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Volume 9, Issue 6: Procurement

The Definition

People sometimes confuse the terms ‘procurement’ and ‘purchasing’. Procurement refers to all work relating to the acquisition of those goods and services that are vital to an organisation’s functioning. Purchasing, which is the process of ordering and receiving goods and services, is a subset of procurement. Procurement is, therefore, a much wider process. It usually involves establishing fundamental requirements; sourcing activities such as market research, vendor evaluation and selection; negotiation of contracts; and, the purchasing of goods and services.

The Stage

What has an organisation to gain by developing its procurement capacity? The answer is simple: procurement management is essential for the sustainability of a successful organisation. It ensures the goods and services necessary for an organisation to thrive are obtained in the most cost-effective and efficient manner possible.

Good organisations understand that procurement is an overarching function that ties in with their overall business strategy. They treat procurement as a strategic function, one that has to be distinguished from the simple acquisition of goods and services. For example, a centralised purchasing strategy may concentrate all procurement activities in one main location; a single procurement strategy may mean using a single vendor with a proven track record of dedicated, excellent service; and, an emphasis on environmental responsibility may see an organisation develop a green purchasing strategy.

An organisation can spend more than two-thirds of its revenue on buying goods and services, so even a modest reduction in purchasing costs can have a significant effect on profit. Managing your procurement well can add value to all your organisational practices and reputation. It can also save you time and money.

In This Report…

1. What is procurement?
2. Which organisations have received recognition for excellence in procurement?
3. How have organisations reached high levels of success in procurement?
4. What research has been undertaken into procurement?
5. What tools and methods are used to achieve high levels of success in procurement?
6. How can procurement be measured?
7. What do business leaders say about procurement?

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 Michael Adams, maag Communications (Canada).
1. What is procurement?

1.1 The Procurement Process
Source: Procurement Academy, Belgium (date of information: 2012)
Link (video): The Procurement Process

Application/Key learning points: The Procurement Academy gives an excellent introduction to the procurement process – one that is quick and easy to understand. Lasting a little over two minutes, the video explains the two main parts of procurement and shows how they connect with each other.

1.2 Procurement or Supply Chain? What’s the Difference?
Source: Forbes, United States (date of information: 2016)
Link: Procurement or Supply Chain? What’s the Difference?

Application/Key learning points: In this short article, Forbes shows the difference between procurement and supply chain management. The article also talks about the value of merging the two components from a practical viewpoint.

1.3 What Is Procurement Management?
Source: Deltabid, United States (date of information: 2017)
Link: Procurement Management

Application/Key learning points: Deltabid’s excellent introduction to the topic shows procurement management as a systematic process that will save your company time and money. The article introduces the idea of continuous improvement as you move through each stage. This will help your business practice become more effective over time.

1.4 What Is Public Procurement?
Source: RFPSolutions, Canada (date of information: 2014)
Link (PDF): What is Procurement?

Application/Key learning points: If you enjoy a good discourse on the philosophy of procurement, then this 14-page paper is for you. It is both academic and practitioner-orientated, and is published on the website of the International Public Procurement Conference, which has nearly 100 country members.

“Every breakthrough business idea begins with solving a common problem. The bigger the problem, the bigger the opportunity. I discovered a big one when I took apart an IBM PC. I made two interesting discoveries: the components were all manufactured by other companies, and the system that retailed for $3,000 cost about $600 in parts.”
–Michael Dell, CEO, Dell Technologies
2. Which organisations have received recognition for excellence in procurement?

2.1 Examples of Procurement Awards

Sources & Links:

- **New Zealand Procurement Excellence Awards**, New Zealand
- **World Procurement Awards**, United States
- **Global Procurement Awards**, United Kingdom
- **Procurement Asia Pacific Awards**, Australia
- **National Procurement Awards**, Ireland
- **The Public Procurement of Innovation Award**, Germany
- **CIPS Middle East Awards**, United Kingdom

Application/Key learning points: These are examples of procurement awards from around the globe. You will be able to catch a glimpse of the best organisations in this space, and find out what makes them exceptional. Award winners are usually excellent organisations to contact and from which to learn.

2.2 Supply Chain Excellence Awards

Source: **Logistics & Supply Chain Excellence Awards** United Kingdom (date of information: 2017)

Link: **Supply Chain Excellence Awards**

Application/Key learning points: The most recent winners of the Supply Chain Excellence Awards have been recognised for being the best in the world in supply chain management. The winners of these prestigious awards compete in the following industry categories: automotive, aerospace, and industrial; consumer products; energy, utilities and transportation; extreme logistics; health and pharmaceuticals; hi tech, communications and electronics; process engineering; public and third sectors, and retail and e-tail. A list of current and past winners is available on the website.

