

# KEY PROCUREMENT TAKEAWAYS

TO BRING INTO 2017



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With 2017 approaching, it is worthwhile to look back at the basics of Procurement and define best practices that should frame and guide our strategy in the new year. We will first look at the most common Procurement challenges that can stifle growth and why it is crucial to work through them and optimize the Procurement function. We will then look at ten fundamental best practices that will help companies achieve this optimization, and consider the best ways to implement them.

## THE CHALLENGES OF PROCUREMENT

In today's competitive environment, managing Procurement is becoming more and more challenging. The main challenges facing Procurement decision makers are the following:

- The **supply chain** is an important area of spend and untapped savings, as it represents up to 80% of a company's controllable costs and often has a savings potential of about 20%, but it is also often a **prime source of corporate risk** that requires careful administration.
- There is often however a **lack of risk management processes** in supply chain and Procurement decision-making, as their strategic consequences are not always immediately apparent.
- Precisely because the Procurement function is rarely regarded as strategic, it is usually managed for cost. This **over-emphasis on cost reduction** can result in the deterioration of response times, logistical expediency and quality.
- Finally, **poor timing and speed can affect the whole production process**. Late deliveries of components can cause downtime, which can result in delays in deliveries, potentially causing clients to cancel orders, resulting in drops in revenue, not to mention the implications on brand, reputation and share price.

Why is it important to overcome these challenges? Because companies that can avoid falling into the trap of managing their Procurement function along these risky lines can achieve a healthy and optimized Procurement process, which is at the core of profitable business.



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## WHY IS HEALTHY PROCUREMENT CRUCIAL

By optimizing Procurement, companies can improve the entire production cycle in two major ways:

- By **optimizing the cost of goods**, which considerably impacts total profitability – with a substantial chunk of companies' budgets going into cost of goods, even a small percentage of savings in this area can yield tremendous results.
- Through **minimizing inventory levels**, resulting in lower investment in inventory carrying costs, better usage of floor space and higher production efficiency.

Optimized Procurement is beneficial to the bottom line, particularly for companies whose greatest investments are made in inventories.



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## BEST PRACTICES – 10 KEY PROCUREMENT TAKEAWAYS

### 01 Consolidate Your Supplier Base

Consolidating the supplier base decreases the administrative burden of managing payments and purchases to and from the suppliers, reducing costs. It is best to choose one supplier or Procurement partner that has deep sourcing ability.

### 03 Procure Quality Materials

Even though cost reduction should not be the focus of Procurement, it is naturally advisable for companies to optimize costs in ways that don't negatively affect the business. Costs can be reduced by working with distributors or agents who are not tied down to any one supplier and who can thus identify and obtain the shortest lead time and the most competitive pricing among various sources. Also, obtaining a reduction in the cost of goods through volume purchasing or the reduction of overhead costs by outsourcing the Procurement process can significantly affect the bottom line.

### 02 Reduce Your Costs – Goods and Overhead Costs

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### 04 Speed Is Crucial in Procurement – Implement It

Speed should be the focus and the forte of a good Procurement process. Companies should require fast RFQ response times, timely deliveries and quick lead times from their suppliers, as an expedited procurement process increases productivity and competitiveness.



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## An expedited **Procurement process** increases productivity and competitiveness by:

- » Reducing surplus inventory and associated costs;
- » Reducing the risk of downtime and/or line stoppages which can entail catastrophic costs;
- » Speeding up manufacturing cycle times;
- » Enhancing manufacturing capabilities;
- » Reducing time to market;
- » Enhancing productivity of personnel;
- » Increasing sales revenue through the quicker fulfillment of customer orders;
- » Avoiding the lowering of finished product sales prices due to late deliveries;
- » Improving the overall perception of your company due to the faster distribution of your product.

## 05 Require Timely Deliveries

Timely deliveries are a basic requirement for any good Procurement process. Just-in-time deliveries enable companies to optimize inventory levels, thus reducing costs, while expedited deliveries in emergency situations help manufacturers reduce or completely avoid downtime. Teaming up with trustworthy suppliers and partners who can guarantee that companies will receive the necessary parts or supplies on time will ensure a stable and undisturbed production process, helping the entire business.

## 06 Implement High Frequency of Shipments

Receiving products when and where they are needed will enable buyer companies to keep inventory levels and safety stocks at a minimum and in this way achieve operating cost reductions.



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## 07 Minimize Your Inventory Levels

Minimizing inventory levels lowers inventory carrying costs and improves cash flow. It also enables a more efficient production and an optimal utilization of floor space. An additional outcome of minimized inventory levels is a reduction in damaged inventories. The longer a raw material or sub-assembly is sitting on the shop floor, the more likely it is to become damaged, obsolete or past expiration date.

