5 Purchasing Practices That Will Save You Money

The purchasing department is often overlooked in a large organization. One of the biggest challenges to adopting the perceived bureaucracy that comes with formal procedures is getting the C-suite and other management stakeholders to buy in. And one of the best arguments in favor of procurement process protocol is saving money. Here’s how any business can save money with a best practices purchasing system.

1. Create a Centralized Supplier Database

Decentralized databases pose a number of issues that result in cash leakage. Information may be out of date or duplicated, which means the company is wasting time and money on redundant work to update each database separately as needed. Or worse, departments are ordering using old agreements, and paying too much for goods and services. Purchasing best practices includes a single supplier database reconciled to eliminate duplicate entries and updated information.

**Cost savings and advantages:**

- **Supplier evaluation:** The data gleaned from accurate, company-wide information allows procurement professionals to analyze sourcing information and identify the highest performing

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suppliers who consistently offer the highest quality for the best price and make on-time delivery.

- **Reduce the number of vendors and orders:** In large organizations, dozens of orders may be filed at the same time with different vendors, for the same raw materials. Multiple orders add up to more processing time and diluted buying power. By limiting vendors to a small preferred list, companies can be sure they are always getting the best deal for the money they spend.
- **Enhanced contract negotiations:** Accurate supplier information allows company-wide price negotiations, increasing buying power and strengthened relationships with preferred vendors. This opens the door to negotiating lower bulk prices based on past history of orders and prompt payments.
- **Informed buying decisions:** Building a greater understanding of where and how money is spent across the organization facilitates more accurate budget forecasting and smoother cash flow.

2. **Maximize Supplier Incentives**

For a business on a tight budget, paying invoices at the last possible moment may seem advantageous, and that practice became so standard that many vendors built financial incentives into contracts. To encourage early payouts, many vendors offer rebates or discounts. Efficient purchasing management includes maximizing cost savings offered by suppliers.

**Cost savings and advantages:** Oddly, although these types of incentives have been around for decades, a lot of companies still pay on the due date and lose money as a result. Automated e-procurement systems recognizes the incentive dates and flags them for early payment.

The reverse can also be true. Experienced purchasing professionals can negotiate extended payment term contracts to increase the business liquidity. The key is to realize the most advantageous pay schedule for the circumstances.

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3. **Hire Purchasing Professionals**

Contrary to popular belief that purchasing is similar to clerical or accounting work, purchasing professionals have a specific skill set. Since most company spend flows out through the purchasing department, hiring professionals should be a no-brainer.

Purchasing professionals have a wide variety of skills, including industry knowledge, data analysis skills, negotiation skills, and interpersonal skills.
Cost savings and advantages: companies that hire employees who lack the core skills to conduct negotiations, evaluate vendors, and build vendor relationships spend more on goods and services, and may find themselves tied into long-term contracts with the wrong vendors or receiving the wrong material. Purchasing professionals earn their keep with value-based purchasing practices.

4. Supply Chain Management Optimization

When you have a good relationship with trusted suppliers, it’s easier to implement just-in-time delivery (JIT) for better inventory management. Goods are delivered as needed, rather than in bulk at the beginning of a project.

Cost savings and advantages:

- **Just in time delivery**: Storing raw goods for future use can be both costly and risky. JIT delivery shifts the potential for loss due to spoilage, theft, weather, or other issues capable of ruining viable materials from the purchaser to the supplier.
- **Standardized buying**: One common area of budget creep is in excess specialization, and one area of the worst excess is electronics. The cost of smart phones and laptops can really add up if issued on demand as ordered. Setting specifications for common goods eliminates the additional costs associated with one-off ordering.
- **Local or long-distance sourcing**: Depending on what you order, you may benefit from local, long-distance, or even global suppliers. The purchase department is responsible for factoring sourcing costs and advantages, including shipping, taxes and tariffs, and potential compliance conflicts.
- **Contingency plan**: Things happen. Hurricanes, fires, flooding, bridge collapses, and presidential edicts are unpredictable and can cause devastating supply chain. Companies with a sourcing strategy that includes a contingency plan don’t come to a screeching halt when raw materials don’t arrive on schedule.

5. Embrace Technology

Introducing technology to the procurement-to-pay process helps keep budgeting goals on track and improves the liquidity of the organization. An automated procurement system aggregates data across the company and takes every detail of the supply chain into account for a far more accurate spend analysis. An automated system flags trends and exceptions, and offers insights to improve procurement practices based on quantitative data analysis and predictive modeling.

Automated systems allow procurement professionals latitude to adjust the annual budget on the fly as needed to streamline the process in real time. Contracts can be monitored as they are fulfilled, opportunities found to eliminate bottlenecks, streamline procedures, and find new avenues for more informed spending.

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Cost savings and advantages:

- E-procurement solutions eliminate costly data entry errors and redundant work.
- Protocols can be set to automate tasks for more efficient workflow, reducing time spent on expected transactions.
- Automated programs can analyze huge amounts of data faster and more accurately than any human, leading to more strategic sourcing and informed buying decisions.

Earning buy-in from executives and middle management can be a tricky proposition. Since centralized procurement seems like a loss of autonomy and they will be reluctant to give up their purchasing card, they will push back unless they clearly understand the benefits. But every business person understands impact to the bottom line, and that makes cost reduction initiatives the strongest argument in favor of an organized, automated procurement system.

Remove manual data entry errors and redundant work with PurchaseControl

Find Out How
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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