

A Reflection on Procurement Process Management and Methods for Cost Control

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Abstract: Cost control in procurement is a paramount objective for commercial banks, as there are various methods available to lower procurement expenses. However, it is essential to prioritize procurement quality over simply reducing costs. This study begins by rectifying four common misconceptions regarding procurement. Subsequently, it presents four crucial aspects of effective procurement process management in commercial banks: precise identification of procurement needs, meticulous preparation of procurement documentation, strategic negotiations informed by astute decision-making, and conscientious contract management. Ultimately, the conclusion emphasizes that procurement personnel should approach and resolve complex situations in the procurement process with a pragmatic and meticulous work ethic, complemented by professional expertise and innovative skills.

Keywords: Procurement Cost Control; Precise Identification of Procurement Needs; Strategic Procurement Negotiations; Procurement Contract Management

1. Introduction

Jack Welch, the former CEO of General Electric, famously stated, "Within a company, the procurement and sales departments stand as the sole revenue-generating entities, while any activities within other departments primarily incur management expenses." Procurement, as one of the three core components of the supply chain, has been recognized as a profit center since the 1960s. Reducing procurement costs can greatly enhance a company's profitability and strengthen its competitive advantage.

In the banking industry, which falls under the realm of the service sector (likewise, throughout this text, the term "bank" will be used as a unified abbreviation), procurement

differs from that of the manufacturing industry. However, it encompasses various aspects of banking operations, including IT equipment, security devices, teller machines, bank card gifts, merchant partnerships for customer point redemption, branch renovations, and more. Moreover, the scope of procurement is complex and extensive, covering engineering projects, services, and goods. Although the procurement department of a bank may not yet function as a profit center, but at least it should be regarded as a crucial department for cost control.

The diversified nature of procurement content in the banking industry, coupled with the high demands for procurement efficiency, presents significant challenges and requirements for procurement professionals. They are tasked with effectively managing the procurement process, employing adept negotiation skills, and ensuring the successful implementation of contracts. By doing so, they aim to alleviate the financial burden on banks and strive for optimal cost-effectiveness.

Based on practical work experience, insights and reflections are shared on how to effectively reduce procurement costs and achieve a win-win situation between suppliers and banks through efficient procurement process management, all while ensuring the quality of the procurement.

2. Prioritizing Correction of Four Common Misconceptions about Procurement

While there are numerous methods to reduce procurement costs, it is crucial to prioritize procurement quality rather than solely focusing on cost reduction. From the author's perspective, effective procurement process management should encompass four key aspects: precise identification of procurement needs, meticulous preparation of procurement documentation, strategic negotiations informed by astute decision-making, and conscientious contract management. Before elaborating on

these key points, let us correct the following four prevalent misconceptions about procurement:

Misconception 1: Procurement revolves around bargaining and securing the lowest price possible, necessitating a strong emphasis on negotiation skills.

Misconception 2: Procurement involves accepting gifts and engaging in social activities, expecting personal benefits in return.

Misconception 3: Effective procurement management requires frequent rotation of procurement personnel to prevent corruption.

Misconception 4: Procurement control solely entails pressuring suppliers for prompt delivery while delaying payment, employing economic manipulation tactics.

How should these four misconceptions be understood and corrected?

Understanding and correction of Misconception 1: If a negotiation with suppliers solely focuses on engaging in a price war, suppliers will try to compensate for their losses incurred during the negotiation process through means such as compromising on quality, delaying deliveries, or reducing service standards. These seemingly lucrative deals can ultimately cause significant complications in subsequent management, resulting in greater costs. Therefore, procurement professionals should not only prioritize unit price but also consider the overall cost, establishing this awareness as their primary focus [1].

Understanding and correction of Misconception 2: The professional ethics of procurement personnel are of utmost importance, acting as the cornerstone of their roles. Any breach of these ethical principles prevents them from maintaining independence, transparency, and fairness throughout the procurement process, potentially subjecting them to legal consequences according to internal and external regulations. Enhancing the moral cultivation and professional qualities of procurement professionals continuously is an indispensable responsibility of the procurement department [2].

Understanding and correction of Misconception 3: Some organizations believe that the procurement department is highly sensitive, leading them to frequently rotate procurement personnel to preempt internal

corruption. While this approach does offer a certain level of protection against internal corruption within the procurement team, it overlooks the specialized nature of procurement. Procurement has evolved beyond transactional activities, now encompassing a range of technical and skillful aspects. Frequent rotations of procurement personnel hinder the sustained growth of their professional capabilities. Instead, it is crucial to foster a positive corporate culture within the procurement department, promoting high ethical standards among procurement professionals and cultivating a sense of accomplishment based on the positive outcomes achieved for the organization.

