# Procurement Policy: Binding Rules for a Professional Procurement Function

The procurement policy is an internal company document that establishes binding rules, responsibilities and procedures for all procurement processes. It creates uniform standards for requisitions, supplier selection, award decisions and contract conclusions. In doing so, it contributes significantly to compliance, cost efficiency and supply security and forms the foundation of a structured procurement organisation.

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### Key facts at a glance

01 The procurement policy defines in binding terms who may make which procurement decisions and according to which procedure.

02 It typically governs approval levels, order values, supplier selection and documentation obligations.

03 Clear thresholds between direct and indirect materials, such as procurement policy MRO vs. capex, prevent grey areas in meeting requirements.

04 A good policy combines compliance requirements with operational efficiency and short procurement lead times.

05 Regular reviews, usually annually, keep the policy aligned with strategy and the legal situation.

## Definition: procurement policy

A procurement policy is a binding set of internal rules that defines the objectives, responsibilities and procedures of the procurement function. It is addressed to all employees who submit requirements, handle enquiries or place orders. As part of company policy, it is usually approved by senior management and is therefore subject to formal change control.

### Distinction from strategy and process

The procurement policy must not be confused with the procurement strategy: the strategy describes which procurement objectives are being pursued, whereas the policy describes how and by whom procurement is to be carried out within the company. It is also distinct from the detailed process manual. The policy sets the binding framework, while processes and work instructions describe implementation in detail. In practice, these three levels interlock: the strategy sets the direction, the policy defines rules and competences, and the manual specifies the procedures.

### Legal classification

Procurement policies are internal company law and take effect through employment-law instructions. For companies close to the public sector or with certified management systems under ISO 9001 or ISO 14001, the policy takes on additional significance because auditors expect documented and observed procurement rules. Legal obligations such as screening suppliers against sanctions lists or implementing due diligence duties along the supply chain are often anchored directly in the policy. Specific design and liability aspects must always be examined legally on a case-by-case basis.

## Content elements of an effective procurement policy

The structure of a procurement policy in practice often follows a standard framework, ranging from objectives through responsibilities to special cases. The more precisely the building blocks are formulated, the fewer interpretation questions arise in day-to-day business. However, too much regulatory detail slows down procurement, which is why the balance between binding effect and flexibility is crucial.

### Objectives and scope

The introduction and scope clarify which companies, sites and material groups the rules apply to and which objectives are being pursued. Typical objectives are cost optimisation, legal and regulatory compliance, supply security and a uniform approach towards suppliers. The scope should also cover indirect procurement by functional departments, otherwise parts of the company will circumvent the central rules.

### Responsibilities and approval levels

The core of any policy is the authorisation structure: who may report requirements, who may issue enquiries, who may sign orders? Tiered approvals by order value are common, in practice often starting at low four-figure euro amounts up to board-level approvals for larger volumes. Separating the requesting, reviewing and approving functions protects against conflicts of interest. The delegation arrangement for absences should also be defined so that critical materials are not blocked.

### Award procedures and supplier selection

The policy specifies the procurement value from which multiple quotations must be obtained, for example at least three qualified quotations within a structured RFX in procurement for significant

orders. It also governs the criteria for supplier selection, the obligation to evaluate suppliers before first orders and the treatment of individual orders and framework supply agreements. For recurring requirements, it defines when standardisation and bundling are to be examined before tendering. Special-case rules for sole-source awards, for example in single-source management or urgent repair cases, ensure documented exceptions without loss of control.

## Methods and approach for drafting

Developing a procurement policy works best as a joint project involving procurement, controlling, legal and the affected functional departments. In experience, a rule set drafted solely by procurement meets with less acceptance than one whose rules and implications have been transparently derived. Methodically, an approach in clearly delineated steps from current-state analysis to training has proven effective.

### Current-state analysis and spend analysis

The starting point is a structured spend analysis: which volumes are procured through which channels, what is the share of direct requirements, MRO and capital goods, how many maverick buying cases are there? This data foundation shows where rules will actually have an impact. At the same time, existing procedures should be documented so that proven practices are not inadvertently abolished.

### Defining the rule set and interfaces

Based on the analysis, the rule elements are formulated and aligned with interfaces: with the procurement budget and controlling on value thresholds, with IT on automatic replenishment and system configuration, with production on the material availability check (ATP) and with the quality department on the definition of critical characteristics. Non-market topics such as minimum order quantity (MOQ) or retention in supplier contracts should also be uniformly governed so that sales and negotiation latitude are defined.

### Implementation, training and review

A policy only takes effect when it is lived. Short training sessions for requisitioners, quick-reference guides with decision diagrams and the anchoring of rules in the ERP system are useful, so that orders cannot be released at all without compliance. A regular review cycle, typically annually, examines whether value thresholds still fit, whether rules are being observed and whether new regulatory requirements or digital tools need to be taken into account.

## Key KPIs for steering the procurement policy

Compliance with a procurement policy can be measured. KPIs show where rules are working or being circumvented and provide the basis for adjustments in the review. It is important not to position KPIs as a control instrument against the functional departments, but as a joint steering instrument.

