

# Managing the Procurement Cycle:

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It can lead to Standard Operating Procedures

ISO certification.

And Effective Procurement Planning.

# Supplier Management

## Commodity Management

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We are not expected to be a clerical function, or just place orders. To be truly world class procurement professionals we should expect to be Supplier Managers, and Commodity Managers.

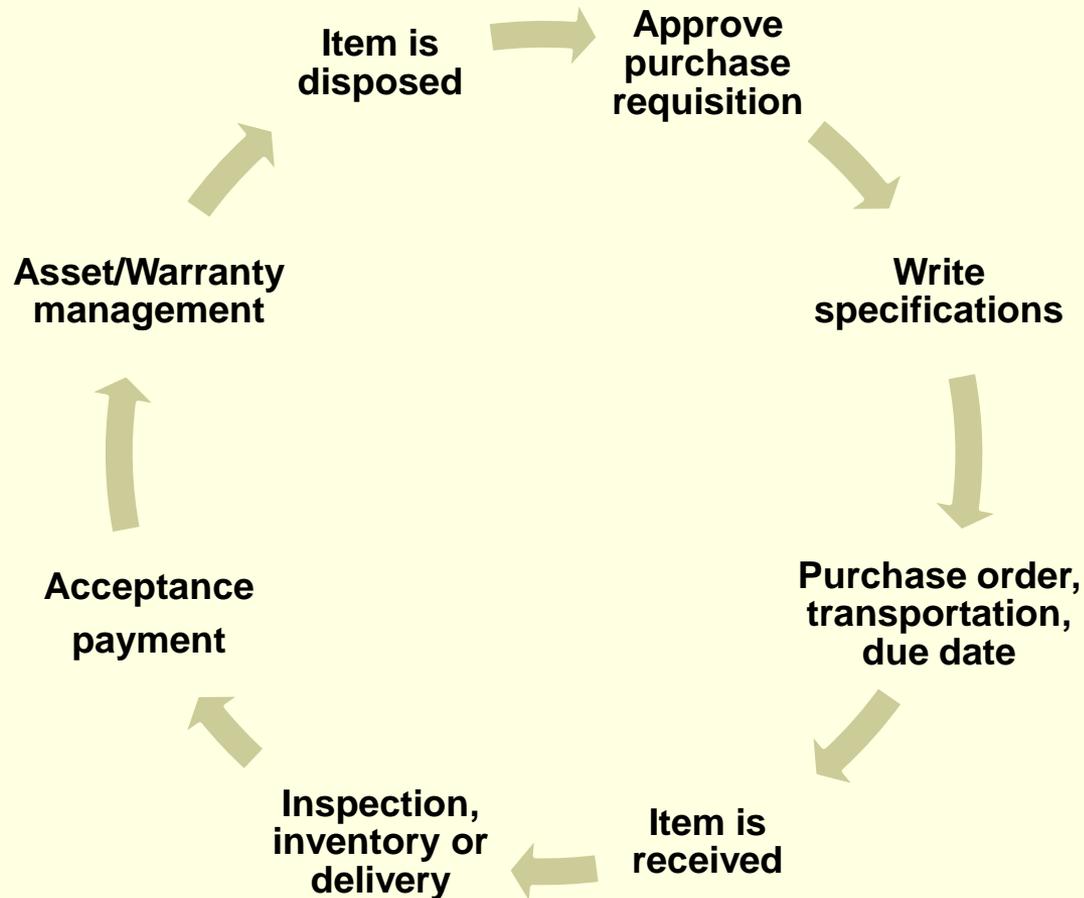
We should also do our part in Managing the Procurement Cycle.

# The Procurement Cycle:

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- Approved requisition-or order report
- Write specifications
- P.O. contract with transportation and due date
- Receipt
- Inspection
- Inventory (storage), distribution (delivery)
- Acceptance-Payment
- Asset-warranty management
- Disposal

# The Procurement Cycle



# Professional Procurement 101:

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In professional procurement there is nothing more fundamental than managing the procurement cycle. This can further lead to Supply Chain Management, Standard Operating Procedures, ISO Certification, and Effective Procurement Planning.

