



Leverage Procurement to Support Competitive Supply Chain Models



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The once simple purchasing function of yesteryear's Procurement Departments is what's driving partnerships and profitability in many businesses today.

It's surprising how overlooked procurement has been all this time, with executives traditionally scouring sales, marketing, R&D and operations, in an attempt to squeeze any remaining profits. But this has changed. Management is now only too aware how vital a company's purchasing activities are to its bottom line.

Adding to this rise in the focus on procurement activities, is the impact of market changes on the organizations' competitive landscape. With the impact of an increasingly global economy, organizations understand that it is no longer about a single-point organization competing with another, it has moved to an operational level with supply chains competing with supply chains.

Global Economies

Businesses have been global for centuries; constrained only by communication and transportation. Now that communication costs have plummeted and delivery times reduced, procurement is no longer restricted geographically, it's now global, for everything from roses to iron.

Procurement does not have the challenges it once did, with globalization, trade agreements and the rapid development of technology lowering the barriers to entry and allowing free trade across borders.

International trade brings with it a number of benefits: Domestic industries can ship their products abroad, consumers have a wider selection of goods to choose from and prices are reduced due to the influx of competition.

Worldwide, Foreign Domestic Investment (FDI) has enjoyed phenomenal growth over the last two decades. It surpasses international trade three-fold, growing faster than developed economies. This globalization brings new markets, opportunities and a vast array of sourcing opportunities for companies.

In fact, medium sized companies are increasing their sourcing and exporting components to non-traditional markets annually. In countries like South Korea and Germany, small-to-medium sized companies boast over 60% international trade as part of their operations.

While international trade seems to be beneficial all-round, free-trade has not been accepted by all. These trends have sparked a zealous drive by countries to protect domestic industries, for fear of international markets overtly impacting their economies. Restrictions and regulations have led to trade barriers for specific industries, by limiting access to external products through hefty import duties and restricting manufacturers to utilize locally produced goods.

Organizations, in particular industries such as Food and Beverage, are restricted to purchasing from suppliers who meet industry-specific regulations, with some countries specifying that particular items need to be spread across multiple suppliers.

Some countries have applied government legislation to procurement to promote socio-economic equity to foster growth in infant industries, to safeguard strategically important industries, to protect domestic employment and even to protect consumers from international products that they feel could endanger its population.

Be that as it may, organizations stand to benefit from the economies of scale that can be leveraged in international trade agreements, but need to adequately manage these contracts while complying with regulations. In addition, in considering the rise of competitors gaining access to the same supply sources, they need to secure their input materials by forging stable bonds and locking in supplier agreements, whether these suppliers are local or international.

Procurement and supplier relationships have an increasingly important role to play in ensuring that organizations achieve specific strategic goals.

Strategic Procurement through Policy Management

Strategic sourcing policies can control the requisition process and align procurement activities with the organizations' strategic goals. If strictly carried out and controlled at an operational level across the organization, the application of these policies can enable companies to leverage whole-company spending potential by negotiating special rates and establishing longer-term preferential agreements with suppliers.

Sourcing policies may also be introduced to reduce the risk associated with securing special rates with suppliers, or as part of demand planning optimization. For example, companies may want to spread their risk over a few suppliers that are relevant and viable in the marketplace. This will allow suppliers to compete with one another and will ensure the best quality items are sourced and available for that product.

Cost reduction and profit saving may be another objective when implementing a sourcing policy in which purchasing departments need to achieve cost reductions while ensuring product and service quality is not reduced. In the past, organizations believed that Procurement's role was to squeeze the best possible prices from suppliers regardless of sustainability. Management practices have since moved on, with the examination of supplier relationships and procurement occurring at a strategic level. By understanding the category buying and management process, and identifying improvement areas and opportunities.

This can be achieved by negotiating multi-year contracts with suppliers for preferential rates at specific level of product quality. The sourcing policy will support this and should be implemented with standardized terms and conditions carried out across the organization.

Best practice policies and the application of legislative and regulatory sourcing policies within procurement departments is vital to remaining compliant and maintaining quality at the sourcing level.

