
Procurement Procedure

Selection of Suppliers

How you ultimately select your supplier should avoid being too prescriptive. You should not select a supplier based on for example the location of a supplier only, or requiring delivery / response within timescales that would restrict the supplier market. Geography may end up being a factor in this depending on the service provided, but it cannot be a pre-requisite. The same goes for prices only.

At the end of the day, you must decide and record what criteria are important and suitable for each situation to allow deciding which supplier offers the best value for money.

You also want to consider:

- Volume purchasing of standard parts, i.e. releases against blanket purchase orders to maximize possible bulk discounts.
- Establishing your approach when dealing with suppliers of specialist services or knowledge partners.
- Are there any exclusive agreements with current suppliers or would you have to favor conglomerated entities?
- What are the business's requirements for adequate supplier competition and what criteria will be used to select possible suppliers?
- What kinds of information do we consider confidential? Is a different approach required in some cases to protect commercial confidentiality?
- Approved samples in case a potential supplier has been given the opportunity to proof its quality output matches or even exceeds requirements.
- Prefer companies who are certified according to given requirements and can produce such relevant document proof. Archive a copy in your office.
- Supplier segmentation is an important step as it helps to find those suppliers that are capable of contributing to the business strategy.

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- **Supplier Questionnaire.** Collect and compare as much data as possible for an appropriate procurement market benchmarking as well as for each potential supplier within. If you have paid a visit on site, perhaps include pictures. Pay special attention to their quality management system (both company and goods) as well as all relevant technical and commercial terms and conditions.

Pre-arrangements

Once you have opted for a specific vendor, there are some documents he would have to agree upon as they serve as a prerequisite in order to become a supplier of ours.

The following documents marked with *) shall be uniformly the same throughout the whole group (centrally provided in English language version only by the group's HQ) whereas all the others may be individually drafted by each entity.

Requests for quotes

Once requirements and potential vendors are identified, you normally need to obtain a number of quotes (see Procurement Policy) to the same specifications and be clear on what you will take into consideration when choosing the one that's most appropriate to maximize value for money.

- For more details, please refer to number of quotes under competitive factors.

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- ***) Confidentiality Agreement.** Together with your inquiry, you might need to disclose confidential information such as technical drawings, (going-to-be) protected designs etc. In such cases, it is essential that prior to sending out your inquiry, any new source must read, understand and counter-sign a confidentiality agreement.



- **Inquiry (form).** Use a form or format your requests for quotes in a way that all such inquiries bear the same structure and appearance. Stick to corporate design guide lines. In the inquiry, you state your preferred contract conditions, i.e. payment terms, delivery terms (Incoterms, current version) and price stability time frame.

Issuing Purchase Order

Before / upon placing a PO, make sure you have supplier acknowledge and counter-sign this agreement:

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- ***) Framework Supply Agreement.** This one combines any and all umbrella terms as set out and approved by group management.



- ***) Commission Agreement.** In certain situations the trade model of paid commission rather than added margin might be chosen for particular projects. In such an event, this Commission Agreement may be applied.

Once, you are all set with the above - only then, you may issue the



- **Purchase Order.** Placing POs verbally by phone or even in written by e-mail shall be avoided. Instead, a duly (stamped and) signed PO shall be issued.

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- **Sub-contracting** – In case a group affiliate for some reasons sub-contracts deliveries or parts thereof, the following internal approval rules on POs shall apply:
 - Projects with an estimated volume of < USD xxx K
 - POs may be issued by your own affiliate to sub-contractors following the rules as set out in afore mentioned “Form of issuing POs”.
 - Projects with an estimated volume of > USD xxx K
 - POs may be issued to sub-contractors as above BUT must prior to issuance be group-internally approved by HQ appointed decision maker.
 - ✓ Ensure that a conclusive overview of the three quotes, resp. two solutions / price levels as outlined in “Procurement Policy → “Number of quotes” → “Competitive factors” are submitted to HQ along with the intended PO for this purpose.

QC & Inspections

Whether you decide for golden sample-, production-, outgoing / incoming QCs or any other appropriate inspection procedures, be it full or random checks according to AQL or not, make sure any and all findings are well documented in written and if possible carry supplementary pictures.

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- **QC Test Report.** Whenever possible have this document counter-signed by vendor so that both parties would have the same basis to carry on with corrective actions and implement improvements in case necessary.

Handling Claims

Provided the above has been properly performed, assumable, there should be no claims from customer’s side later on. In the event there are, keep in mind: Handling claims professionally could serve as lead management resulting in re-orders.

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- **Claim Report.** Insights and discoveries drawn from claims are good bases to have them influence your next purchasing business!

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