2.3 Five Traits of World-Class Procurement Organisations

Source: **Forbes** (date of information: 2014)

Link: **The Five Traits of ‘World-Class’ Procurement Organisations**

Application/Key learning points: The world’s leading global companies look to the sourcing and procurement function to do a lot more than simply cut the price of supplies. According to a study by The Hackett Group, Inc., a global business consultancy, world-class procurement departments spend 20 per cent less than average companies – and have 27 per cent fewer employees. These top organisations share five traits, which go far beyond cost-cutting measures.

2.4 Global Procurement Survey and Case Studies: A Digital Tipping Point?

Source: **Deloitte**, United Kingdom (date of information: 2016)

Link (PDF): **Procurement: at a digital tipping point?**

Application/Key learning points: Deloitte presents excellent benchmarking data in areas of procurement such as talent, technology, and productivity. The technology case studies on page 13 (“Robots in action”) and page 14 (“Automated contract metadata capture saves clients time and money”) are particularly interesting to read. The use of multiple robots – as a virtual workforce with minimal human intervention – is an interesting proposition.
3. How have organisations reached high levels of success in procurement?

3.1 Case Study of Dubai Ports World
Source: Dubai Ports, United Arab Emirates (date of information: 2015)
Link (PDF): Case Study: DP World

Application/Key learning points: Dubai Ports is a Middle Eastern Procurement Award Winner. This CIPS case study outlines the steps taken by Dubai Ports to save time with supplier onboarding; to pre-qualify processes; and, to dramatically reduce procurement cycle times, thereby reducing costs.

3.2 Cronin Award Winner: eVA Mobile Apps
Source: Virginia Department of General Services, United States (date of information: 2014)
Download (PDF): eVA Mobile Apps
Link (video): eVA Mobile 4 Approvers

Application/Key learning points: The Commonwealth (State) of Virginia published two mobile apps for major mobile systems to help facilitate the procurement process. The first app is eVA Mobile 4 Businesses, which provides users real-time access to business opportunities with Virginia State Agencies. These opportunities are publicly posted on eVA, Virginia’s innovative e-procurement system. The second app is eVA Mobile 4 Approvers, which allows eVA approvers and watchers on the government side real-time access to requisitions, including all of the requisition details, from buyer information to attachments. It provides a fast, secure and easy way to conduct thorough reviews of requisitions and keep the purchase process moving, all from the convenience of a mobile device.

3.3 Cronin Award Winner: Missouri’s e-Procurement Readiness Initiative
Source: Virginia Department of General Services, United States (date of information: 2015)
Download (PDF): Missouri’s e-Procurement Readiness Initiative

Application/Key learning points: The State of Missouri was planning to move to an e-procurement system. Instead of buying a ready-made solution, the state conducted a study before inviting suppliers to send in their proposals. In this way, the State was able to identify a number of best practices for deploying an e-procurement system. Some of these practices include the development and deployment of an in-depth procurement manual, and deployment of mandatory web-based evaluator training.

3.4 Cronin Award Nomination: North Carolina Department of Administration (DOA)
Source: DOA, Division of Purchase and Contract, United States (date of information: 2015)
Link (PDF): Procurement Transformation Program

Application/Key learning points: It is always a good idea to redesign for efficiencies and cost savings. This simple five-page report shows how North Carolina’s Department of Administration, led by its Division of Purchase and Contract, started a comprehensive assessment and redesign of the State’s procurement function, which led to change in key areas. The State now integrates and standardises roles, tasks, technology enablers, templates, and guidelines across common processes into a single Procurement Operating Procedures Handbook. As a result of this process, the State is expected to save US $49M over three years, and reduce transaction process cycle times from 38 days to 28 days.

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3.5 Winner of GFOA Award for Excellence in e-Government and Technology
Source: Government Finance Officers Association (GFOA), United States (date of information: 2014)
Link (PDF): Raleigh e-Procurement Marketplace

Application/Key learning points: The City of Raleigh’s e-procurement marketplace for negotiated contract and catalogue pricing reviewed and expanded the city’s payment system. It now provides employees and vendors with a robust, cart-based shopping experience to easily compare vendor pricing for material-based purchases. The City projects annual savings of more than US $4.2 million by the fourth year, and a five-year return of more than ten times the initial investment.

