Procurement Risks & How to Mitigate Them

Everybody benefits from taking a risk or two in their personal life on occasion. Life would get pretty boring if we all spent our days doing the same things over and over, wrapped in bubble wrap and avoiding any chance of excitement or peril. But in procurement, predictability and avoiding risk are hallmarks of an effective and successful organization. Managing procurement risks is essential if you want to create value as well as cut costs for your company.

Before you can mitigate the risks inherent to the procurement process, however, you need to know and understand what you’re up against. Taking a few moments to familiarize yourself with the most common procurement risks, and how to control them, will put you on the right path.

Why Controlling Procurement Risks Matters

While the most visible role of the procurement function is to obtain goods and services for an organization, that’s just the “what” of procurement. The “why”—striking a critical balance between risk and reward in order to generate both savings and added value—is where risk management comes into the picture. Every purchase, from pencils to private jets, trails behind it a string of transactional data, and carries on its shoulders a set of variables exposed to risk, including vendor reliability, product quality, legal and financial compliance, and customer satisfaction/company reputation.

Because it involves decision-making at all levels and can affects every part of the organization, procurement strategy must prioritize risk mitigation in order to maximize its efficiency and its efficacy.

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Common Types of Procurement Risk

Every organization is different, and not all companies will experience the same levels of business risk for any given variable. Generally speaking, however, your procurement process will likely face potential risk exposure from:

Inadequate Needs Analysis.

Without knowing what you need, when you need it, or who will deliver it on time and at the best price, your supply chain might look more like a tangle of fairy lights with a few bulbs missing. You may end up purchasing too much, not enough, or the wrong goods and services altogether, at sub-optimal prices and without the benefit of discounts and economies of scale offered by well-negotiated contracts. Rogue spending will likely be a major concern; both financial planning and procurement strategy will take a serious hit to accuracy. Connecting budgets to actual purchasing behavior will be difficult, and create an incomplete audit trail, exposing you to significant financial risk. This could damage both your profitability and your ability to achieve competitive advantage, as well as your reputation with your target audience if the quality and availability of the goods and services you offer are affected.

Reducing the Risk: Big Data and the ever-growing importance of information technology has transformed the way we look at everything from our own personal shopping habits to the procurement processes of Fortune 500 companies. A robust procurement software package will give you the tools you need to collect and analyze transaction data for everything you buy, and allow you to identify usage patterns and other information that make it easier both to develop smarter purchasing strategies and negotiate mutually beneficial contracts with your best suppliers.

Poor Supply Chain Management.

This problem goes hand in glove with inadequate needs analysis. If you don’t have a centralized, transparent, and easy-to-use vendor evaluation method, along with an equally accessible but fully-vetted method for requests, approvals, purchases, and payments, managing your supply chain will be tough. Rogue spending will be a given; you’ll be exposed to significant risk of false invoices and other malfeasance by unscrupulous vendors, too. Your staff will likely spend too much of their valuable time chasing invoices or searching for terms & conditions, exposing you to the risk of late or duplicate payments.

Furthermore, failing to vet your vendors using key performance indicators (KPIs) robs you of a wealth of information you can use to remove redundancies and form strategic partnerships with your best suppliers. You also won’t have contingencies in place for emergencies, and your suppliers won’t have access to the information they need to offer you special incentives or discounts.

Reducing the Risk: Artificial intelligence and a cloud-based, centralized software procurement solution makes it a lot easier to set up a vendor portal and fully automate vendor evaluation and management. You can track vendor performance and issues, identify negotiation opportunities if your needs change, and cut costs significantly by outsourcing part of your purchasing to trusted partners with limited access to the system.

You can also reduce or even eliminate rogue spending by defining and assigning roles for requests, approvals, and purchasing, and make sure you get the best possible price (including discounts) while paying your vendors on-time (or early). Double-or triple-checked documents linking purchase orders to invoices and shipping documents will speed up the entire procure-to-pay (P2P) process, ensuring
you don’t lose potential gains in value to extra staff hours or additional hires.

**Inefficient Contract Management**

Modern procurement practitioners regard contracts as much more than a simple agreement to buy. Contracts are a strategic opportunity to form mutually beneficial partnerships with vendors who share the ideals and goals of your organization—and without an effective way to manage them, you’re sacrificing both cost savings and opening your business to compliance issues.

*Reducing the Risk:* A centralized document library, with terms automatically linked to approved vendors and rich transactional data that can be turned into reports for finance, marketing, and upper management makes negotiations much simpler. Review and approval by your legal team means contract information is always accurate and up-to-date, and staff can create new contracts from pre-approved templates for easy review and approval.

Data analysis can provide insight into new opportunities for sourcing, and help ensure both you and your suppliers adhere to the terms and conditions of existing contracts while helping you plan for more favorable terms and conditions when it’s time to renew.

**Fraud and Corruption**

While some risks are created by a lack of available data or unintentional inefficiencies, others are both intentional and malicious. The specific risks include invoice fraud, embezzlement, and theft via false record keeping.

A decentralized and opaque procurement function robs hinders your ability to spot red flags that might otherwise pop up during risk analysis. Out of sight, out of mind—and out of your pocket!

*Reducing the Risk:* Clear and automated procurement functions, limited catalogs from approved and preferred vendors, and complete transactional information with document cross-checking make it very hard for potential fraudsters to submit a fake invoice or conceal corruption. In addition, the full audit trail available for every transaction and a fully documented approval process increases your protection while making it easier to nip illegal behavior in the bud.

**Power Up Your Procurement with Reduced Risk**

What you don’t know really *can* hurt you, and when it comes to risk mitigation, ignorance is anything but bliss. Avoid business losses, reputation damage, and damaged competitiveness by making a procurement solution with automated risk management part of your procurement plan.


[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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