

Purchasing Best Practices for Maximizing Business Cost Savings

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Alliance Cost Containment, a national business expense reduction consulting firm, shares its top five purchasing best practices. Implementing best practices in purchasing should enhance corporate profits for years to come.

Prices for almost everything are up. Today, about the only things that are down are the value of the US dollar and the stock market. So what are your plans for profitability in this climate?

Raising prices puts your business at a competitive disadvantage. Reducing capital expenditures and employee layoffs aren't good for growth either. The answer for many small and mid-market companies is the adoption of best practices in purchasing.

Implementing best practices in purchasing isn't without its challenges, but the results can be dramatic. Industry analysts suggest that each \$1 in savings has the same impact as \$5 in new revenue to the typical company.

Here are what we consider to be the top five best practices in purchasing:

1. Examine your supplier relationships on a regular basis. When is the last time you reviewed your supplier relationships? Long-term supplier relationships should be based on competitive pricing, a continuing flow of new, "better, faster, less expensive" ideas, constantly improving quality and excellent service; not free lunches and tickets to sporting events.
2. Develop a scorecard to track supplier service, quality, delivery and price. Quantify mutually agreeable performance expectations and then measure the performance. Build in goals for annual improvement targets and ask suppliers for recommendations on how they can achieve them. On the back end, be sure to thank suppliers who meet or exceed your expectations. A little appreciation can really stimulate extra effort.
3. Right-size your supplier list to leverage value. Examine suppliers by category and look for ways to consolidate purchases; more volume through fewer suppliers typically results in lower unit costs and always results in reduced soft costs (invoice processing, accounts payable, supplier meetings, etc.). Then, create an approval process that limits the addition of new suppliers.
4. Get the executive team behind purchasing 100%. Like many other company-wide initiatives, achieving excellence in purchasing practices requires support from the top down. Many small companies can't afford purchasing departments, but someone should be accountable for and have authority to control purchasing outlays. Lack of accountability is an enabler of higher operating expenses. The purchasing group (or person) should report to the CFO, COO or CEO to ensure direct access for key expense discussions.
5. Focus on improved supplier contract development and management. Companies are regularly trapped in hard-to-end "evergreen" contracts or in contracts skewed to the benefit of suppliers. Good contracts should contain key performance indicators as well as service level agreements with appropriate carrots and sticks to incent the desired supplier performance. Good centralized recordkeeping on contract terms can be enormously valuable, yet few companies seem to do it. All new contracts should be stored in a common database for easy future reference.

The need to develop a focused, disciplined procurement process utilizing purchasing best practices cannot be underestimated. A recent Aberdeen Group study found that enterprises have been able to achieve 5% to 20% cost savings for each new dollar of spend brought under management.

Whether through internal adoption of new purchasing controls or the use of third-party cost containment professionals, implementing best practices in purchasing should enhance your profits for years to come.

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With over 40 offices spanning North America, ACC's purchasing aggregation and vendor-management processes provide small and mid-sized business access to the kind of large corporate purchasing power they are often unable to capture on their own. ACC also facilitates detailed vendor management and reporting processes to make sure our clients capture the savings that we help generate. Established in 1992, ACC has served nearly 800 clients nationwide.

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