

Best Practices in Procurement Apply to All Businesses Without Regard to Size

Stagnant profits and decreasing profit margins led to a surge in activity for procurement experts throughout the world. Businesses large and small began to focus more on cost efficiency, and relied on some of the industry's best practices to help minimize their spending.

With the downturn of the global economy, businesses around the world began to increasingly prioritize procurement strategy as part of their overall business development plan. When revenues stagnated or declined, procurement professionals were increasingly relied on to help reduce operating expenses, thereby increasing the company's profit margins. In the modern workplace, top level procurement professionals now often hold executive titles and are accepted in highest ranks as senior level managers critical to continued business success. Although these seasoned professionals often operate in large companies and manage millions of dollars, smaller businesses can also easily integrate best procurement strategies into their business plans.

Strategizing Through Technology and Supplier Relationships

The most important aspect of procurement is developing a strategy that advances the strategic position of the business. Depending on the size of the business, companies may appropriately scale and tailor the strategy to meet their needs. The strategy should appropriately delineate the procurement organization, process, and expenses at a minimum. The organization need not be large or complex. In fact, smaller businesses may operate with a designated person in each department that is tasked with procurement. In larger companies, an entire department may be dedicated to this task. Next, the company should decide the objectives and goals, process and operating procedures for purchasing and bidding, and the budgets and expenses for operations. Developing an effective procurement strategy helps to reduce waste and over spending while ensuring that employees have access to all necessary resources in the most efficient manner possible.

Another effective procurement strategy is to incorporate, purchase, or use technology that meets the needs and existing processes within the office. For example, if there are technologies that are equally competitive, but one technology can be more easily incorporated with current business practices, then choose the technology that is the easiest to implement. In a more complicated situation, evaluate the company's practices and needs, then select a technology that meets those needs without compromising the practices. Along the same lines, evaluate whether or not purchased technology needs to be updated or needs to be replaced. If a particular existing technology can be easily updated for minimal costs and operate effectively for several more years, updating the technology may save the company the purchasing costs and costs associated with training employees to use newer equipment. For example, purchasing technology through a company with a strong reputation for research and development, as well as easily updatable software systems, can help to ensure that purchased equipment remains on par with industry standards.

Additionally, e-procurement is a cost-effective tool that helps to reduce costs associated with purchasing agents and simplifies the communication process. Although e-procurement software

is not a free service, the cost savings from purchasing agents and bookkeeping are greater. Today e-procurement is prolific and businesses large and small can gain efficiencies through this new cost effective technology.

Companies with the best procurement practices tend to have close and long lasting relationships with suppliers. Businesses should work to build and maintain these healthy relationships while working with the supplier to resolve any problems. Before selecting a supplier for long term business solutions, successful procurement agents will want to align long term plans, expectations, and technology needs. Businesses that choose to consistently jump from lowest bid to lowest bid may have a more difficult time with customer service because the loyalty is absent. These long lasting and respectful relationships can lead to greater customer service and possibly even concessions when necessary. By maintaining a relationship with a vendor, a company can consider the vendor as a mainstay that provides consistent value to the company.

Focus on the Total Cost of Ownership

When evaluating the costs of a purchase, successful procurement experts look beyond the purchase price of a unit and compare the purchases based on the total cost of ownership. The purchasing price of a product or supply accounts for only a fraction of the total cost, and evaluating bids based only on the bid price seems to ignore the significant costs associated with other considerations, such as maintenance. However, understanding the total cost of ownership may involve substantial research. Buyers will need to discuss the costs with suppliers, users, and stakeholders to determine the spending associated with ownership. The most successful buyers will go one step further and work with the supplier to reduce the total costs of owning the equipment.

The costs of storing inventory can be staggering. Storage, insurance, and taxes often increase the operating costs of maintaining inventory. With proper monitoring and adjustments, procurement experts can reduce the costs associated with excessive storage. To reduce excessive storage and inventory, strategists should monitor trends and focus on accurately predicting inventory needs. Similarly, businesses can utilize a more holistic approach to inventory by monitoring security and risk management practices to ensure that inventory is not being lost. When evaluating risk management practices, businesses should ensure that appropriate safeguards are in place but that the safeguards are not excessive to the point of inefficiency.

A successful procurement strategy balances both acquisition of state of the art technology with budgeting considerations for operating costs. Implementing a strategy that integrates the industry's best practices can help reduce overall operating costs while incorporating modern effective technology. By developing a plan, purchasing wisely, building relationships, researching total costs, and monitoring inventory, businesses can position themselves in the marketplace for success.