
Procurement Policy

Preamble

Creating added value

Understand how procurement is adding or creating value. The meaning here is not only of a financial nature as for example quality is remembered long after the price is forgotten.

Direct / In-direct purchasing

Basically, this Procurement Policy is valid for both types. However, you may judge depending on the situation which points are more or less applicable for in-direct purchasing.

Agreements, Forms & Templates

You have been provided with a set of documents which shall be used in the daily operations for all entities within the group. We want to approach the global procurement market anywhere with a unique group's procedure / appearance which eventually also makes up its international image.

Language

The internal language is English and so it is externally towards our supplying sources. Whenever possible, make sure a contact person capable of English is available with any vendor. Most of above set of documents is valid and available in the English language only and some must be counter-signed by supplier.

Any and all personnel involved in procurement shall have a copy.

Procurement Principles

Ever heard of: “Revenue is generated by sales but profit is made in purchasing”? True or not, procurement activities always shall aim at the healthy mixture of price, quality and availability as circled in red below:



After all, our customers expect the same from us – select us or do not according to this principle! – so this is what our output has to be.

Any and all purchasing actions must therefore already reflect that in its inputs to any project.

In addition, the following procurement principles shall be adhered to:

- **Transparency** – Keeping all documents and recording decisions in such a way as to ensure that the process can be seen to be fair and transparent.
- **Equal treatment** – All potential suppliers have the same opportunity to quote for and supply goods and services regardless of where they are based across Europe.
- **Proportionality** – Contracts or specifications should not require information that is not pertinent to the delivery of the goods and services being purchased.
- **Non-discrimination** – Awards of contracts should not be based on geography, previous contractual arrangements etc.
- **Anti-corruption policy** – It is the group’s policy to conduct all of its business in an honest and ethical manner. The group takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. This includes compliance with all laws, domestic and foreign, prohibiting improper payments, gifts or inducements of any kind to and received from any person within the group, customers and suppliers.

Make no mistake: Corruption and bribery is taken very seriously. Any violation of this policy will be regarded as a serious matter by the company and is likely to result in disciplinary action, including employment termination, consistent with local law. Bribery is a criminal offense and as an employee you will be accountable whether you pay or accept a bribe yourself or whether you authorize, assist, or conspire with someone else to violate an anti-corruption or anti-bribery law. Punishments for violating the law are against you as a private individual - not as an employee of the group - and may include imprisonment and/or significant monetary fines which will not be paid for by your employer.

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- **Competitive factors** – Factors that influence the competitive position of a company in an industry or market include bargaining power of the buyers and suppliers, threat of new entrants, and rivalry among existing companies. Do not rest on your laurels as the result would only be stagnation or even regression. Instead promote growth through continuous benchmarking.
 - **Number of quotes** – Once requirements and potential vendors are identified; you normally need to obtain a number of quotes to benchmark.
 - Projects with an estimated volume of < USD xxx K
 - You shall obtain a min. of two quotes from various vendors.
 - Projects with an estimated volume of > USD xxx K
 - You shall obtain a min. of three quotes from various vendors.
 - Ensure you get a min. of two solutions / price levels (naturally reflecting quality and order fulfillment possibilities and alternatives).
 - In case the source is a group member, these offers shall be checked and approved by its affiliate's GM.
 - **Inter-company margins** – There shall be an annually fixed inter-company margin percentage applied (ask from your affiliate's GM):
 - A group member manufactures parts and goods
 - One for projects with an estimated volume of < USD xxx K
 - A lower one for projects with an estimated volume of > USD xxx K
 - A group member provides trading services only (purchase, QC, assemble, repack, sell)
 - This third and lowest margin percentage shall be calculated carefully regardless of the estimated project volume.

Exceptions throughout the year and for certain projects are possible but must prior be mutually agreed upon by both the affiliate GM and the group HQ appointed decision maker.

- **Inter-company payment terms** – Those are set to be 30 days net and remain so until advised otherwise by senior management.
- **Target prices** – Refrain from stating target prices or even price ranges when inquiring for the first round. That might be something, you may talk about in a second round, i.e. after you have obtained quotes from a number of potential vendors and singled out those, you want to continue with.

If you state your target price in your initial inquiry, you will most probably only get quotes just below your mentioned figures even the potential source could deliver much more competitively!

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- **Price stability** – Requesting a price stability of two years not only benefits us in terms of being able to rely on stable prices but also shows a potential vendor our intension to work on a long-term basis. Prices may be re-negotiated bi-annually.
 - **Cost reduction** – For all purchasing activities, always strive to reduce costs as if it was your very own money spent.
- **Agents, traders** – Wherever possible, agents, traders and any other in-betweeners shall be avoided and the group’s purchasing activities shall always be targeted as close to the manufacturing source as possible. Exceptions might be made for (non-)holders of export licenses.
 - **Risk concentration** – Avoid this by not only but also considering force majeure. If you solely depend on one manufacturer and it gets, say, destroyed by an earthquake or flooded your chain of supply is interrupted. Therefore, always have an alternative source at hand and consider issuing POs to each in an alternating way, i.e. supplier A gets first PO, the next one goes to supplier B, then again to supplier A and so on.
 - **Master agreements** – There are some master agreements, a current or even potential supplier would have to read, understand and agree to by signature. Such master agreements / frame contracts constitute a mutual entire understanding between us and them.
 - **Form of issuing POs** – Placing purchase orders verbally by phone or just by e-mail text shall be avoided. Instead, a written purchase order (use a consistent template) shall be issued. You may attach it to your e-mail. A purchase order also serves as an international sales contract as defined by the ICC (International Chamber of Commerce).
 - **Payment terms** – Payment terms such as L/C (Letter of Credit) are basically just making the banks richer. Therefore, payment terms shall generally be negotiated according to the following order:

<p>(<i>mainly applies to contracts within Europe</i>)</p> <ol style="list-style-type: none"> 1. xx Days - xx% Discount 2. xx Days net 	<p>(<i>mainly applies to contracts across continents</i>)</p> <ol style="list-style-type: none"> 3. 100% against B/L 4. xx% Deposit; xx% upon B/L 5. CAD (Cash Against Documents) 6. L/C (Letter of Credit) 7. 100% upon P/O
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 - **Delivery terms** – Understand the Incoterms (current version) issued by the ICC (International Chamber of Commerce) and primarily outline allocations of costs for EXW, FCA, FAS, FOB, CPT, CFR, CIF, CIP, DAT, DAP and DDP. These Incoterms are a series of pre-defined and internationally recognized commercial terms and are intended primarily to clearly communicate the tasks, costs, and risks associated with the transportation and delivery of goods. We shall procure according to it and of course negotiate the impacts allocated to buyer / seller to our utmost benefit.