How to Develop a Strategic Purchasing Plan

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In an economy that seems to have difficulty locating stable ground, many of today's businesses are looking for ways to cut their costs, boost revenues, and ensure that customers have access to high-quality products on a consistent basis. All of these goals require a number of different procedures in order for them to be achieved, but it all starts with company product purchases and procurement. If a bad purchase is made, or the company gets a bad deal on a product or material that it deems absolutely essential to its products' construction and composition, the result can be disastrous. Overhead increases, margins decrease, the product may suffer from significant quality concerns, and customers may decide that their interests would simply be better served by checking out the company's closest competitors either in terms of products or geography. That's certain a worst-case scenario, but it's not one that is unfamiliar in the business community.

Companies that are serious about long-term growth and sustainability need to create a strategy for purchasing that secures them the most reliable and high-quality vendors, the best products, and the best price on essential materials that will reduce overheads, raise profit margins, and keep customers satisfied both in terms of value and long-term quality. This process can sometimes be extensive and even time-consuming, but it should be seen as a significant investment in the company's long-term fortunes and market share.

Don't Develop a Plan Until a Specific Purchasing Person or Department is Established

Company purchasing is actually pretty simple for self-owned businesses or smaller organizations, since the person in charge can typically handle purchasing agreements, supplier evaluations, and a whole host of other responsibilities that give them the confidence they need to secure a product and proceed with development. This is not true as businesses grow in size. With other responsibilities distracting from vendor agreements, supplier evaluations, and other quality checks, purchasing can suffer. This leads to cost overruns and unsatisfactory product, both of which can prove disastrous for company operations and profits.

To avoid this headache, businesses should commit to creating a standalone purchasing department, or at least hiring a single professional who can be dedicated to company procurement, as soon as the business really begins to take off. In fact, a procurement specialist is often the first recommended hire for those businesses that deal primarily in securing materials and supplies for product manufacturing and sale. Most company founders or executives simply prefer to have someone in charge of these operations before they even hire an accountant or assistant, that's how important procurement and purchase strategies are to the bottom line.

Before proceeding with a smart purchasing plan that deals with the best vendors and secures the best deal on either finished products or essential materials, place someone in charge of this as their sole or primary responsibility. The company will benefit in ways that are both direct and indirect. The person chosen to head up procurement will be in charge of creating the strategic plan for these interests, and they should be included in company meetings that discuss products and distribution. If necessary, the company's leadership can meet one-on-one with the purchasing professional to discuss the plan's development and execution on a regular basis.

Getting Started: It's Time to Evaluate Suppliers and Facilities

The most important part of a purchasing plan is, quite simply, identifying the vendor that will supply the goods required at the best possible price and with the highest commitment to quality and long-term durability. The vendor should also be amenable to the company's needs, able to meet regularly, and willing to show off the facilities where each product or material is produced before it heads to the company for further manipulation or sale. In many ways, vendors must be transparent in order for a business to even consider doing business with them and using their products for consumer-targeted goods. Picking the right supplier is the central aspect of purchasing strategy, and those professionals heading up procurement should break this down into several key components.

Vendor Facilities and Equipment

Companies looking to deal with a reputable vendor can tell a lot just based on the equipment used to manufacture products and the facilities that house the equipment. This should be the very first part of a strategic planning process: Is the vendor even worth the company's time and money? Is their equipment newly purchased, in line with industry standards or requirements, and able to turn out a quality product?

Beyond merely looking at the equipment, purchasing professionals will need to make sure that the facilities can easily handle the company's full order, producing the goods or materials the business needs without causing delays that can further increase expenses, frustrate customers, and lead to a cycle of declining profits and sales over time. If the facility looks a bit too small, it probably is. Certainly, a smaller facility won't scale well over time. Be sure to ask about capacity, other commitments to other businesses, and how both of those things might affect the company's ability to have its order delivered on time, every time.

Manufacturing, Design, Development, and Other Processes

Equipment and vendor facilities represent only one small part of the selection process that companies must proceed through when purchasing strategically to further their goals and meet customer demand. The next part of this process should focus on the processes used when products are made, processed, or assembled. Among the key questions that should be asked by procurement specialists:

- Does the company have an excellent quality control operation in place? What happens if a product fails this quality control check, and how will this failure affect product delivery times?

- Does the company have the ability or intention to expand its manufacturing, design, or delivery process if the business increases its purchase orders and meets greater consumer demand?

- What is the management structure like behind the scenes? Who is in charge, which workers report to which department, and how does this affect product quality or expenses?