3.6 Open Government Partnership Award: Tunisia on-line e-Procurement System (TUNEPS)
Source: Open Government Awards (date of information: 2015)
Link (PDF): Tunisia on-line e-Procurement System
Link (video): TUNEPS

Application/Key learning points: TUNEPS was introduced by the Government of Tunisia, working with Korea’s International Cooperation Agency (KOICA), to reduce the costs of public procurement transactions by streamlining procedures, minimising human intervention, and increasing efficiency. The system mainly targets suppliers and public purchasers. It gives suppliers equal opportunities by providing single-window access that allows them to obtain important documents without having to visit several public administrations. It also allows suppliers to ask questions about subscription and submission procedures online. This facilitates access for small and medium enterprises in more remote towns who want to participate in public procurement.

3.7 7-Star Award for Benchmarking Project on Procurement: Dubai Municipality
Source: BPIR.com (date of information: 2016)
Link (video): Dubai Municipality: Benchmarking 7-star status award on procurement

Application/Key learning points: This video describes Dubai Municipality’s benchmarking project on procurement, which was recognised as a 7-star TRADE Best Practice Benchmarking Project. Within one year, the municipality had achieved the following successes: savings in excess of 2,000,000 AED per annum as a result of a faster automated purchasing requisition process (leading to 97% of purchase requisitions being completed within 12.2 days as opposed to the previous figures of 74 per cent within 15.5 days); the removal of all 20,219 printed purchase requisitions; reductions in the number of cancelled purchase requisitions from 848 to 248 per year, and the number of retenders reduced from 630 to 403 per year. These achievements benefited all stakeholders (internal departments and suppliers) using the purchasing system.

“Leaders win through logistics. Vision, sure. Strategy, yes. But when you go to war, you need both toilet paper and bullets at the right place at the right time. In other words, you must win through superior logistics.”
–Tom Peters, business management writer and guru
4. What research has been undertaken into procurement?

4.1 Procurement Practice Guide: Government of Western Australia
Source: Department of Finance, Western Australia (date of information: 2016)
Download (PDF): Goods and service procurement practice guide

Application/Key learning points: This 78-page guide details best practice requirements for purchases, according to their size and complexity: these include purchases up to a value of $50,000; between $50,000 and $250,000; and, more than $250,000. The guide presents excellent process maps for each purchase level, as well as a good description of the Bids Evaluation Panels (bids requirements), shown in Appendix 6 (page 39). Another interesting concept is the Purchasing Card. This can help maximise savings by eliminating requisitions and hard-copy orders, as well as reduce processing costs by an estimated $19 - $52 per transaction.

4.2 Procurement Guide: New Zealand
Source: New Zealand Government Procurement (date of information: 2011)
Download (PDF): Mastering Procurement: A structured approach to strategic procurement

Application/Key learning points: You will find this 77-page guide an invaluable resource for a structured approach to the procurement life cycle. The guide also includes good practices from the United Kingdom and Australia.

4.3 e-Procurement Golden Book of Good Practice
Source: European Commission (date of information: 2015)
Download (PDF): e-Procurement Golden Book of Good Practice

Application/Key learning points: Get ready to learn the best practices from 18 European countries in this highly professional study by consulting firm PwC. The study presents and evaluates 24 practices based on six criteria. There is a summary of all 24 practices and their ratings on page 19. These summaries are an excellent way of finding the practices that are relevant to you.

4.4 Research Revealed: How Innovative Is Procurement?
Source: Wax Digital, United Kingdom (date of information: 2016)
Link (video/webinar): How innovative is procurement?

Application/Key learning points: This 30-minute webinar takes a closer look at how innovative procurement really is. It pays particular attention to how investments in digital technology are made. The webinar highlights a number of issues such as key innovation areas over the next few years, the biggest barriers to success for procurement systems, and the current soft skills needed to overcome these barriers.

4.5 International Public Procurement Conference
Link: Conference proceedings and papers

Application/Key learning points: Public procurement remains a key focus for policy makers in this time of global downturn and austerity. As such, academics and practitioners want to share their research and practice in an open and transparent environment. The eighth International Public Procurement Conference (or IPPC8) will take place in 2018 in Arusha, Tanzania. The IPPC is one of the largest—if not the largest—international public procurement conference globally dedicated to academic discussion and practitioner engagement.
4.6 Procurement’s Next Frontier
Source: Accenture.com (date of information: 2016)
Link (PDF): Procurement’s Next Frontier

Application/Key learning points: Accenture predicts that in five-to-seven years’ time, digital technologies will revolutionise procurement and its professionals. This 44-page report analyses the views of more than 50 leading executives and experts in procurement. It will show you how having the right hardware and software will help you stay ahead in the procurement game.

