Regardless of your industry, you’re buying things to keep your business up and running. The procurement of goods and services is an essential part of doing business. When you’re not planning your procurement activities as well as you could be, you not only increase the chance that you’re not getting value for money, but you’re also risking poor quality goods and subpar customer service from your suppliers. Lack of internal controls can leave you open to fraud. While broader company goals, such as sustainability and risk management, can be undermined by wayward maverick purchasing.

Neglecting to give your procurement process the proper attention could lead to the cost of business becoming much higher than it needs to be, making things harder to manage. The more your operating expenses rise, you’ll have to choose between raising prices (and potentially upsetting your customers, or worse, losing

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some of them) or cutting your profit margins.

The answer? Cost control. The best way to make cost control manageable and easy? Standardized procurement procedures. Don’t worry if this seems like an overwhelming task. Follow the procurement guidelines in this post, and you’ll have your own policy ready to go in no time.

**Before You Get Started with Your Procurement Policy and Procedures**

To make the most of your budget, you must buy quality goods and services in the right quantity at the lowest price possible, and at the right time, from the best vendor out there. When the organization is new and still small, chances are the owner is the one deciding what to buy, when to buy it, who to buy it from, and when to make the purchase. It’s fairly easy to manage in the beginning, hence why many businesses fail to create formal procurement policies.

As your business grows, the purchasing process easily grows more complex. There’s more to do, and the owner moves onto other tasks. When it gets delegated to someone else or a team of people, there’s less risk for duplicate orders and wasted money.

You do not need to have a full-time purchasing manager in house to handle everything if your business isn’t big enough to warrant it. Procurement planning can be handled individually within individual departments if clear policies and guidelines are in place. Choose a staff member who can clearly communicate with all your suppliers and is willing to do the work in addition to their other duties. It’s important to remember, however, that purchasing is much more than placing orders. It involves gathering orders and checking them for completeness and accuracy, while ensuring everything stays within the preset spending limits, choosing the appropriate vendors, checking the goods and materials upon
receive, reconciling the invoice, and sending it to the accounting department, or the person in charge of accounting.

Getting your purchasing policy established before delegating the tasks to someone else is necessary to ensure optimal spend management and cost control.

**Sample Procurement Policies & Procedures**

According to the Small Business Administration, your purchasing policy needs to answer the following:

- **Who has purchasing authority?** What items can that person (or people) purchase? Who has the authority to award contracts? If you have multiple departments, consider putting one person in charge of spending for that department, to streamline the process.

- **What, if any, spending limitations are there?** Are the limits different for each department? How are small purchases handled?

- **What are the requirements for adequate supplier competition?** What evaluation criteria should be used to choose potential suppliers in a competitive process? How will vendor risk management be handled?

- **What types of contracts can the business enter with vendors and successful bids?**

- **What is the company position on conflict of interest?** What’s the position on personal loans from suppliers? Conflicts of interest arise when in the course of performing job duties, a person can be influenced to make a decision that benefits them personally.

- **What is the company position on accepting gifts?**

- **What types of information is considered confidential?**

- **What is the procedure for addressing legal questions?**

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Other questions to consider answering in your procurement policy include:

- Under what circumstances, if any, is competitive bidding required?
- Under what circumstances, if any, can the competitive bidding requirement be waived?
- At which spending limit is prior approval required?
- How, where, and for how long should procurement records be kept?
- When a contract has been established with a supplier, under what, if any, circumstances can purchases be made from a competitor?
- What categories of diverse categories does the business recognize?
- How does a supplier’s diversity status factor into the decision to use that supplier?
- What processes are used to make different types of purchases?
- How is delegation of authority handled during staff absences?

The Ordering System

The process your purchase manager or anyone on the purchasing team uses to request goods and services, order, then receive and pay for the orders, is the bulk of your ordering system. The right ordering system will ensure you maintain good relationships with your suppliers, keep a steady cash flow, assist with inventory control, and increase overall profitability.

Purchase Orders

When purchase managers receive requisitions from someone else in the company, the manager will need to choose a supplier and check the price of the items order. After the price has been agreed on, the manager will send a purchase order to the supplier. This is the formal request for the supplier to send the materials or goods according to the terms and pricing agreed upon in any established contract.