- How long does it take for one product cycle to finish? Can this process be reduced in time as needed by the business if demand increases?

Each of these questions will indicate whether the vendor is a great long-term bet for material and product purchases, or whether their commitment to manufacturing and assembly only meets the business' short-term goals. It's not necessarily bad for business' to have only their short-term goals met, especially if they need to get purchases underway immediately even while they search for a more committed vendor. Even so, most businesses will want to forego working with a vendor that simply can't expand to meet their needs, or a vendor that simply isn't using effective quality checks and management practices.

Management Characteristics

During the evaluation of the company's processes, purchasing professionals should have looked at the actual structure of each level of management. This is a good first step, but vendor evaluation must go quite a bit further to ensure that the vendor in question can produce products reliably, with quality that suits the company's needs and will meet with customer expectations. Many of these concerns are addressed when a capable management team is in place. To that end, the final component of evaluation should consider the following concerns:

- How does the vendor handle project management, and is this process effective enough to produce high-quality products on schedule?

- Is the full team, from senior level management to production staff, stable and amicable? Do conflicts present themselves that might manifest as poor products or materials?

- Does the vendor view the business as an essential component of its own strategy, or is it focused on bigger and better things that might leave the company out in the cold sooner rather than later?

- Does the vendor have a long-term strategic plan or vision for their own growth and product enhancement? Do they have stable leadership that values relations with contracted purchasers?

The final component of vendor evaluation is what will really help purchasing professionals discern whether or not a given vendor is a strategic pick, and one that can boost company fortunes, or whether it's poorly run, insufficiently managed, and full of potential pitfalls for products, materials, and customer satisfaction in the long-term. With all three of these bases covered, it's now time to start assembling orders, buying strategies, and vendor assessments, to maximize the company's margins, reduce inefficiencies, and produce real results for average customers.

With Vendors Evaluated, Create a List of Potential Candidates

In most industries, there are scores of vendors just waiting to produce certain products or supply certain materials to businesses. Often, that means purchasing and procurement professionals might find themselves touring as many as ten or twenty facilities over the course of a few days as they check out equipment, capacity, management styles, and staff cohesiveness. At the end of this process, most people in the industry will have a good understanding of the likely candidates that they'd work with, as well as those who simply don't measure up.

It's time to put those instincts and observations into real words and lists. At the end of vendor evaluation, create a prioritized list of vendors in order of most to least desirable. Value things like turnaround times, quality assurance, and management. Ensure that the vendors at the top of the list are those that can produce great products in relatively little time, using as little cost as possible so as to reduce the company’s margins and increase its bottom line over time.

With the vendors prioritized, purchasing professionals should pick the three or four vendors that are strategically best able to meet the company's demands. It's important to have options when picking vendors and committing to purchasing agreements, largely because demand may increase so fast that one vendor alone cannot fulfill the company's needs without subjecting customers to long delays. Furthermore, even the newest and best equipment can break down and subject companies to disastrous wait times and holds that will leave customers questioning their loyalty.

Get Ready to Negotiate on the Price of Each Product or Material

With a list of vendor candidates narrowed down to just three or four, it's time to start calling vendors and letting them know that they've been chosen to supply key products or materials for the company. This burst of good news is a great way to open a conversation, but it's only the beginning of a back-and-forth negotiation process that will determine just how much each product costs the company, how much customers can be charged, and what that means for long-term expenses and profitability.

Be sure to know the exact budget for each product or material that will be purchased from the vendor, and don't be afraid to be a tough negotiator. Most vendors have quite a bit of breathing room when it comes to the per-product fees they charge, and they'll be more than willing to negotiate a fair price that wins them some or all of the company's business, while ensuring that the competition can't match or undercut those prices at any point. The interest of vendors is to land new business and maximize their facility's square footage. Understanding this perspective can help with crucial negotiations over price. Price is only one part of the equation, however. There are other concerns to be discussed and negotiated.

Transportation

Generally, products or materials will need to be moved from the vendor's facility to the company's own offices or warehouses, and that's a process that can cause a bit of frustration on both ends of the deal. Many vendors shy away from providing transportation of finished products, while many businesses simply want the cost of transit included in their quote. Negotiate a transportation scheme that ensures products are affordably moved between the manufacturing facility and the company's warehouses without delay. If the vendor cannot offer this service, find one who can or negotiate a contract with a transportation company that will handle the finer details.