5. What tools and methods are used to achieve high levels of success in procurement?

5.1 Ten Tools for Procurement
Source: University of Virginia, United States (date of information: 2014)
Link (SlideShare): Tools for Procurement

Application/Key learning points: This simple, practical set of ten tools has been designed for managers and will help stimulate growth and innovation within any company. The ten tools described are visualisation; journey mapping; value chain analysis; mind mapping; rapid concept development; assumption testing; prototyping; customer co-creation; learning launches; and. storytelling.

5.2 Preparing for Negotiations with Your Key Suppliers
Source: Supply Chain 24/7, United States (date of information: 2013)
Link: Seven Techniques for Preparing Winning Negotiations with Your Key Suppliers

Application/Key learning points: Supply Chain 24/7 advocates a detailed preparatory stance before you going to the negotiation table. The seven techniques are specific – and have the potential to save you significant amounts of money. This is a vital read for anyone involved in negotiations.

5.3 Procurement Implementation Maturity Model and Self-Assessment Tool
Source: Implement Consulting Group, Denmark (date of information: 2014)
Link (PDF): Implement Procurement Maturity Model

Application/Key learning points: This easy-to-read paper introduces a five-level maturity model for procurement. The self-assessment has eight categories and provides a clear explanation for each. There is also a best practice examples page to show how you can improve your maturity in each of these eight categories.

5.4 Ten Supply Chain Best Practices
Source: Supply Chain (Quarterly), United States (date of information: 2011)
Link: 10 best practices you should be doing now

Application/Key learning points: Apply these ten best practices gleaned from top organisations, and you will have a strong foundation for procurement and supply chain excellence. The sequence in which these practices are presented does not indicate priority but is meant to suggest a systemic approach to implementation. Add and modify according to what you already have to improve your effectiveness.
5.5 The Six Core Purchasing Strategies
Source: Purchasing & Procurement Center, Malaysia (date of information: 2017)
Link (PDF 40 pages): The 6 Core Purchasing Strategies

Application/Key learning points: Every company seeks to implement the most cost-effective purchasing solution. This article summarises six core strategies that most companies use: supplier optimisation; TQM; risk management; global sourcing; vendor development; and, green purchasing.

5.6 The Right Way to Do e-Procurement
Source: Governing (date of information: 2015)
Link: The Right Way to Do e-Procurement

Application/Key learning points: This short article in Governing magazine describes the characteristics of the newly-overhauled Virginia procurement process. This is a full-function e-procurement system that is highly efficient. It paves a way for organisations wishing to reap the benefits of the technology in this field.

5.7 Innovating for Effectiveness
Source: OECD Report: The Korean Public Procurement Service (date of information: 2016)
Link (PDF): The Korean Public Procurement Service: Innovating for Effectiveness

Application/Key learning points: This easy-to-read 115-page OECD report examines the effectiveness of the Korean On-line E-Procurement System (KONEPS) and its best practices, including a user manual, downloadable resources, announcements, frequently asked questions, and questions and answers. Users can process all necessary operations for procurement-registration, bidding, contract, and payment. 19 countries have signed memoranda of understanding with Korea because of the efficiency and integrity of this system.

5.8 EU Public Procurement Reform: Less Bureaucracy, Higher Efficiency
Source: European Commission (date of information: 2016)
Download (PDF): EU Public Procurement Reform

Application/Key learning points: The European Commission has made changes to existing rules, which are expected to lead to billions of Euros in savings. The simplification of public procurement procedures through smarter rules and the wider use of e-procurement will make it fairer and easier for SMEs to participate in public tenders. The reform has had a positive effect on four main areas: reducing administrative burden; creating a culture of integrity; addressing societal challenges; and, modernising public administrations. Two useful factsheets have been produced to accompany the project:

- Simplifying the rules for contracting authorities to ensure better quality and value for money
- New opportunities for SMEs under the reform of public procurement legislation

“If you can’t describe what you are doing as a process, you don’t know what you’re doing.”
–W. Edwards Deming, TQM founder
6. How can procurement be measured?

6.1 How Is Procurement Performing?
Source: Sigi Osagi, United Kingdom (date of information: 2015)
Link: “Mirror, Mirror on the Wall, How Is Procurement Performing?”

Application/Key learning points: This insightful article demonstrates the need to measure procurement performance correctly. Since every company has a different vision, the procurement measures or key performance indicators (KPIs) must reflect a company’s specific objectives. Copying other KPIs might gain you short-term success – but in the long run, you risk being short changed.

6.2 What Procurement Managers Track
Source: Procurify, United States (date of information: 2016)
Link: 5 Metrics for Procurement Managers to Track

Application/Key learning points: Every procurement manager will tell you something different when it comes to tracking his or her purchases. Here are some key factors over which most of them will probably not argue: procurement cycle time; quality; procurement return on investment; cost savings; and, spending under management vs. spending under purchasing department.

