurance documents, pricing lists, payment dates and information and find out if any discounts apply if payments are made earlier, such as a 2 percent discount if payment is made within 10 days. Set criteria for qualifying vendors to provide services to the company.

Step 13 – Filing System

Create a filing system based upon vendor name, purchase order number or type of expenditure. How detailed do you want to get? Keep in mind that you should place this in your



SOPs so that everyone knows and understands a proper file. This is true in Government. When the Office of Inspector General (OIG) or any other Federal Agency staff audits procurement (the purchasing department), “if it is not in the file, it never happened.” This is critical for Sarbanes-Oxley (SOX) compliance as well in any company.

Step 14 – Upper Management Approval

Meet with the appropriate upper management personnel to receive a sign-off on all SOPs (purchasing department policies and procedures). Make any changes to each area and finalize every document, SOP, and form before instituting. We highly recommend you include all parties in the approval of this because everyone will be using these SOPs, documents, and forms.

Step 15 – Implement SOPs (Policies and Procedures)

Implement policies and procedures by meeting with the appropriate managers and department heads and providing them with physical copies of policies and procedures. We would recommend that you provide this initial implementation, provide training, and allow each person to provide you with feedback so that you know they understand.

We would also recommend you have each person sign off for the acceptance, ownership, and implementation of the new SOPs. Finally, we recommend regular training so that people understand procurement, the PR and PO process, how the Request for Proposal (RFP) process works, and anything else pertinent with the entire purchasing department that affects them, affects their position and department, and the receipt of their goods and services.

Step 16 – Purchasing Department Budget & Goals

Determine the number of employees needed to efficiently operate the purchasing department, set budgets, and establish goals. Again, if you do not set all things in order, in place, with the proper foundation, it will not work. The beginning process is one of the most important parts of the equation.

Step 17 – Communications & Meetings

One of the most important aspects in life / business is to be able to communicate, which includes good listening skills. So, why would communications be an important aspect in Purchasing? Doesn't the purchasing department just take orders? No. With the bottom line being more important than ever before, whether in recession or not, the purchasing department is being looked at to provide cost reduction, cost avoidance, and sustainable long-



term procurement stability. The purchasing department has many customers that need to be served. They are:

- Who Do You Report To?
- Your Staff (purchasing department).
- Other Departments within the Organization.
- Vendors, Suppliers, and Partners.
- Organization Clients / Customers.
- The Public.
- Other Stakeholders.

Summary

It will be important to conduct regular meetings that enhance communications, feedback, need, challenges, solutions, compliance issues, inter departmental meetings between purchasing, finance, receiving, and others involved in the purchasing process.

The most important process your organization will go through is creating, implementing, and continuing a sustainable purchasing process. As you do this, ask many questions from all involved and do not discount any of your staff's input, because the best ideas are your people.

Finally, continue to implement the best practice whereby your sustainable procurement, purchasing department, organizational needs and challenges, and your bottom line are reviewed and addressed for an innovative purchasing team and system. (Landgraf, Ted and Brenner, Laurie).

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