

Workflow: Procurement

Toolkit 10.1

Procurement in General

target audience

Packhouse managers, and buyers.

what it is

Procurement of consumables, assets, and services is a significant part of a packhouse's expenditure and cost base. Therefore, best practice will have a direct impact on cashflow, working capital, and profit margins, as well as an impact on the ability to pack and deliver high quality fruit.

Procurement can be categorised as follows:

- Procurement practice in general.
- Procurement of consumables.
- Procurement of assets.
- Procurement of services.

Procurement is a specialist discipline and area of expertise, particularly in businesses where purchase volumes are high and whose supply chain is complex and/or critical. In a packhouse environment procurement is an increasingly critical function and the packhouse would do well to apply best practice to ensure that procurement decisions are consistently well considered and well made.

This toolkit will deal primarily with procurement practice in general, while the procurement of assets and of services each merit separate toolkits.

why it is important

Procurement ensures that the business has the materials, machinery and assets, and specialist services required to maintain the operation sustainably, competitively, and profitably. The importance of procurement practice and decisions can be summarised as follows:

- Cost – What is the cost? Is the price competitive and fair? Are my input costs acceptable (operating profit)?
- Cash and payment terms – Can the business pay, and how does that impact my cash flow and the ability to honour my other obligations?

- Stock – Am I holding adequate stock (chemicals, consumables, extensively used equipment/PPE/spares) but without tying up too much cash in stock?
- Assets – These are bigger procurement decisions that are made infrequently and are longer term commitments that may require the serving of debt, lease, or higher purchase arrangements. The full cost of ownership is a further important consideration. Some asset procurement decisions have lifetime implications, such as the decisions regarding which optical readers to procure and which machinery configuration and asset would be most optimal. Although these decisions are difficult to reverse, there is generally good information available to enable an informed decision. Refer to [Toolkit 10.2 – Assets and the Full Cost of Ownership](#).
- Services – These include services such as heavy machinery hire, accounting and payroll services, laboratory services, quality control services, machine and software maintenance agreements, logistics services etc. Services fall into three categories:
 - Uncontracted services or very short-term or seasonal contracts – These procurement decisions can be undone if the service is not up to standard, and an alternative service provider exists.
 - Longer-term, non-core-business service contracts – These services may be governed by longer term or ongoing agreements, e.g., accounting services, but they are fairly easy to exit. Therefore, they are important but not mission critical.
 - Long term, business-critical service agreements – These include decisions to enter into a relationship with logistics service providers and maintenance contracts as part of an asset purchase. These are especially important decisions, made very infrequently that may lock the business into a long-term relationship, i.e., you have to get it right and cannot afford to learn by trial and error. They are also sometimes tricky since there may not be much choice of service providers, thus reducing the bargaining power of the purchaser; and in such cases the soundness of the agreement and the ability to enforce the protective and service level provisions of agreements becomes critical.

success factors

- **A clear approach** – Clarify and list all the procurement decisions you need to make and formulate a procurement strategy or approach. This will evolve and change as your business grows and your requirements change. Key elements of a procurement strategy include:
 - The best way to acquire the material, asset, or service – do you buy and own outright, do you lease, do you outsource?
 - Sharing – Sharing with your neighbours is a creative, less formal approach worth considering in certain circumstances. In a packhouse environment this may not be that common.
 - Formal collaboration – There is real benefit to be gained from collaborating with others to increase purchasing power due to larger collective purchasing volumes and streamlining collections and delivery.
- **Process and accountability** – Clearly map out and define the procurement process (Refer to [Toolkit 11.1 – Administrative Excellence](#)) and allocate accountability, i.e., who can authorise and make purchases.

- **Tracking your spending** – Knowing and tracking your spending in detail is a key success factor. This not only include what you buy, but also when, how often, and the cost of purchases.
- **Collaboration** – Collaborating with neighbours or a group of packhouse owners to increase your purchasing power, thereby getting better discounts and payment terms. This approach would be most appropriate for high volume purchases or frequent services.
- **Recordkeeping and completed administration** – All agreements with suppliers, in particular service level agreements with significant providers (logistics, materials, containers) are in place. This includes warranty and service agreements for equipment and machinery.

execution steps

1. Formulate a procurement strategy.
2. Map, define and standardise your procurement process. Develop SOPs.
3. Carefully track spending, including the full cost of the procurement process.
4. Carefully monitor your stockholding, ensuring business continuity (e.g., you have the materials, consumables, machinery, parts when you need them) without holding too much stock.
5. Ensure that you give due consideration to procurement decisions that result in longer term commitments (Refer to [Toolkit 10.2 – Assets and the Full Cost of Ownership](#) and [Toolkit 10.3 – Procuring Services](#)).
6. Ensure that agreements, such as contracts, service level agreements, and warranty agreements, are in place and current.
7. Ensure that suppliers of goods and services are certified where required.
8. As your relationship with certain suppliers grows and deepens, it will also strengthen your ability to develop that supplier to meet your specific business needs. For a packhouse it is particularly important to foster excellent relationships with logistics, shipping, and container providers since there is inherent risk which you can only mitigate by both contractual terms and good relationships, i.e., will they answer you call as a matter of priority because you have a long standing and mutually beneficial relationship?

assessment questions

Please Note: There is no minimum / maximum number of questions you can add.

1.	Have you defined your procurement strategy, i.e., what to own, what to lease, what to rent, what to share?
2.	Is the process and accountability for procurement clearly defines?
3.	Do you track you spending meticulously, especially for high volume consumables?
4.	Are you able to boost purchasing volumes, and thereby get better terms, by collaborating with your neighbours and purchasing collectively?

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| 5. | Is your recordkeeping on all purchasing, stock levels, and use accurate, and detailed enough, and do you review reports/information/data regarding your purchasing spend monthly? |
| 6. | Do your relationships with key providers ensure that you receive premium response and service? |

resources

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| 1. | Hydrochloric acid shortage in South Africa (CRI - Cutting Edge 322/2021) |
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