# Top 6 Risks in the Procurement Function

BY

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It is a fact that risks exist everywhere and in every business decision, it is more so. While procuring goods and services Organizations must consider the risks attached at every stage. Managing risks from the very start of the process is important. Disruption of operations, poor quality, the safety of employees and neighborhood, the reputation of the business can all be at stake if risks are not managed well. Risks can threaten the very existence of the organization.

To manage risks companies must put in place a process of identifying risks, measure them, put mitigation measures in place to either eliminate them or reduce their impact.
Here we will talk about the top 6 risks in Procurement that businesses must try and address them in a systematic manner.

It must be said, at the very outset, that this is not a complete list of risks in the procurement process but just a few important ones. Below are the typical risks in the procurement function:

**LEAN TEAM AND THEREFORE INADEQUATE INHOUSE SKILLS TO MANAGE END-TO-END PROCUREMENT**

Procurement is a specialized activity. It requires thorough knowledge of the product or service being purchased, market dynamics, key players apart from a deep insights into how the procurement process can be run transparently to create value. In many organisations the right skills are missing for many reasons ( not in the scope of this article) and this lack of inhouse skills can severely impact the fortunes of the business. It is therefore imperative that this issue is addressed right at the start and the people with right skills and knowledge are placed in this function. Loss of qualified and experienced resources also impacts an organisation's ability to manage the function. Automation helps in reducing the impact of human redundancy
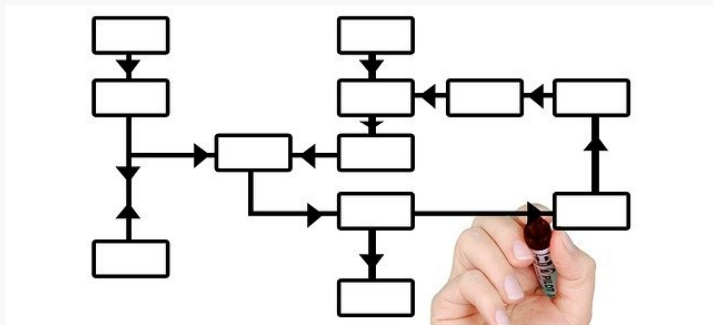
**ABSENCE OF A TRANSPARENT AND EASILY ACCESSIBLE VENDOR SELECTION AND EVALUATION METHOD.**

Selecting vendors is key to the procurement strategy. It needs to be ensured that all the competent ones meeting the requirements are evaluated through a transparent process and the best 3 or 4 are finally short-listed on the basis of well-defined selection criteria. For this purpose, organizations must collect adequate information regarding the vendors, scrutinize them, follow it up with a thorough techno-commercial-sustainability audit, visits, and discussions to ensure the right fit. At this stage, it is also necessary to ensure that the values& ethical standards of the short-listed vendors are consistent with the Organisation's values. Compliance & Transparency must be at the center of all relationships. The objective must not be to choose a cheap vendor but one who is qualified, competent, compliant, and delivers value.

## POOR CONTRACT MANAGEMENT

Every aspect of the transaction must be recorded in a clear manner to avoid potential misinterpretation and confusion. Starting from Technical specs, commercial terms, and conditions, Bank Guarantees, payments, inspection methodology, dispute redressal mechanism, etc must all be spelled out, documented clearly and signed off by authorized personnel from both sides. The contract must be worded correctly from a legal perspective. Poor contract management is fraught with huge risks for the organization and must be managed well right from the start. Digital platforms for Contract Lifecycle management are very useful and effective in managing contracts and must be deployed.



## INADEQUATE ANALYTICAL ABILITIES POST SPENDS.

Analyzing spend provides visibility into the major areas of procurement and helps focus management attention to ensure no loss or leakage of revenue. It helps identify areas for cost reduction and process improvement and operational excellence. How much is being spent in which area and with which suppliers are key things to know. A good analysis also helps in consolidating spend as well as suppliers. A comprehensive spend management program benefits organizations in the areas of cost-effectiveness, cycle time, process efficiency, and staff productivity. Digital platforms offer excellent tools to analyze spend and chart out control measures.



## INABILITY TO MONITOR OPERATIONAL PROCESSES – TIMELY CONVERSION OF REQUISITION TO ORDERS, FOLLOW-UP ON DELIVERY, DOCUMENT FOLLOW-UP ETC

Procurement processes are time-consuming and more so if they are run manually. The laborious process would imply that personnel working in the function are spending hours on manual work, updating records, filling out forms, and doing paperwork. Record keeping also becomes complicated and failure to retrieve required information can be costly.
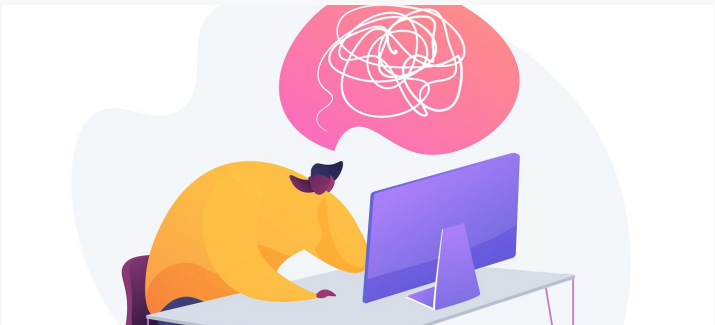
The process of creating requisitions, requesting for RFQs, comparing quotes ( QCS), reviewing technical bids ( TBE), preparing for negotiations, etc can all be cumbersome and problem-laden if not managed properly. Issuing purchase orders on time is crucial to timely delivery. Documenting the decision-making process for awarding bids is very important.

Inability to manage these operational processes means big risks to the organization. A good procurement automation solution can mitigate these risks effectively.



## INADEQUATE NEED ANALYSIS – NOT KNOWING ONES NEEDS, WHAT IS NEEDED, WHEN AND HOW MUCH ETC.

Needs involve a clear definition of the technical specification, EHS relevant parameters, quality standards, testing processes, performance parameters, quantities, delivery schedules, packaging, transportation and handling requirements, and warranties and guarantees.

These topics must be clearly communicated right at the outset. Risks relating to the deviations, if any, must be reviewed and mitigation measures must be recorded.



Proactive risk management aids both the sustainability and future growth of an organization. Implementation of a good procurement automation solution can help in managing almost all of the above-mentioned risks systematically.

VENDX facilitates procurement teams to stay one step ahead of contingencies and risks and take instant corrective action.




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