# Procurement Cycle: Requisition Procedure.

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This is the first step in the Procurement Cycle. Who approves the requisition, and how is it done? How does it get to you?

Who can tell me what the “Law of Agency” is?

# Procurement Cycle: Writing Specifications or Statement of Work.

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Do you know the difference between performance specifications and functional-design specifications?

Do you know the risk inherent in each?

# Functional-Design Specification

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This is a specification that concentrates on how a product is to be fabricated or constructed. This type of specification is typically used when contracting for buildings, highways, and other public works projects.

# Performance Specifications

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This is a specification that deals with how well the product performs and what the cost will be for the intended use. The end result is the primary consideration and the manufacturer or producer is given great freedom in how they accomplish it.

# Combination

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- You can also use a combination of specifications which can include both design and performance features.
- Very common.

# SPECIFICATIONS

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- Define Need
- Specific Vendor Requirements
- Market Research
- Warranties
- Determine Priorities

# Market Research

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- We have a responsibility to do research periodically
- The more valuable the item to the agency's success, the greater the frequency and the more in depth the research
- Are there acceptable substitutes or improved products or services available?
- What are the industry standards?

# Specifications

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- Specifications state requirements, determine whether the vendor/contractor's bid is responsive and whether the work performed by the vendor/contractor meets the government's requirements
  - Clear, simple complete and unambiguous
  - Avoid unnecessary restrictions
  - Consider comparable alternatives for brand-name specifications
  - Say it once, avoid re-writing

# Foundation

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Specifications are the basis of the Statement of Work. The Statement of Work is the **FOUNDATION** of the agreement or contract.

# Procurement Cycle; The Purchase order is a contract;

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and it should be treated as such.

The goal of the P.O is to procure the necessary quality and quantity of goods and/or services in an efficient, timely and cost effective manner.

Remember economic order quantity?

What are the elements of a contract?

# Procurement Cycle: Receiving & Inspection

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These are critical steps in managing the procurement cycle, and in closing the purchase order contract. Make sure that all elements on the P.O. are addressed.

- Delivery date
- Transportation method
- Quantity
- Certificate of compliance. Inspection

# Receiving Incoming Goods

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Document receipt and condition of goods.

- Check for damage.
- Retain/file waybill, packing slip, and attach to receiving report.

# Inspecting Incoming Goods

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- Check received date against due date on P.O.
- Assure item(s) meet specifications on P.O.
- Forward any Material Discrepancy report to procurement department.
- Seller is responsible to remedy any nonconforming goods to meet P.O. specifications.
- Document/file any certificate of compliance or certified test results.
- Note quantity ordered vs. quantity shipped.

# Procurement Cycle:

## Who authorizes payment?

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In your organization, who authorizes invoice (P.O.) payment?

I say it should be the originator of the P.O., or a viable process.

The invoice should match the P.O.

Sadly that is not always the case.

# Implied in legal contracts

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A merchant warrants goods are free of 3rd party claims of infringement such as patent and trademark

# Implied Warranties

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“Implied” warranties rest so clearly on a common factual situation or set of conditions that no particular language or action is necessary to evidence them and they will arise in such a situation unless unmistakably negated.

Source: Uniform Commercial Code Fourteenth Edition 1995 Official Text with Comments

# Procurement Cycle: Disposal

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This is the last step in the procurement cycle, and it is often overlooked.

To be efficient we must eliminate waste.

When we finally dispose of items we procured, we can gauge the efficiency of our process.

# Now that you have mastered this cycle; you can;

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Be proactive rather than reactive.

Improve each step of the cycle.

Measure and benchmark your personnel resources and do a strategic procurement plan.

Be prepared for Standard Operating Procedures, which can lead to ISO certification.

# Now that you can be proactive, and can plan:

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You can focus on:

- Standardization of Goods/Materials
- Commodity Management
- Supplier Management
- Supply Chain Management
- Mission Statement
- Standard Operating Procedures
- Procurement Planning

# Procurement Responsibilities;

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Develop reliable alternative sources of supplies in order to promote a competitive atmosphere in performance and ensure maximum return on operating capital.

How do we keep both a primary and secondary supplier happy?