Understanding and correction of Misconception 4: The relationship between banks and suppliers should be characterized by equality, mutual benefit, and mutual success. Only then can procurement projects attract a larger pool of suppliers to participate and compete, establishing a virtuous cycle in the relationship with suppliers. Procurement contracts serve as formal agreements, binding both the buyer and supplier to safeguard their respective interests prior to engaging in official transactions. Once a contract is in effect, both parties should fully and appropriately fulfill their obligations [3].

Hence, it is essential to avoid falling into procurement misconceptions and, at the same time, foster a new mindset in procurement. By focusing on process management and exercising control over each procurement stage, we can effectively integrate procurement techniques into practical work, ultimately achieving the goal of optimizing cost-effectiveness in procurement.

3. Conducting Thorough Preliminary Research to Develop a Well-informed Procurement Plan

The more comprehensive the preparation, the deeper the understanding of relevant information, and the more clear and targeted the set objectives and strategies, the better position the bank will have in procurement. This approach enables the bank to proactively minimize procurement costs [4]. Procurement professionals can make full use of public platforms and the internet to conduct initial market research and investigation. By analyzing the collected market data and

utilizing scientific methods, they can estimate the future supply and demand situation and identify market trends within a specific timeframe. In this process, referring to a *Market Research Form for Procurement Plan* (such as Table 1) can provide guidance on the investigation of products. Additionally, gathering and organizing supplier-related information can be done through various

means such as analyzing past cooperation data, utilizing enterprise information platforms, conducting on-site investigations, etc. This information can include supplier creditworthiness, capital, credibility, performance capabilities, negotiation styles, and previous cooperation experiences, among others [5].

Table 1. Market Research Form for Procurement Plan

Items	Content	Objectives
Product Supply and Demand	(1) For the product in question, is the current market characterized by oversupply, undersupply, or a balanced supply and demand situation?	Develop different negotiation plans and strategies for procurement.
	(2) Identify the potential demand for the product in the market, whether it is from competitors producing similar products or potential competitors offering substitute products.	
Product Sales Performance	(1) Sales volume and price fluctuations of various models of this product in the past few years.	Gain a general understanding of market capacity and sales volume.
	(2) Level of demand for this product and its potential sales volume.	
	(3) Evaluation and requirements from other buyers regarding both new and existing products of this kind.	
Product Competitive Landscape	(1) Number and scale of suppliers producing the same required product.	Identify the number and strength of competitors among suppliers, identify their weaknesses, and gain leverage during negotiations.
	(2) Types of products needed for purchase.	
	(3) Availability of suitable substitute product suppliers.	
	(4) Market share of major brands of this product and potential future trends.	
	(5) Quality, performance, and design of competing products.	
	(6) After-sales service provided by main competitors and satisfaction levels of intermediaries with such services.	
Product Distribution Channels	(1) Distribution channels adopted by major suppliers.	Enhance negotiations by focusing on aspects beyond price, such as strengthening services.
	(2) Availability of warehousing facilities for various types of intermediaries.	
	(3) Number of local wholesalers and retailers.	
	(4) Functions of various sales promotion strategies, after-sales services, and product storage.	

The ability to distinguish between true and false information, commonly known as “separating fact from fiction”, is a crucial skill for procurement personnel. In practical work, it is often the case that certain collected data is incomplete or biased due to various reasons and limitations. Some data may even be deliberately falsified or misleading. Therefore, it becomes necessary to conduct further analysis and evaluation. Moreover, it is important to assess the relevance and utility of the information, following the principle of “refining the rough to obtain the essence”. Building on the foundation of reliable and authentic data, procurement personnel should consider the specific details and circumstances of the procurement project. By examining the relationships between various factors and the project objectives, they can analyze and

compare the significance, importance, and impact of each factor. With a comprehensive understanding, a practical and viable procurement plan can be formulated [6].