6.3 Developing Evaluation Criteria
Source: Chartered Institute of Procurement & Supply (CIPS), United Kingdom (date of information: 2016)
Download (PDF): Developing Evaluation Criteria

Application/Key learning points: Before issuing the solicitation, you have to establish the criteria against which bids and proposals will be assessed. While the criteria may vary based on the requirements of a contract or varying regulations, the needs of the end user will generally include what CIPS has underscored.

6.4 Procurement KPI Categories and Examples
Source: Purchasing & Procurement Center, Malaysia (date of information: 2017)
Link: 27 Procurement KPI Examples Divided In 6 Categories!

Application/Key learning points: If you are looking for a quick overview of procurement KPIs, then this is the article you should read. You can choose from 27 KPIs in six categories, all of which can be used to benchmark against best practices. At the end of the article, there is a link to useful procurement benchmarking figures.

6.5 Using Procurement Performance Indicators to Strengthen the Procurement Process
Source: USAID Deliver Project, United States (date of information: 2013)
Link (PDF): Procurement Performance Indicators Guide

Application/Key learning points: This set of procurement performance indicators are the result of a review of a large body of indicators used worldwide. These indicators were selected because they provide procurement managers with key performance information on different aspects of a procurement system, including cost, quality, system productivity, system integrity, and timeliness of processes. Though skewed toward the health profession, they are very useful to all procurement managers seeking to assess progress in achieving pre-established procurement performance goals and targets.
6.6 Measuring the Savings and Benefits of Procurement Activities

Source: New Zealand Government Procurement (date of information: 2010)
Download (PDF): Guide to measuring procurement savings and benefits

Application/Key learning points: This 19-page guide aims to help government agencies identify, measure and report on the savings and benefits of procurement activities. The guide describes typical procurement savings and benefits; and, outlines the factors you need to consider when measuring savings and benefits.

6.7 Public Procurement Performance Measurement

Source: OECD Library (date of information: 2011)
Download (PDF): Public Procurement Performance Measurement

Application/Key learning points: Public procurement in the European Union accounted for €2100 billion in 2009 – or 19 per cent of the EU’s GDP. The obvious question is whether or not the EU is efficient in its spending. For this reason, performance measurement is essential to answering the fundamental question of whether the procurement system and operations ultimately deliver in accordance with the main objectives set. This 12-page paper put together by the EU and OECD guides you through the process at various levels of procurement. The process appears to have worked to some extent. As of July 2017, public procurement in the EU had dropped to 14 per cent of its GDP.
7. What do business leaders say about procurement?

“Leaders win through logistics. Vision, sure. Strategy, yes. But when you go to war, you need both toilet paper and bullets at the right place at the right time. In other words, you must win through superior logistics.”
–Tom Peters, business management writer and guru

“Supply chains are in every organisation. Even a corner store has a supply chain. They just don’t know it yet.”
–Nadia Kassam, MBA

“Organisations that get it understand that you can reduce your cost by reducing your environmental footprint.”
–Roger Eacock, VP of Procurement, Retail

“Run your business as though it is in trouble, because if you don’t, it will be some day.”
–Jack Miles, American author and winner of the Pulitzer Prize

“At Walmart, it goes back to Sam Walton and the foundation and business model that we simply operate for less, or everyday low cost. We’re known for operating in a very efficient way and then giving those savings to customers.”
–Mike Duke, former CEO, Walmart

“You will not find it difficult to prove that battles, campaigns, and even wars have been won or lost primarily because of logistics.”
–Dwight D. Eisenhower, politician, and ex-president of the United States

“Every breakthrough business idea begins with solving a common problem. The bigger the problem, the bigger the opportunity. I discovered a big one when I took apart an IBM PC. I made two interesting discoveries: the components were all manufactured by other companies, and the system that retailed for $3,000 cost about $600 in parts.”
–Michael Dell, CEO, Dell Technologies

“If you can’t describe what you are doing as a process, you don’t know what you’re doing.”
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Conclusion

This report outlines the best practices research undertaken by BPIR.com in the area of procurement. The best practices have been compiled under seven main headings. This layout is designed to enable you to scan subjects that are of interest to you and your organisation, quickly assess their importance, and download relevant information for further study or to share with your colleagues.

Disclaimer: Recent information has been included in this report to ensure our readers are kept up to date with the latest research; where possible, permanent links have been provided. All links were live at the time of publishing. We apologise in advance for any broken links that might occur after publication due to matters beyond our control.
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