# Know your Markets:

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Commodity Management and Supplier Management means knowing your markets. Where is your commodity used? Who is the main distributor? Who are the smaller distributors who want to be big? Who will give you the best service?

Know Supply & Demand

# Supplier Management

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Develop good relationships with suppliers in order to create an environment which will enable you to discover new ideas, products, better prices and service.

Supplier Management

Commodity Management

# Procurement Responsibilities; Supplier Management

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Simply put; managing the supplier to meet the organizations needs. This requires communicating the organizations' needs to the supplier. And understanding the suppliers capabilities.

Sometimes it may require nurturing new capabilities from the supplier.

# Proactive SCM

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The growing trend in both public and private sectors is a move toward a more global view of procurement and supply, such as supply chain management.

# Procurement Responsibilities; Supply Chain Management

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Simply stated; Supply Chain Management, is working to make sure that every link in the supply chain is efficient. Do you need distribution? If you have to have it, it better offer value. How is it manufactured? How is it transported? Is it more than you need, or less than you need.

**Eliminate Waste.**

# Standard Operating Procedures:

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Standard Operating Procedures are detailed step by step, job description of how to perform your job duties and responsibilities.

It should be very thorough and tell how it is to be done, who will do it, and where it will be filed for full transparency and compliance.

# The SOP Manual:

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The Standard Operating Procedures should be placed in a manual.

Every employee that has a function in the procurement cycle should be trained on their duties within the Standard Operating Procedures, and periodic re-training should be scheduled as necessary.

# Procurement Training:

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Professional Procurement is a mountain that never gets climbed. You never get to the top, because there are always new goals, better ways to do things, different market conditions, new technologies, new alliances.

A world class procurement organization will schedule training and cross training for staff.

# Procurement Cycle Benchmarks:

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Now that you have Standard Operating Procedures, and have trained your staff of the duties and expectations they are to perform, you can BENCHMARK.

You can measure the time and resources it takes to do a particular function.

Different staff will have different levels of training, acumen and resources.

# International Standards Organization: ISO 9001, 14001

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These certifications are highly valued in the world of global manufacturing and business.

You can not attain these certifications without a fully documented procurement policy focused on quality and efficiency. And you will need Standard Operating Procedures. You will also have to demonstrate sufficient staff training.

# Why would your organization want an ISO certification?

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- It may be a contractual or regulatory requirement.
- It may be necessary to meet customer preference, or requirement.
- Fall within the context of risk management program.
- Help motivate staff by setting a clear goal for the development of its management system.

# Effective Procurement Planning

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The implementation of the mission, goals and objectives into measurable activities with the end in mind, to plan, budget and manage.

Its all about being pro-active.

# Considerations of a Plan

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- Identify and define functions and direction of the organization
- Establish method and criteria for allocation of resources
- Provide for performance monitoring and program evaluation
- Anticipates workload fluctuations to assign resources effectively and minimize costs

Remember, we always have to add  
**VALUE.**

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The object of procurement value management is to effectively deliver value to end-users at the least possible total cost.

# Procurement Planning:

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- Is a process of determining the long range goals of an organization and establishing the means by which these goals will be accomplished.
- Periodically there is a need to revisit original aims and objectives of the organization to ensure it is “doing the things” as well as “doing them right.”
- Never forget the 7 Rs.

# You have to include all of these.

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- Analysis of past usage
- Planning future usage
- Reviewing performance
- Discussions with users to understand how it is to be used
- Scheduling
- Analyzing market conditions
- Research alternatives for cost savings
- Revising quantities and specifications
- Discussions with current and potential suppliers

# Understanding Procurement Capacity

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- Number of trained professionals
- Process time report and process map
- Average \$ / PO
- Number of rush orders, and emergency orders
- Cost reductions achieved
- Planned spend to specific suppliers, and/or commodities.

# What are we trying to accomplish?

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Effective procurement planning is a process for determining **what** the organization wants to accomplish and **how** it will utilize its resources to accomplish it.

# Where are we now? Do we know?

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- Is the organization providing the right service to its clients?
  - Services we are not in, but should be?
  - Services we are in, but shouldn't be?
- Does the process facilitate attainment of goals and objectives?
- Do we meet stakeholders' expectations?