## 08 Realize Quick Lead Times

Quick lead times can help companies operating in changing markets to get the right product to market at the right time. Maintaining an agile Procurement process can help businesses take advantage of growth spurts which may be seasonal while reducing the overhead costs associated with such seasonal fluctuations. The ability to quickly execute an increase in production is an increasingly important differentiator in today's competitive market.

## 09 Employ a Multi-Disciplinary Team

An effective Procurement process should employ experts in the fields of Distribution and Supply Chain Logistics, Manufacturing and Product Development in order to make informed decisions aligned with business goals and ensure that the Procurement process runs smoothly.

## 10 Build Trust and Relationships with Key Suppliers and Partners

All collaborators and suppliers need to be selected carefully, and relationships cultivated with care, to reduce risk and ensure an optimal Procurement process and cost profile. Developing a strong relationship with your suppliers and partners is fundamental in ensuring that your Procurement process operates smoothly. Reliability and stability are the often overlooked but critically important intangibles – you should work with suppliers that have a proven track record and that you can trust to get the part you need, when you need it.



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## HOW TO PUT THESE BEST PRACTICES INTO ACTION

Companies can either look to implement these best practices internally, or outsource with a trusted partner who already operates with these best practices incorporated in their process. As internal optimization can be very expensive and complex and requires time that most companies don't have, Procurement outsourcing has become an essential strategy for companies to optimize their Procurement and remain competitive.

### BY OUTSOURCING PROCUREMENT, COMPANIES ACHIEVE THE FOLLOWING BENEFITS:

- » Focus on core competencies for greater market share
- » Increase long-term stability of Procurement functions
- » Reduce cyclical staffing demands
- » Reduce supplier base
- » Reduce cost of goods
- » Reduce overhead costs
- » Off-load the time burden of tedious time-consuming tasks
- » Improve order execution
- » Reduce costly downtime and manufacturing cycle time

## WHY PROCUREMENT OUTSOURCING MAKES GOOD BUSINESS SENSE

Procurement officers are under such great pressure to be more efficient and to do more with less. Outsourcing can relieve that pressure as it reduces costs and, if the outsourcing partner is chosen wisely, helps companies optimize and expedite their Procurement function quickly.

Procurement outsourcing has the potential to both reduce the cost of doing business and increase sales revenue. Firstly, it allows companies to dramatically reduce costs by reducing the supplier base from dozens or even hundreds to just one, but it also allows them to avoid being tied down to any one supplier. A good Procurement outsourcing partner can identify and obtain the shortest lead time and the most competitive pricing from a variety of suppliers. Additionally, alongside optimizing the cost of goods, outsourcing also reduces overhead costs.

Secondly, improving Procurement operations means better availability of materials for manufacturing. Therefore, while saving money on direct Procurement costs, companies can also increase sales revenue by outsourcing.

Finally, besides saving companies money, outsourcing can save companies time. Time-consuming and tedious everyday tasks can be delegated to a 3rd party service provider, allowing decision makers to focus on core competencies and optimizing their overall strategy.



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## HOW TO CHOOSE THE RIGHT PROCUREMENT OUTSOURCING PARTNER

You should choose a company that can meet your requirements in speed, price, range, accuracy and reliability. It is important to find a partner that you can trust to get the job done in critical situations, like getting that critical manufacturing component on time.

You should look for a company that offers a broad range of quality materials and products, timely deliveries and quick lead times, and that can help you reduce costs. It is also important to find a company that employs experts who have years of experience in the business and who can optimize your operations by employing their know-how and Procurement best practices.

Perhaps most importantly, your outsourcing company should truly be a partner, an extension of your business and fully invested in the success of your company, adding value by maximizing every dollar spent to aid in the achievement of your financial goals.

## DO YOU GO BIG OR SMALL?

While large Procurement outsourcing companies may appear as a safe choice, it in fact makes more sense to hire a small outsourcing partner, as small Procurement companies are more flexible and efficient than Procurement giants.

Large companies usually don't have the ability to be as agile when it comes to getting whatever you need quickly. In many cases, what would take large companies many days to process due to the size of their system, small companies can get done in a mere matter of minutes.

Additionally, while big companies can be thrown by requests that don't fit their mold or their exact processes, small companies can be more agile and effective in handling any type of order. Finally, while customer service is, for many large companies, just a buzz word, small businesses are usually more dedicated to their clients and can act as true partners to your business.

In the end, however you choose to go about improving your Procurement function, it is highly recommended to take into account these basic best practices and enter 2017 with a new and improved Procurement strategy.

CTA's **Procurement service** offers a highly skilled and dedicated team to perform Procurement functions quickly and inexpensively, and with the flexibility needed to meet the changing needs of any Procurement department.

If you would like to find out how CTA can help your company optimize its Procurement process, you can **contact us** or send us your **RFQ**.



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