Effective supply chain management is crucial to building business profit. And if you want to consistently ensure you’re bottom line is always on the plus side, that means procurement savings need to be a priority. Procurement costs should be kept as minimal as possible, to ensure profits are as high as they can possibly be.

Take a look at these seven cost reduction strategies procurement professionals use to reduce spending and maximize profit potential.

**Best Practices for Procurement Savings**

**Consolidate Vendors Where Possible**

Supplier management is critical to maximizing your procurement savings. By taking time to identify strategic vendors and consolidating the total number of vendors you work with, you can save time and money. Consolidation often means you can get volume discounts and higher quality, and because there are fewer suppliers to manage overall, the process becomes more efficient.

That said, you always want to have a couple back up vendors, especially for your mission-critical goods and services, in the event that your main vendor cannot fulfill your orders from time to time.

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Reduce Maverick Spends

Maverick spending, also known as tail spend, or rogue spending, which can account for up to 80% of purchases made in a company that lacks a centralized purchase-to-pay procurement process, will kill any potential for procurement savings. Spend some time conducting a spend analysis — that is, looking through spend records to find any uncontrolled spending. Once you’ve found it, assign it to your preferred suppliers and go over your process with your team so they know how to handle everything the correct way.

“Maverick spending can wreak havoc on your procurement organization if it’s not reigned in and stopped. Keep track of where every dime goes with a centralized procure to payment process and system for better cost management.”

Improve Risk Management

Every business comes with risks, and one of the biggest ones you could face is supplier dependence. While you should aim to consolidate suppliers and vendors when possible, one of the key ways to manage risk is to ensure procurement doesn’t depend too much on a major supplier. This means paying close attention to contracts, following up with suppliers, and taking action to avoid logistical issues, such as always having a backup supplier available to cover the most important goods and services required to keep operations running smoothly.

Part of risk management also means focusing on cost avoidance — which is a form of savings. By focusing on ways to reduce the rate of cost increases or negotiating contracts with value added services — such as extended warranties or free shipping — you save money.

Reduce Internal Costs

By streamlining processes, you can reduce operational costs. Procurement should work with other departments to define transparent processes. With improved visibility into overall spending and data accuracy, it’s easier to reduce transaction costs and failure costs.

Use Category Management

Category management is a procurement approach that can definitely save you money. It helps you find opportunities to save money to cut down on your internal costs, and boost profits by creating exclusivity agreements.

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Avoid Spend Leakage

Spend leakage happens when spending occurs that’s outside the terms of the contract. Procurement should monitor all purchases for compliance with contract term, including payment terms. If any non-compliant purchases are made that cause spend leakage, procurement can work to put controls in place to prevent it from happening again.

Compare Best Prices with Tender Management

Tender management is part of any good sourcing strategy. When you provide numerous companies with the opportunity to bid for the work, their bid should include how their company will solve your business problem and provide a competitive price for the work. The process of designing and writing these proposals, also known as tenders, that include the competitive pricing is known as tender management.

Other Considerations for Procurement Savings

Cost Savings in Relation to Demands

Research shows that every dollar you spend on supply management, provides you with a return of $6.77. By decreasing demand, you can achieve cost savings. If you reduce overall consumption, you’re taking cost cutting measures that can reduce or eliminate hidden costs and give you tremendous savings in the long run. This is important to consider when you’re buying things like laptops, smartphones, or leasing company cars for your team.

Up-Skill Employees

Spending company resources on training your employees to be more empowered and make better decisions for your company can improve your bottom line over the long run. Investing in training to improve negotiation skills, for instance, can make for better supplier relationships and easier contract management.

Employees are after all, your company’s biggest asset, so investing in them and their professional development is in the company’s best interest.

Review Supplier’s Terms and Discounts

Take time to make sure a master agreement is in place for all your suppliers. When and where possible, talk with your suppliers to find procurement savings just by changing your purchasing patterns. For example, you may buy more products, but in exchange, get a higher discount, which saves money over the long term.

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Use Technology to Reduce Communication Costs and Improve Efficiency

Use e-procurement software and other technology so you can communicate faster and more efficiently with your procurement department and suppliers. You’ll have improved access to supplier catalogs, giving you a better range of product choices that could lead to increased savings.

Review Stock Levels

If you have a lot of stock sitting around in your warehouse, it’s not going to make any profit. Not only this, but it costs money to store it, and the longer it sits, the more deteriorated it becomes - and the higher chance it has of becoming obsolete. Keeping a close eye on stock levels ensures you’re rotating everything with the first in, first out principle, so there is little waste.

Good procurement function management is necessary to ensure your company remains profitable. Keeping an eye on procurement savings opportunities gives you more freedom in your budget to invest in other ways to help your company grow.

PurchaseControl can make your entire purchase-to-pay process easier and give you a centralized place to store supplier catalogs, contracts, and more, to help improve profit margins.

Find Out How

https://www.purchasecontrol.com/blog/best-practices-procurement-savings/
About PurchaseControl

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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