

Strategic Procurement: What It Is and How To Implement It



Strategic procurement, also known as strategic sourcing, refers to the long-range plan to ensure a timely supply of goods and services that are critical to an organization's ability to meet its core objectives. Strategic procurement incorporates actions aimed at reducing the overall supplier base, negotiations, communications, and working to maintain long-term relationships with suppliers. It is relevant in terms of globalization. on the sales side, it increases pressures on the company's prices and on the purchase side, it opens up new potential. Strategic procurement also deals with the development of cost-saving communications and IT, improved procedures and logistics, high consumer demands, increasing environmental awareness and transparency requirements, and dynamic competition.

Today's procurement landscape calls for a more strategic approach aligned with

the overall organizational strategy. Mistakes that are common include purchasing without defined tasks, failing to achieve efficiency despite appropriate and suitable purchasing tools, and failing to find a balance between local and central purchasing. It is worth noting that sometimes the best strategic sourcing decision may be not to make a purchase at all.

For a truly strategic procurement process, the entire organization must be involved. All departments throughout a company must make an effort to work together for the betterment of the organization as a whole. A strategic procurement team is crucial when it comes to setting the overall direction for procurement aligned with your company's business strategy.

Your company's procurement strategy is one of the most important tools to help maximize the value contribution. It serves as a guide for your organization and should be updated annually to ensure it remains an alignment with your overall business strategy.

Typically, your procurement strategy depends on multiple factors including your available budget, the purchase timeline, possible risks, total cost of ownership and more. Often, these strategies focus on options such as reducing costs and mitigating risks.

Procurement Strategy Framework

Regardless of your organization size, there are few common types of procurement strategies that anyone can adopt including cost reduction, supplier management and optimization, risk management, total quality management, global sourcing, and green purchasing.

Ideally, your procurement strategy framework should include the following:

- Strategy statement: the rationale and the basis
- Deliverables for the desired results
- Timeframe and deadlines
A tactical plan for how your strategy will be implemented
- The metrics used to evaluate your process
- The tools used such as TCO, SWOT analysis, SCOPE analysis, Category Positioning Matrix, etc.

Steps to Implementing Your Improved Sourcing Strategy

A flexible and robust procurement strategy minimizes errors, makes it easy to find savings opportunities, helps to eliminate maverick spending and insurance policy compliance.

Analyze Organizational Spend

Before you can make any changes to your current procurement strategy, you have to analyze your existing spend culture. To do this, you must obtain data from internal stakeholders, suppliers, and any other parties who are involved in the procurement process.

The information you gain here will not only serve as a knowledge base within your organization but function as the foundation of your procurement strategy. Tools like TCO can be used to identify and analyze often overlooked or unknown costs associated with an item or service in addition to its initial purchase price.

Determine Needs

Before you can design a robust procurement strategy that gives your company the best possible results, you must understand your organization's needs. Conducting

a fact-based analysis will help you align and prioritize your strategy across other functions and business goals.

Engage in a what-if discussion to challenge the status quo and question the obvious. You will be surprised at the additional savings opportunities you can find. Using a category positioning matrix can help your organization identify the key business requirements that go into the development of your procurement strategy.

2018 research indicates the path of procurement leaders believe their current teams don't have the required level of skills and capabilities to deliver on their procurement strategy. The report also highlights of high-performing procurement leaders outperform others and executive advocacy, strategic decision-making, Talent capability, digital procurement, supply chain transparency, and balanced scorecard capabilities.

One of the easiest ways to deal with this issue is to provide an effective training and development program for your employees. Using modern eLearning solutions like simulations and scenario-based training along with gamification and webinars, your organization can provide Innovative training programs that keep your employees engaged at an affordable cost.

Assess the Current Market Conditions

After you finish the internal analysis to determine the business needs, look to the external side of everything - your supply markets and their current conditions. Collect the necessary data from suppliers and potential suppliers. To ensure the data remains relevant, organizations must work to keep the data current and up-to-date over time. You can use methodologies such as scope analysis and Porter's five forces to make things easier.

Set Objectives

After you determined what your business needs are, it is crucial to come up with a clear vision of what you need to achieve. Using the data you collected in the previous steps can help you determine the annoyances in your procurement process.

After you figure out areas where the procurement process can be improved, support them in descending order of impact based on how much they affect your company's bottom line. Using a SWOT analysis can identify the current state of your procurement functions. For example, if you need to reduce maverick spending, you should implement procurement software that makes the process transparent.

You also want to take time to communicate your new plan to any and all stakeholders. Share it with your procurement leaders, business leaders, and procurement staff. Communicating with everyone involved in any procurement system helps them feel involved in the process and gives you feedback that you can use to make improvements.

Define Procurement Policy

Create a list of best practices that will eliminate the existing inefficiencies. Modify your procurement policy to address the risks you've identified during the SWOT analysis. Instead of starting from scratch, adapter existing procurement policy templates to fit around your organization's business needs. Your procurement policy should offer guidance on fair practice for everyone involved in the process and remedies for possible violations.

Add Procurement Software

Companies that ought to handle the procurement process manually are more

likely to spend more as a result of human error, late payments, and other delays. A procurement system improves employee productivity and reduces error by eliminating manual data entry and its Associated Inefficiencies.

Using a procurement management system helps track the picture to pay process from end-to-end. Each step of the procurement process from identifying the sourcing needs to completing the payment is streamlined. The best procurement software will find an address any process gaps and enforced purchasing policies without manual intervention and if anything seems out of line, it will stop it in its tracks and call attention to the issue.

Outline Your Procurement Strategy

Using data and information you've obtained, create a draft procurement strategy that lists down your goals and tactics that you will use to achieve them. Follow the smart method when it comes to developing your goals. Take time to implement a digital procurement strategy as it will enable your company to spend more time with suppliers and the strategic parts of procurement instead of transactions and administrative tasks.

Execute, Manage, and Refine

After you have developed a strategy, it's time to execute it. As your strategy is executed, it will demand involvement from other departments in your business such as Human Resources, Administration, Sales, and Finance. After you execute a digital procurement strategy, you need to track and measure the progress and the success of the implementation. Keep an eye on what's Happening and make adjustments when and where possible to continuously improve your results.

The right strategic procurement strategy helps ensure your company's success and maximizes its value contribution. That's why procurement leaders have the responsibility to take the necessary actions to implement a successful strategy.

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