Procurement Budgeting and Staying Within Budget

Budgeting is an important part of financial management both in and out of the corporate world. While budgeting may not be the most glamorous tasks, budgeting is important because it tells us what we can and cannot afford and serves to support our purchasing strategy, whether we’re planning a family vacation, buying our weekly groceries, or handling things at a corporate level. Budgets can warn us when our finances are spiraling out of control, but they can’t prevent us from making a purchase.

During a family vacation to San Francisco, I had to deal with budget management head-on. For transportation throughout the course of our trip, I rented an economy car. When I arrived at the rental car kiosk, I realize that we had an extra piece of luggage they wouldn’t fit in the car, so the agency allowed me to upgrade to a midsize sedan or a luxury SUV.

The luxury SUV doubled the cost of the rental, but rather than waiting a day for the less expensive SUV rental that wouldn’t be available until later in the day, I ended up opting for the luxury SUV. This meant that I was spending twice what I had planned on my rental budget for the trip. However, I compensated for the overage by using loyalty points to book a hotel on the last night of our vacation. Keeping flexibility, control, and visibility of my options helped me stay in line with our travel budget.

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Procurement as a Function

Procurement is more than just making purchases. It addresses Logistics, marketing, tendering, Contracting, strategic sourcing and IT. And that doesn’t even include the daily shipping and receiving responsibilities.

Failing to implement specific procedures throughout your organization, such as ordering restrictions and project-based budgets can cause your bottom line to take a major hit. Implementing these procedures requires getting stakeholders, finance, and procurement, collaborating together on a plan. For many organizations, procurement its role in budgeting is generally related to directly acquiring products and services so they aren’t always present in budget meetings that occur organization-wide. This translates to savings and goals that often exist in their own bubble.

Procurement still requires a formal budget to purchase materials directly. Creating a formal budget ensures transparency across all departments because finance will be better equipped to find the savings against their initial budget, and they’ll be more aware of annual price increases since they are recorded in real time.

The majority of established procurement departments have a pipeline of projects they are looking at for the year. Discussing budget with all the stakeholders allows procurement teams to account for all the opportunities to save money.

“Without collaboration with the C-Suite and finance, procurement will not be able to work at its highest efficiency. Without keeping accounts payable in the loop, there’s a higher risk of unnecessary spending.”

Procurement Budgeting: How To Stay Within Your Budget

In the business world, managing your budget needs to be just as flexible as your personal vacation or grocery budget. When you’re dealing with capital expenditures or operational expenditures, or other projects related to your budget, adjustments in allocating purchasing to various accounts are cost centers or making purchases from different suppliers may be required. This means budget flexibility they can be adjusted to the uncertainty of various projects you’re working on. The budget flexibility also means you need to provide visibility and control for all the stakeholders involved in understanding the real-time current state of any particular budget at any point.

The lack of flexibility visibility and control is a major issue for procurement teams when they are trying to align with the finance department. Recent research indicates that nearly half of finance leaders believe that only 20% or less of procurement savings are shown in the bottom line. Most procurement and finance leaders rate the sourcing process as less than “very effective”.

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The main reasons savings are not reflected in the bottom line is that budgets are not enforced, and that company savings end up being spent in other areas which demonstrates an inability to adjust for various changes in specifications or needs. Without building in proper flexibility, controls, and visibility, you cannot make adjustments to the budget which increases the risk of your savings being depleted.

Invest in the Proper Budgeting Tools

What your business needs are budgeting tools that can accommodate changes while simultaneously notifying those involved. Investing in a procure-to-pay system allows your business to provide transparent, real-time budgets, for all the complex operations throughout the organization. E-procurement not only streamlines the procurement process, it makes for an easier budgeting process and better spend management.

Procure-to-pay systems provide a variety of capabilities for advanced budgeting that are crucial to successful budget planning including:

- **The ability to manage multiple budget types** – These systems provide distinct functionalities for various types of budgets such as operating expense budgets, capital expense budgets, project-based budgets, and contract-based budgets. This granular level of control provides flexibility for managing across business groups and needs.

- **Making it easier to match and link spending to budgets** – Through procurement automation, these systems automatically match spend to budgets based on purchasing information including cost centers, GL accounts, and commodities. This allows each budget owner to see their spend against their budget in real time. Procure-to-pay solutions also support budget renewals and updates for increased flexibility.

- **Keeping the budget lifecycle fluid** – Organizations need the ability to tailor their tools to their own budget life cycle strategies. Tools like this include methods for importing budget data from external systems, planning, forecasting, renewal processes, execution and establishing the hierarchies of budget approvers and owners along with building budget levels, phases, and milestones.

- **Integration with financial systems for accuracy** – Your budgeting information should also flow through to an enterprise resource planning (ERP) system, even in cases where your organization uses the software to monitor budgets across multiple subsidiaries and locations. This allows approvers to make more informed purchasing decisions and they also help improve accuracy in financial reporting and compliance.

- **Creating custom approval rules for visibility** – Based on the budget owner’s needs, the ability to create custom approval rules allows budget management against various requirements. This creates the necessary visibility too closely manage and oversee any allocations that affect the budget.

- **Gaining real-time visibility of any budget** – By providing access to real-time information on
all spend activity, but owners can track their spending against their budget as soon as the purchases are made or requisitioned using built-in budget trackers and key performance indicators (KPIs).

- **Establishing controls to prevent overrides** – Systems use configurable controls to protect company assets. Administrators can create hard or soft stops for certain budgets limits and designate which approvers have the authority to override the limits.

PurchaseControl features budget management as part of our purchase order software. Using our solution improves company performance by helping you manage your intrinsic needs – how to define, Monitor, and manage budgets to reduce Rogue spending and improve Financial forecasting.

Our QuickBooks integration allows you to keep financial data updated for the full purchasing cycle. Our built-in reporting solutions make it possible to create customized reports and alerts to significantly reduce any non-compliant spend, while strengthening financial controls. By allowing purchasing to occur outside of the procurement department with these budgets and controls, the procurement team is freed up to spend more of their time and effort on strategic sourcing to help the business secure even more cost savings. These strategic decisions go a long way toward aligning the finance and procurement departments.

As your business grows, the role of budget planning expands as well. Because there are more people in the mix, higher costs, and more departments, budget planning becomes a little bit more complex but that much more imperative to the success of the organization. The goal of budget planning is to prepare the company to handle all operating costs while keeping the profits in good health.

Ideally, there should be an open and fluid relationship between budget holders, the finance department, and the procurement team. Budget holders own the spend and are accountable for savings against the budget. Finance business partners work for the budget holder to account for the Savings in the budget and track through delivery. Procurement works with the budget holder to identify the savings opportunities and account for it in the budget. When all three areas are on the same page, operations not only run smoother, but profits tend to be higher.

PurchaseControl makes procurement budget management simple.

**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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