



# Five Ways to Improve Your Parts Procurement Program

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Procurement, or the buying and selling of necessary items, is the foundation of business - especially in manufacturing. Industrial procurement of equipment parts can represent millions of dollars and is of critical consequence, since not having the right part at the right time can result in an enormous negative impact to production. It is a process that must be streamlined to achieve the utmost efficiency and effectiveness.

A procurement process that exists in a “bubble” is not the most effective or efficient. Simply finding the best vendors is not enough. To do it well, procurement must be done strategically in relation to other business processes in order to get the best production performance, improve service quality, and maximize pricing advantages. A sound, 360-degree procurement effort involves everything from locating obsolete parts to logistics management and assessing total cost of ownership in order to foster the best vendor relationships. Mastering these aspects of procurement can lead to huge gains in efficiency and productivity today and for years to come.

What can you do to start to make your parts procurement program world-class? There are five things:

## **1. Make the most of the bidding process.**

When sending projects out for bid, make sure the process is fair, concise, and easy to understand for vendors. In order to get truly relevant quotes back, you must send out a clear and well thought-out RFP. Make sure specs

are based on common purchasing categories and a reasonable level of sample SKUs, so as not to overwhelm bidders. Finally, consider RFPs that reflect high volume purchases: quotes on higher quantities of items can be more revealing of a vendor’s pricing structure.

## **2. Do smart reviews when bids come back.**

When you get bids back, don’t do a laser focus on price only. During your review, take a good look at any value-added benefits that are included with the bid; there may be attractive rebate thresholds, options for training, onsite “crib crawls,” and other ways that can improve the bottom line, especially over time. Some local or regional vendors may even offer highly cost-effective shipping as a part of the deal. Once you’ve reviewed all of the responses in detail, it’s smart to make a list of primary and secondary vendor choices with regard to each purchasing segment. That way, you’ll get the best of the best in your choices, while having a good “Plan B” if your primary choice runs into difficulties.

## **3. Keep contracts clear, changeable, and accessible.**

Let go of the belief that contracts are etched in stone. Yes, initial contracts with a vendor must clearly settle all vital questions with regard to net terms, spend commitments, contract length, and other basics. But after that, begin to think of contracts as living documents; they should define your relationship with vendors as it changes and evolves over time.

Issues that can be defined and re-defined as the contract evolves, according to each party's mutual benefit, include things like the opportunity to review discount changes prior to implementation, the pre-approval of price increases, expectations involving reporting, procedures for resolving invoice or shipping errors, and customer support privileges.

Finally, since an ever-evolving document should be easy to access for both primary and escalation points of contact, keep them in a shared electronic space. To take it a step further, you can even implement an automatic notification as a reminder for periodic review, to keep things current and relevant as vendor relationships grow.

#### **4. Keep score and communicate.**

To accurately clarify your priorities as a manufacturer, a supplier scorecard that's administered quarterly, semi-annually or annually is a great tool; especially one that is well-constructed. Yours should include basic weighted (in terms of importance) metrics like discounts, rebates, payment terms, Net Promoter scores, fill rates, and product quality. The scorecard is ultimately helpful to the relationship when it works both ways: elements that also hold you accountable as a buyer can be included, such as mutually agreeable corrective actions, responsibilities, and deadlines.

It's important to make sure that the scorecard, however, isn't the only means of communication. Feedback following every important contact via phone and email is essential. Again, strong relationships only develop when expectations – however fluctuating -- are crystal clear at every given point. The way to do that is through regular and clear communication.



#### **5. Make the most of spend commitment incentives.**

It is not unusual for suppliers – especially within the context of a long-term relationship – to request a spend commitment. Smart procurement programs make the most of the mutually beneficial opportunities that spend commitments represent.

Reviews of historical and scorecard data can help define what types of incentives will be beneficial to both parties. Examples include rebates, special programs, and shipping allowances; however, the benefits of a spend commitment go well beyond the monetary. They are an expression of faith in the performance of the vendor, and foster an environment of loyalty and trust. In return, you gain pricing leverage, as well as great performance and a supplier relationship that only strengthens over time.

A few simple steps, as outlined above, can be the bedrock of a strengthened procurement program. You can go about it on your own, but it is wise to consider the help of an expert: today's third-party procurement specialists are highly experienced in industrial equipment maintenance, and can help you make huge strides in effectiveness -- in a relatively short period of time – with a significant return on investment.

Whether you go it on your own or seek help, taking the steps to improve your procurement process can make the difference between it merely existing as a cost center – and becoming a real strategic asset to your overall manufacturing operation.