Purchasing Processes Do Matter

Learn how to better manage your order-to-delivery processes. This paper explains why a proper monitoring of your purchasing operations is crucial to improving your vendor relationships.

Overpaying? Working with underperforming vendors? Losing sales because of unavailable items? Suffering business setbacks due to poor quality or unavailable supplies? Are you even aware of your losses? Purchasing needs to be purposeful, planned and managed. This requires a good system with constantly updated information and the ability to evaluate and analyze this information.

The need for planning. How far out can you anticipate your inventory requirements, whether it be for saleable items, inputs, supplies, or parts? Clearly, the longer the better as it allows you to get multiple quotes based on anticipated requirements and to put agreements in place. This then allows you make purchases based on you plans.

Are safety stocks required? The requirement for safety stocks depends on purchasing quantities, purchase units, purchase intervals, delivery time, and the cost of not having inventory available. Inventory held in stock is expensive due to the cost of holding, including interest, handling, storage, damage, and shrinkage while in storage. The greater the cost of not having items available, the greater the safety stock. Similarly, the longer the supply line or the larger the purchase unit, the greater the safety stock.

How many vendors should you deal with? The smaller the number, the lower the cost to you due to staff time and other factors. You need enough vendors to know that you are getting good prices with assured supply and quality service. Over the long term, the vendor relationship is often more important than the immediate price and other factors.

Who should do the purchasing? While purchasing is generally handled by a purchasing department or specialist, there are times it needs to come from the field or the worker requiring the items. This is particularly true of parts and items that are immediately required. Purchasing has cost, both in terms of processing time and consequences. For drop ship and other routine purchases, a pre-planned procedure needs to be in place ... with periodic review. This should be aimed at providing the balance of optimal prices and level of service.

The importance of the order process. Where purchasing is handled centrally, a smooth two or more step process is required, depending on the approval process. The initial requirement is generally best handled as a requisition that is then processed into a PO for the appropriate vendor. Selecting the vendor is generally the domain of the purchasing department. This needs to be an easy procedure with significant work flow automation, including the approval process.

The need to determine delivered costs. The cost of purchased items is seldom just the item cost. Typically there freight, taxes, customs duty, and various other fees.

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These need to be allocated against the purchased items and distributed accordingly, particularly where the items are brought into inventory.

A proper receiving and payment process. Following the receipt of product, various processes need to be in place to confirm that you received what was ordered, at the agreed price and of the expected quality. Available discounts need to be confirmed and taken advantage of. In the same way you expect your vendor to meet your expectations, your vendor expects you to meet their payment and returns terms.

Managing operational exceptions. Handling exceptions is always a challenge, particularly where there are delays, unavailable items, accidents, and so on. The sooner you know about it, the quicker you can react to it. This is where an operational dashboard can be particularly useful when it is coupled with updated vendor and logistics information on your purchase orders. This allows an immediate alert to issues once you have the information.

Assessing vendor performance. Finally, having a system that provides the information needed to manage your vendor relationships and their performance is critical. You need to set relevant KPI's and manage against these. A dashboard is particularly useful for this purpose. For major vendors, it is valuable to review their performance with them as it allows you both to agree on the level of service expected and their commitment to it.

Conclusion. How you design and implement your procurement processes do matter. Best practices in this area can make the difference between exceptional and ordinary business performance ... and, in some cases, your survival. Having the right product in the right place at the right time at the right cost should be non-negotiable. Yet, many businesses fail to implement their processes to achieve this. And, certainly, without competent software and information links into your supply chain, this becomes very difficult to achieve.

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