Both requisitions and purchase orders are helpful in tracking ordering and

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spending. You can use the requisition to make sure the correct items are ordered and refer to the order to make sure you received all the correct items in the right quantity before paying any invoices associated with the orders. Keeping record of the orders also supports any legal claims that may arise between you and your suppliers. Your procurement policy should also incorporate a purchase order policy.

*Not all purchases need the same amount of attention. Spend most of your time and consideration on larger purchases, or more expensive items.*

**Purchasing Management**

The SBA offers four tips for helping you decide which items deserve more of your attention:

- **Unit Cost:** The more something costs, the more attention you should pay to it simply because the more money you have tied up in any kind of product, the more it can affect your bottom line.

- **Extended Cost:** Even if something doesn’t cost very much because you’re buying in high volume to get a discount, if it takes you a long time to sell, that’s money you’ve got tied up a while. In this situation, these items need to be a higher priority despite the low unit cost.

- **Lead Time:** Some items will take longer to get to you after you place the order. If you have a low-cost item with a long lead time, that means spending more time and attention checking on its delivery status until it’s received. That’s why delivery schedules should be one of your selection criteria when choosing your vendors.

- **Shipment Rejection:** If there’s a high likelihood you’ll have to reject an item because of issues with quality or technical problems, place it at a higher priority so it doesn’t have a chance of slipping through the cracks.
The Hidden Costs of Buying

Of course, you’ll have to pay for the goods you buy, but you’ll also need to consider the cost of acquiring the goods and carrying inventory, such as:

- Costs of placing orders – telephone, fax, postage, and so on.
- Operating expenses associated with purchasing, receiving, and paying for the goods and services
- Cost of supplies – stationary, envelopes, forms, and so on.
- Inventory carrying costs – interest charges on financial investment in inventory, insurance premiums for covering your inventory, storage costs, deterioration of items in inventory

Tips for Buying Wisely

Price fluctuations are bound to occur for anything you buy. Instead of buying large quantities of items you notice the price increasing for, it’s better to buy smaller quantities more often. This allows you to sell off the items quickly, rather than tying up your working capital in overpriced inventory. Buying in smaller quantities allows you to save money on your purchases, and reduce demand for the item, which encourages the price to drop. When prices return to their normal level, you can start buying in your larger quantity again.

Always comparison shop. Before buying anything, contact multiple suppliers and send a request for quotation (RFQ), or for larger purchases you may want to start with a request for proposal (RFP) to identify potential vendors, so you can get quotes on things you want to purchase before making any final decisions. This helps to ensure you’re getting the best value possible and assists with cost estimates.

While it is tempting to automatically go with the lowest price, don’t always
assume that’s the best deal. If you’re buying a subpar product, or it takes forever to be delivered, this can cause issues that ripple throughout your business. Sometimes, it’s better to pay a bit of a premium to make sure you’re getting quality materials that you’ll receive on time. Defining a clear code of conduct around the bid process will ensure the selection process is free from solicitation and fraud.

Even if you notice a single vendor can meet all of your purchasing needs at affordable prices, you should never completely rely on the vendor. It’s always best to maintain contact with other suppliers and keep an eye out for new ones. This way, your business won’t suffer if your primary vendor is unable to ship the goods on time or suspends operations for any reason.

By having multiple sources for your supplies, you can build more credit compared to using a single supplier. It’s a great way to get better discounts on your materials, too.

**Locating and Evaluating Suppliers**

At the beginning of all your purchasing procedures, you must locate and evaluate possible suppliers. Search online with the Business to Business Yellow Pages, your local Chamber of Commerce, any trade organizations you may be part of, or industry associations. Your employees may also know of some suppliers you could use.

Once you’ve found suppliers you’re interested in evaluating, you’ll want to place an order with them. But the goods and materials aren’t the only things you’re evaluating. Take notes on what they are like before you place an order with them. You may decide some are not worth placing orders with after all. Your evaluation should consider:

- Sales reps and technical staff expertise
- Financial strength and stability – how long have they been in business? Are they likely to go out of business any time soon?
- Price competitiveness
- Customer service quality
- Timeliness of deliveries
- Quality of items shipped
- Completeness of shipped orders
- Ability to meet design specifications
- Previous performance with similar orders – are they consistently on track, or was it a one-time fluke to make a good first impression?
- Payment terms

Procurement policies and procedures should be treated as a living thing. Revisit them often to make sure they are still meeting your needs. Failure to do so could create problems throughout the business.

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