The process of sorting and scrutinizing materials necessitates the application of various techniques and methods. For example, when requesting suppliers to provide corporate qualifications and annual inspection materials during the registration process, it is advisable to verify their authenticity by checking specialized websites. In the construction industry, qualifications are generally publicly available on relevant websites. Regarding previous project cooperation contracts requested from suppliers, it is preferable to require them to bring the original documents, in addition to copies, for further examination

4. Preparing Clear Procurement Requirements to Ensure a Smooth Procurement Process

As the saying goes, “A skilled cook cannot prepare a meal without ingredients”. Clearly defined procurement requirements serve as the prerequisite for the smooth progress of the subsequent work. Banks can create different procurement requirement documents based on project categories, such as goods, services, and construction [7]. For procurement requirements related to goods, the document should emphasize product names, quantities, specifications, specific implementation plans, technical support, and other service requirements. In the case of service-related projects, the document should highlight the service content, duration, quality standards, requirements for the service team and personnel, among other factors. In construction projects, it is important to specify the project estimation (budget), project investment plan (design drawings), and bill of quantities. When specifying the quality of items, it is possible to express it through specifications, grades, standards, place of origin, models, trademarks, product manuals, or samples provided by suppliers.

Procurement personnel should enhance communication with the requesting departments and involve themselves in the early preparations of procurement projects whenever possible. Similarly, the requesting departments should initiate contact with the procurement department at the beginning of the project to clarify what is needed and why it is needed. After preliminary discussions between the procurement and requesting departments, the procurement working group should collectively deliberate and formulate the final opinion, which should be documented and sent to the suppliers in the procurement document. If the suppliers fully accept the content of the procurement document, they will submit their response within the specified time frame. In case of any objections, they can be resolved in advance through a question-and-answer process. Additionally, suppliers may attach a "technical and commercial deviations table" along with their response submission.

5. Focusing on Controlling the Process during Negotiations

Negotiations should prioritize the overall cost and aim to achieve the lowest total cost as the ultimate goal rather than engaging in a simplistic bargaining game. The essence of total cost lies in the lifecycle cost. For general procurement of goods, it primarily includes purchase costs, transportation costs, inspection costs, storage costs, quality costs, transaction costs, operational costs, maintenance costs, after-sales service costs, and disposal costs, among others. These components of total cost are generally applicable to various types of procurement projects in banks and should be meticulously considered and balanced.

In the realm of practical work, it is imperative to adopt a strategic approach in negotiations, ensuring that suppliers provide two distinct sets of tables during the quotation process: a comprehensive “total price” table and an itemized “detailed price” table. The “total price” facilitates horizontal comparison among suppliers and enables evaluators to assign scores, while the “detailed price” serves as the foundation for negotiating favorable terms with individual suppliers, deconstructing each component to achieve optimal outcomes. In the delicate art of negotiation, it is essential to adhere to established commercial norms, embodying the grace and refinement befitting banking procurement professionals. During negotiations, it is important to adhere to business rules and demonstrate the professionalism and etiquette expected of banking procurement personnel. Politeness should be maintained during introductions while also clearly conveying our position. Negotiations can be conducted in the following ways: 1. Focus on key issues: During negotiations, it is best to avoid discussing irrelevant matters. Based on the specific situation, determine which issues need to be addressed, such as price levels, quantity, quality, service, transportation, and after-sales support. 2. Consider time constraints: Efficient procurement requires managing negotiation time effectively. Procurement personnel should control the time spent at the negotiation table, ensuring that everyone's attention is focused on the key negotiation points. 3. Rely on facts: To prevent suppliers from making unfulfilled promises during negotiations, procurement personnel can request samples, written commitments, or conduct visits to their past projects as a means of verifying their claims.

Based on the unique characteristics of different suppliers, it is advisable to employ various negotiation techniques. For instance, if the other party engages in evasive tactics during the negotiation, and we possess accurate estimations or predictions of their costs and profit margins, or their products are experiencing a downturn in the market, or they are facing financial constraints, or they request concessions in terms of quality, we can opt for a “firm negotiation” approach. It is important to note that being firm in negotiation does not mean adopting a harsh or cold demeanor, but rather maintaining a stance of firmness and unwavering resolve, not yielding under any circumstances. Similarly, in situations where we have an urgent need for essential supplies and there are no alternative products or competitors in the market, or the other party’s products hold tremendous market potential with a significant projected increase in prices, or they have already made concessions on key negotiation points and request concessions from us on non-key aspects, we can opt for a “gentle negotiation” approach. This involves adopting a conciliatory stance to achieve the intended transactional goals.

In the realm of procurement negotiations, encountering an impasse when discussing critical aspects like price and delivery terms is an inevitable challenge. In such situations, procurement professionals can employ the following strategies: Firstly, it is crucial to be mindful of one’s rhetoric. During negotiations, it is essential to maintain a composed mindset and refrain from impulsive or acerbic language. Instead, one can employ moderate flattery, offer face-saving opportunities, bolster the other party’s confidence, and encourage a long-term perspective. Additionally, introducing light-hearted topics can alleviate tension and temporarily set aside the impasse. Remember, there are often multiple paths to reach the desired outcome. If a direct approach proves unproductive, one can tactfully navigate an alternative route. With a composed and level-headed approach, procurement professionals can still achieve their ultimate procurement objectives. While non-negotiable principles and fundamental issues should not be compromised, for secondary matters, both parties can simultaneously make concessions to reach mutually agreeable resolutions.