# The Mission Statement:

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- Identify goals and objectives
- Who and what are the priority and focus areas?
- Any additional services needed or deleted?
- Identify alternative service and budget level scenarios for planning purposes.

# Implement Performance

## Measurement and Monitoring

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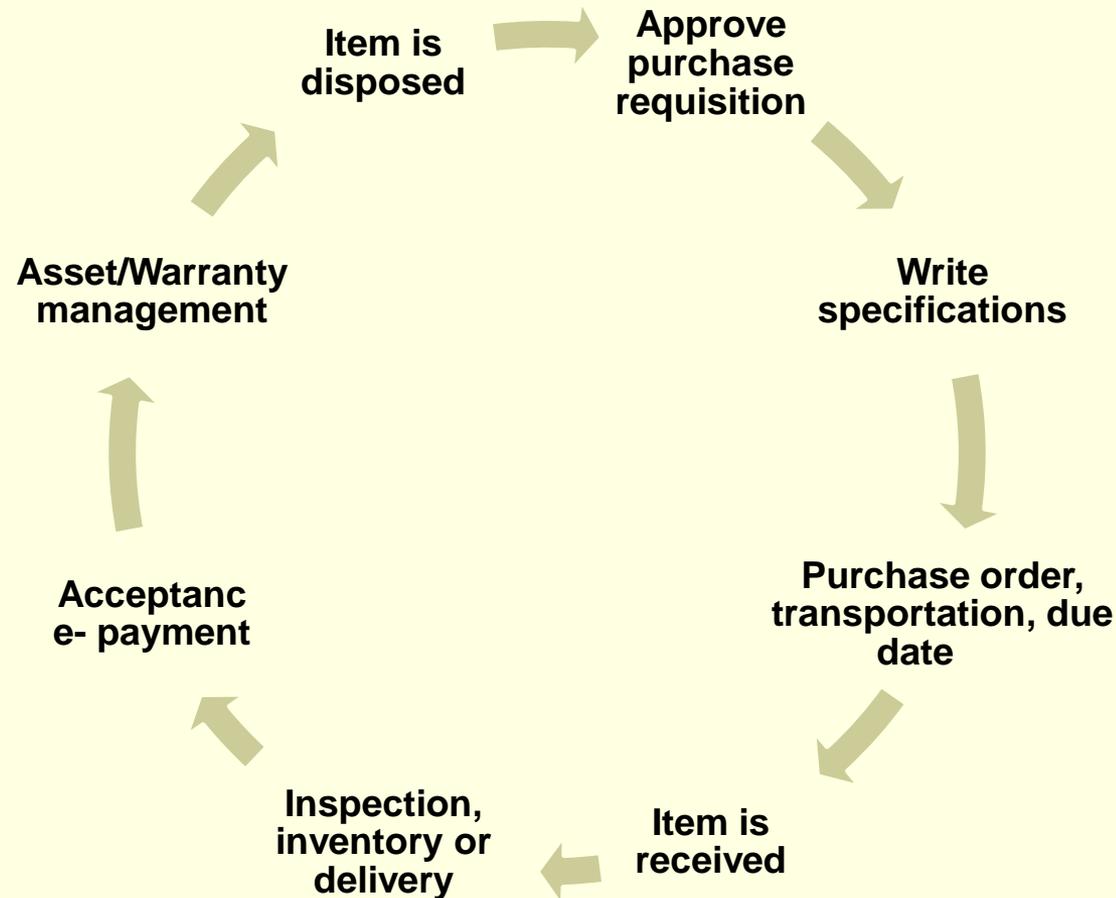
- Cost reduction and Containment
- Supplier and Industry Development
- Supplier Performance
- Efficiency of Internal Procurement System
- Percent transacted by various methods
- Perceived degree of simplicity, convenience and effectiveness

# World Class Professional Procurement

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- Supplier Management
- Commodity Management
- Supply Chain Management
- MRP-BOM (make them work)
- Warehouse and Inventory Management
- Logistics and Transportation
- Procurement Planning

# But First, you have to Manage- The Procurement Cycle



# Thank you:

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Please contact me if you have any questions.

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