BEST PRACTICES

A Collection of Best Practices for:

Procurement

Includes Detailed Best Practices for:

- Logistics Management
- Strategic Sourcing
- Vendor Identification & Management
- Vendor Contract Management
- Vendor Compliance & Audit

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The Logistics Management function works with suppliers to facilitate the efficient and timely delivery of purchased goods. They manage distribution channels and delivery methods to reduce "hidden" costs associated with purchasing, including the transportation and storage of purchased goods. Many times, companies use specialized third party logistics firms (brokers) to manage the flow of materials and reduce costs. Once goods arrive at company facilities, logistics staff members inspect the order to ensure completeness (check against purchase order) and quality, then send the invoice to the company's Accounts Payable Department for payment.

Best Practice 1-A

Prepare Weekly Inventory "Hot Lists" to Improve Materials Availability

Prepare a weekly inventory "hot list" for the Procurement Department that lists which items are currently over- OR under-stocked to improve inventory management practices. Include all relevant data (i.e., metadata) about these items, such as retail price, cost, lead times, demand forecasts, etc. to ensure high informational accuracy.

Typical Practice (the Status Quo): Determine items that are over-/under-stocked by comparing data from weekly or monthly inventory reports and demand forecasts. Producing these reports in longer time frames would reduce the number of unneeded reports and free up employees to performing other, higher-valued tasks.

Benefits of this Best Practice: Preparing a weekly inventory "hot list" for the Procurement Department improves storage efficiency by opening warehouse capacity for more high-value, demand-heavy materials, and greatly improves materials availability by ensuring that high-demand items are appropriately stocked. These lists should not only describe which items are currently over- OR under-stocked, but also all relevant data about the listed items (retail price, cost, lead times, demand forecasts, etc.) so as to ensure high informational accuracy. Preparing weekly "hot lists," furthermore, improves employee understanding of material availability which allows the Procurement Department to purchase needed materials before being asked.

Related KPIs: Inventory Turnover, Inventory Accuracy (Location), Inventory Shrinkage

Logistics Management

Procurement Best Practices

Use ABC Analysis and Other Categorization Systems to Optimize the Use of Warehouse Space

Use ABC analysis alongside other categorization systems (includes categorizing according to use, department, etc.) to determine which items within the organization's inventory should be considered high or low value. Store all inventory and categorization information in a central asset database to ensure easy access by relevant employees while maintaining precise control over the inventory. Not only do these practices optimize the use of warehouse space, but it also allows order processing, production, packaging and shipping employees to quickly locate inventory items and perform data analysis to further optimize inventory processes.

Typical Practice (the Status Quo): Categorize the organization's assets according to whether it is moveable or fixed (i.e., products that can be sold quickly versus things that can't such as buildings, furniture, equipment, etc.). Use print outs that lists moveable asset placements (typically in alphabetical order) and attach them throughout the warehouse to provide relevant employees (typically production, packaging and shipping employees) the ability to quickly locate items to distribute or areas to restock returned items. It is the responsibility of order and return processing employees to keep the lists updated after every stock review and re-order.

Benefits of this Best Practice: The goal of using ABC analysis alongside other categorization systems (includes categorizing according to use, department, etc.) is to optimize the use of warehouse space and to ensure that the most important items are always available for distribution and/or sale. Best practice uses a central asset database to store all the asset placement and categorization information for the organization's inventory and assets, providing relevant employees the ability to locate inventory items to distribute to customers or areas to restock returned items.

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