How To Build An Effective Procurement Strategy

What is procurement strategy? Why does a business need one? An effective procurement strategy is a financial plan to manage your budget, workflow, and production timelines and keep everything aligned with company objectives.

Without a documented procurement strategy, it is nearly impossible to keep cash flowing smooth and even. Every organization’s procurement strategy should be uniquely tailored to meet the needs of the business. The strategy you create should consider the company’s current status and protocols, stakeholder buy-in of procurement strategy, market conditions, and company goals, initiatives, and objectives.

If your company can’t stay on budget and cash seems to be leaking away from unknown sources, you may be in desperate need of a strategic procurement overhaul. It’s also a good idea to examine procurement strategies once a year to ensure the business is on track.

The goals of procurement strategy:

- Minimize error and lost savings opportunities
- Identify authorized buyers

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Here are 8 steps to create an effective procurement strategy.

1. **Invest in procurement software.**

   Businesses that do not integrate [procurement software][3] are likely to lose money due to errors, delays, and overpayments. Procurement software increases productivity and minimizes errors by reducing data entry and redundancy.

   Procurement software tracks purchases from purchase order to payment, eliminates approval bottlenecks, and ensures that purchasing meets approval standards before ordering. Invoice payments can be flagged for early payments where advantageous to take advantage of discounts.

2. **Assess where your business is now.**

   It’s important to know how the business is doing before moving forward. If you have a strategy in place, determine whether it meets your needs and how it will scale up to meet upcoming challenges. Identify any potential weak areas for improvement, and look for areas where money might be wasted.

3. **Sell the idea of revamping the procurement strategy to stakeholders.**

   Get input from everyone who might be involved, and make them understand that the goals of an efficient procurement process are to speed turnaround and production time, lighten the workload, reduce paperwork errors, and eliminate time-consuming bottlenecks for significant cost savings.

4. **Define company goals.**

   Although the end goal of every business is “make more money,” strategic goals should far more detailed. A well-defined goal includes a specific target to shoot for and a plan to achieve it. Goals might include increasing sales or revenue by a some percentage, increased production, higher sales, lower costs, or anything else your company measures.

   Keep SMART principles in mind while goal-setting:  
   Specific – Set detailed goals.  
   Measurable – Decide how you will define and measure success.
Assignable - Define who is responsible for each achievement.

Realistic - Make sure goals are achievable and realistic.

Time-related - Set a timeline to meet each goal, with checkpoints and an end date.

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5. **Define priorities.**

With the input of stakeholders in hand and company goals in mind, determine how to prioritize purchases. Your priorities depend on your business. Building contractors need to schedule purchase deliveries in line with construction deadlines, while retailers need to coordinate with marketing to determine which goods will be pushed and when.

6. **Set procurement policy.**

Make a list of authorized purchasers and a budget for each department. Expected purchases can be approved in advance to speed the process, while outliers require submission to the procurement department for approval.

Define specific procurement practices for each department, including what categories of goods and services are automatically approved (within budget), which suppliers are preferred, what kind of purchases need approval, and who will provide approval when necessary.

Today, ethical considerations often influence company purchasing decisions. Your choice of suppliers should reflect corporate culture and values, for example your company may be committed to purchasing only from sources with fair market conditions or high environmental standards.

Procurement software can be set to recognize automatic approvals and forward purchases that require signatures through the approval process. The procurement

7. **Fine tune sourcing strategy.**

Typically, a company in search of new suppliers will take bids from at least three companies. An efficient strategic sourcing policy must specify the criteria used to determine which suppliers are chosen. Criteria usually includes supply quality, price, delivery times, service, compliance with regulations or company objectives, or any combination of factors.

Establish preferred vendor list by evaluating suppliers based on selection criteria. If the business has compliance regulations, include all factors that may influence purchasing decisions.

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8. **Define success metrics**

Once the plan is executed, the new procurement process should be evaluated based on metrics that determine success. What will successful implementation look like and how will you measure it? Common metrics include decreased costs due to reduction of errors, more efficient delivery schedules, and more favorable contract terms. Adjust strategy as necessary to enhance efficiency as the business grows.

Procurement strategy should be a comprehensive roadmap for company spend and a tool to maximize budget and minimize errors, late or duplicate payments, maverick spend, and poorly-timed deliveries. Following an efficient strategy ensures consistent cash flow and a healthier bottom line.

Automate management of your procurement strategy with PurchaseControl

**Find Out How**

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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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