Business Models

In practice, procurement departments present further profit saving opportunities. Procurement departments are able to impact a company's liquidity by eliminating unnecessary purchases and stockholding.

The department's business model needs to be prioritized, acting as a knowledge resource and information store. It must have the time and capacity to better procure and forge relationships with suppliers.

Welcoming suppliers as integral to an organization's success, and partnering and sharing vital supply chain information, ensures both organizations are better equipped to plan and align their activities in a symbiotic relationship.

Through this, procurement initiatives such as Supplier-Partnering, Vendor-Managed-Inventory, Just-In-Time (JIT) and optimizing the supply chain costs can be achieved. This leads to cost reductions and improved efficiencies across the complete supply-chain improving profitability for all involved.

For example, Vendor Managed Inventory allows companies to guarantee input supply and expend working capital on its use. This vastly improves a company's cash position and removes the costs associated with managing input stock. This, however, is predicated by a strong partnering agreement with suppliers where an organization is prepared to share sales and operational forecasts and plans with them, and include them in the complete customer lifecycle, from sales to returns.

Management can empower procurement through the application of strategic supply chain driven initiatives.

The ERP Advantage

Utilizing a company's ERP system is a prerequisite to empowering a procurement department to work according to sourcing policies and to streamline and optimize procurement processes. Further, organizational insights and operational data are the backbone of a profit-impacting Procurement Department.

A stand-alone procurement program only assists in managing purchasing with greater efficiency; it lacks the mission critical quality of integration into the rest of the company's and supplier's systems. This is where the real advantage lies.

ERP systems are able to facilitate the required exchange of information between company and suppliers, recording usage of inputs, and notifying suppliers so they can react to the information. Additionally, financial transactions between a company and its suppliers are able to be automated.

By setting up and managing sourcing strategies and policies within your ERP, with the recommendation of suppliers during your purchasing cycle, you can mitigate purchasing risks, improve purchasing governance, and maintain supplier negotiated agreements across the organization – allowing you to buy products and services at the best value-to-price ratio.

With improved controls, visibility, efficiencies and the automation ability that ERP provides, Vendor Managed Inventory, Supplier Rebates, Claims, Purchasing, Payments, Preferred Suppliers, Returns and Requests for Quotation are all able to be managed. This translates into cost-reduction and improved profitability.

Additionally, inventory trend analysis, forecasting and material requirements planning are features that ERP systems provide in refining the input requirements to the procurement department. With improved and richer information, procurement is better able to service other departments by ensuring that working capital is better managed via the reduction of wasteful purchasing.

Conclusion

Procurement is a promising arena in the quest for rapid, sustainable profits and competitive supply chain models. Streamlining your procurement procedures and making sure that all policies are in place is critical to the overall success of your business. Supply chain management drives companies to reevaluate the ways they manufacture, distribute, and sell products. By using an appropriate ERP solution, you can streamline this process even further, enabling your supply chain to become a strategic advantage to your business and set you apart from your competitors.

About SYSPRO

Established in 1978, SYSPRO is an industry-built Enterprise Resource Planning (ERP) solution designed to simplify business complexity for manufacturers and distributors worldwide. SYSPRO provides an end-to-end business solution for optimized cost control, streamlined business processes, improved productivity, and real-time data analysis for comprehensive reporting and decision-making. SYSPRO is highly scalable and can be deployed either in the cloud, on-premise, or accessed via any mobile device.

Combined with a practical approach to technology and a passionate commitment to simplifying business processes, SYSPRO dedicates itself to the success of its partners and customers alike.

SYSPRO's intuitive product features, business intelligence capabilities, and easy deployment methodology are unmatched in the marketplace. The depth of software functionality and targeted industry knowledge makes SYSPRO an excellent fit for a number of select manufacturing and distribution industries, including food and beverage, machinery and equipment, electronics, fabricated metals, automotive, and many more.

For more information on how SYSPRO's Preferred Supplier capability help decrease your purchasing risk, improve purchasing governance and ultimately achieve cost reductions, [click here](#).





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