6. The Management of Procurement Contracts Serving as a Pivotal Bridge Connecting Preceding and Succeeding Phases

The procurement contract stands as a crucial link in the entirety of the procurement process, encapsulating the outcomes of prior procurement endeavors that center around procedural compliance, benefit maximization, and cost reduction, while also delineating how subsequent obligations will be fulfilled. Contract management in procurement encompasses the comprehensive oversight of the entire process, including contract signing, execution, modification, termination, dispute resolution, documentation preservation, as well as supervisory inspections [8].

Generally, inadequately drafted procurement contracts can pose risks for both parties involved. Contracts with unclear semantics, loopholes, or even basic errors can greatly damage the reputation of a bank. Deficiencies, loopholes, and ambiguities in procurement contracts can lead to unnecessary complications, wasting the efforts, resources, and finances of both parties. This can adversely affect project schedules and hinder regular business development, and in severe cases, even result in disputes. Flaws in procurement contracts can expose the lack of professional knowledge and weak management practices of the purchasing party, potentially providing an avenue for malicious counterparties to seek improper gains. Furthermore, non-standard and careless procurement contracts may fail to safeguard the rights of the other party in the event of a breach, leading to irreparable financial losses. To enhance procurement management, it is crucial to extend the focus on contract fulfillment management, integrating the outcomes of centralized procurement into the overall procurement management process. This achieves a positive feedback loop from backend results to frontend procurement, forming a closed-loop procurement management system. By fostering collaboration among the procurement department, acceptance department, and suppliers, comprehensive management of the entire process, including acceptance, evaluation, and payment requests, can be achieved. At the contract level, it is essential to incorporate the three facets of “rights

management”, “risk management”, and “benefit management”. Rights management plays a paramount role in procurement contract management by explicitly stipulating the rights of both parties and ensuring their protection through contractual agreements. Attention should also be given to identifying and mitigating legal, operational, and ethical risks embedded in the procurement contracts. Lastly, benefit management refers to aligning procurement with its core purpose of value creation [9], encompassing a comprehensive consideration of costs throughout the project lifecycle [10]. The aim is to optimize the total cost while providing reasonable profits for suppliers and implementing prudent and efficient controls over procurement expenditures.

For procurement personnel in banks, several steps should be taken into consideration. Firstly, it is essential to conduct a thorough review of the contracts prepared by the requesting departments. This helps avoid issues such as failure to comply with legal review procedures, inadequate contract signing, inconsistencies in procurement results, incomplete reflection of procurement outcomes, or retroactive contract signing. Secondly, the contract signing process should involve both the requesting department and the procurement department, ensuring that all necessary elements are in place to avoid deficiencies and facilitate timely archival of contracts. Furthermore, procurement personnel should promptly provide contract signing reminders to the requesting department once the procurement results are determined, expediting the signing process. It is also advisable to require suppliers to register their official seals, mitigating ethical risks and safeguarding the bank’s legitimate rights and interests. Banks should strive to utilize standardized contract templates that have undergone internal legal department review and archiving. The creation of exclusive stamps for procurement contracts can help save time in contract preparation and improve work efficiency. Lastly, attention should be given to the payment stage of procurement contracts through financial means, preventing issues such as signing or modifying contracts without proper procurement procedures.

In situations where it is necessary to sign contracts in the counterparty’s format, it is

advisable to utilize “supplementary clauses” to clearly express any differing opinions. These clauses should be presented to the bank’s legal department for review before signing. This approach serves to protect the bank’s rights and interests effectively.

7. Conclusions

The emphasis on procurement process management is the singular approach to effectively controlling procurement costs. There are no shortcuts available in this endeavor, as it requires a comprehensive understanding of the various methods employed at each crucial juncture. It is essential to combine these methods and apply them flexibly to achieve optimal outcomes. While this study merely highlights a few techniques within four key areas in a simplified manner, the reality of procurement work presents a multitude of complex situations. Procurement professionals must adopt a pragmatic and meticulous work ethic while leveraging their professional expertise and innovative skills to address and mitigate these challenges. By ensuring compliance with procurement workflows, enhancing procurement efficiency, and achieving satisfactory procurement quality, it becomes possible to exert effective control over procurement costs.

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