Initial Quantity

A strategic purchasing plan understands the capacity for error on both sides of the deal, and generally will order only a limited initial quantity of products or materials from each vendor chosen as a final candidate. This is done to protect the company's bottom line before they commit to a long-term contract or other agreements, since a smaller quantity of products can easily showcase quality shortfalls, cost overruns, delays in processing, complications in transportation, or other signs of trouble.

Place an initial order with the vendor that is outside the initial contract. Make clear that this quantity will be used to simply test the operation from initial manufacture to sale and customer satisfaction. If all goes well, inform the company that they'll be invited to sign a long-term contract either as an exclusive supplier or as a source of expanded production when needed.

Methods of Recourse

Businesses like to know that they're getting the best products possible on a consistent basis. They also like to know that, if this standard is not met, there is some kind of recourse available to the company that will help to keep the original purchase order on track and enforced. This might mean negotiating an early termination of the contract if products begin to suffer from quality problems or delays, or it may simply involve a clause that allows the company to reduce the price it is paying, or has paid, for goods that were not delivered according to plan and therefore caused significant financial loss or customer relations complications.

Maintenance of Records

Every shipment should be documented by the vendor, including the number of items in each shipment and the cost of each item line-by-line. When a shipment is transported to the company, this packing list should arrive along with the shipment and it should be checked by the company's receiving professionals immediately. If any inventory mistakes are made, these should be addressed. Make sure vendors know their responsibilities in terms of inventory, documentation, and recourse for any lost, missing, or stolen goods between shipment and delivery.

Times of Increased Demand

Most businesses release new products on a semi-regular schedule, and consumers often line up to make sure they're among the first people to try the company's latest product or edition. Negotiate these times of increased demand and ensure that all of the vendors selected during evaluation can handle the capacity required by the business. If possible, negotiate reduced per-product fees and charges during times of higher demand. Since this is a high volume period, deeper discounts may be available that get the company off to a running fiscal start during initial availability of new items.

Establish an Annual Vendor Review Period

Vendors might be great when they're first evaluated, but they may suffer from all kinds of problems over the course of even a single year. Businesses that are serious about engaging in a long-term sustainable relationship with their vendors need to demand that they be allowed to evaluate each vendor on an annual basis. That evaluation will allow for a full inspection of facilities and equipment, a short interview or discussion with the facility's management about production costs, concerns, and staff members, and any other issues that might have arisen since the prior year's evaluation procedure. The company should state explicitly that, should it not be satisfied with the results of any annual evaluation, it reserves the right to either request changes or simply not renew the production contract for another one-year term.

Agree on Standard Purchasing Agreement and Order Forms

Some vendors have their own purchasing agreement forms and order forms, and they'll try to get companies to use these forms instead of their own, more standard options. This is generally a mistake. Using standard forms makes it easier to index costs, hold vendors accountable, and perform annual reviews. These forms are easier for company employees to deal with, especially those outside of the procurement department itself. Always make this a key component of any negotiation.

Enforce Company Policies

Vendors generally have to live up to the expectations and policies of the businesses they serve, and purchasing professionals should not be shy about enforcing these things when negotiating purchasing agreements and annual contracts. Be sure to clarify with the vendor what constitutes a gift, whether or not loans are permissible during the purchasing process, and to whom legal questions should be addressed. If there are any confidentiality requirements or non-compete agreements that must be enforced, be sure that's discussed during vendor negotiation.

The Result of Strategic Planning: Lower Costs and Better Products Overall

There is a misconception among many newer business owners that purchasing is merely about agreeing with a product's style and finding the right price. This misconception is a costly one, however, since not all vendors are created the same and many are simply the wrong fit for businesses they strive to serve. A strategic purchasing plan is designed to eliminate the kinks from product design, assembly, and delivery. Its goal is to maximize production while eliminating costs, and it seeks to enforce company policies that protect a business' competitive edge while enhancing its position in the marketplace.

In studies done by several small business organizations and trade groups, the implementation of a well-rounded, strategic purchasing agreement was shown to reduce up-front costs for businesses by about 1 percent per purchase agreement or product. In addition, this 1 percent reduction in initial costs was shown to lead to an increase of company profits by about 2 percent or 3 percent per product.

For those companies with a vast product line and a growing list of customers, the simple implementation of vendor evaluations, cost-based negotiations, and fallback vending locations could significantly boost profits while simultaneously reducing overhead. Consider that even a company with five products could, in this instance, boost overall cash on hand by 20 percent by implementing a strong purchasing plan. With major financial benefits as well as improvements in product delivery and quality, business that embrace strategic purchasing agreements and strict vendor evaluation can find themselves in a much stronger financial position in relatively little time.