### Process and compliance metrics

Key metrics include the share of volumes procured through the defined process, the maverick buying rate and the number of exception approvals. The lead time from requisition (BANF) to order also shows whether the approval levels are realistically dimensioned. In practice, these lead times often fall noticeably after the introduction of a clear policy because decision routes are binding.

### Supplier and cost metrics

Complementing these are supplier evaluation metrics, the share of awards made to qualified suppliers and compliance with framework supply agreements measured against the number of individual orders concluded outside them. The cost of poor quality (COPQ) of delivered parts reflects whether the quality requirements anchored in the policy are taking effect. For capital procurement, budget compliance within the procurement budget completes the picture.

## Risks and controls relating to the procurement policy

Without adequate controls, a procurement policy remains a document in a folder. The typical risks range from circumvention in day-to-day business to compliance breaches in supplier selection. Deliberate risk management with clear controls permanently minimises these weaknesses.

### Typical weaknesses

Common problems include approvals bypassed under time pressure, orders split to fall below value thresholds, inadequate documentation of exceptions and outdated supplier master data. Special arrangements with individual suppliers outside the procedure are particularly risky, for example dependencies on a single-source position without a documented risk analysis. Unclear responsibilities in pawned-item MRO purchases or replacement procurements also regularly lead to rule violations.

### Controls and review

Effective controls combine system checks and sampling: systems block orders without approval, four-eyes principles apply from defined values, and internal audits sample award documentation. Documented exception approvals with justification and deadline create transparency. The goal is not to prevent every deviation, but to make every deviation visible and justified.

## Current developments: digital procurement and compliance

The procurement policy is changing under the influence of digital tools and regulatory requirements. Much of its content is migrating from paper into system configuration: approval levels, value thresholds and supplier activations are technically enforced in ERP and e-procurement systems. The policy documents these rules and defines which digital channels are permissible.

### Digital procurement as a rule set in the system

Digital procurement makes policy rules automatically enforceable: catalogues with binding prices,

automatic replenishment for C items and electronic enquiries in cXML format reduce manual steps and opportunities for circumvention. The policy defines which channels apply to which material groups and when a non-binding offer must be converted into a binding procedure. This combines the freedom of action of requisitioners with process discipline.

### Compliance, sustainability and the supply chain

New requirements act directly on the policy: supply chain due diligence, sustainability criteria in supplier selection, requirements on the recycling rate of materials and the monitoring of supplier financial health for critical suppliers are increasingly expected as mandatory elements. Strategic elements such as a joint business plan (JBP) with key suppliers or an innovation roadmap with suppliers also require clearly defined responsibilities. The policy thus evolves from a code of conduct to a governance instrument for the entire supply chain.

## Typical metrics

| Metric | Typical value |
|---|---|
| **Process compliance rate** | > 95%<br>*Share of volume running through the defined procurement process* |
| **Maverick buying rate** | < 5%<br>*Share of off-process procurement, benchmark clearly declining after policy introduction* |
| **Requisition-to-PO lead time** | 1–3 working days<br>*Usual benchmark for standard materials with digital approvals* |
| **Quotation rate above threshold** | >= 3 quotations<br>*Qualified quotations obtained for orders above defined value thresholds* |

## Practical example

A medium-sized mechanical engineering company with around 300 employees found that a significant proportion of procurement volumes were being sourced by functional departments outside the procurement function. There were no value thresholds, no uniform supplier data and no clear separation between MRO and capital expenditure requirements. Following a spend analysis, a team from procurement, controlling and production developed a new procurement policy and implemented it with system support.

- Introduction of tiered approval levels with digital four-eyes checks from defined order values
- Separation of procedures for procurement policy MRO vs. capex with their own approval routes
- Mandatory supplier evaluation before first orders and regular requalification of critical suppliers

- Establishment of a supplier portal for structured requisitions (BANF) and enquiry tracking

## Conclusion

The procurement policy is the backbone of an orderly procurement function. It defines in binding terms who procures, according to which procedure and with which controls, and thereby combines compliance with efficiency. Its value arises not from the document itself, but from consistent implementation, measurable KPIs and regular adaptation. Companies that systematically maintain their policy gain faster procurement processes, better supplier data and greater security against regulatory requirements. For buyers and managing directors, it is therefore a central steering instrument, not a formality.

## Frequently asked questions

### ? What belongs in a procurement policy?

Typical components include objectives and scope, responsibilities and approval levels, rules on supplier selection, award procedures with value thresholds, documentation obligations and exception conditions. Compliance and sustainability requirements, as well as interfaces with controlling and quality, are often added. The length should be kept as concise as possible and as detailed as necessary.

### ? Who drafts the procurement policy?

Responsibility for content usually lies with the head of procurement, while the document is typically approved by senior management, as it has company-wide binding effect. It is advisable to involve controlling, legal, IT and representative functional departments. This way, conflicts with budget planning, the systems landscape and production are clarified at an early stage.

### ? From what amount must multiple quotations be obtained?

There is no legally defined threshold; in practice, internal thresholds in the low four-figure range are common, above which at least two to three quotations must be obtained. Private companies can set the thresholds freely, provided no industry or contractual requirements apply. It is important to document the values clearly and to govern exceptions with approval.

### ? What is maverick buying and how does the policy prevent it?

Maverick buying refers to procurement outside the defined purchasing process, for example direct orders placed by functional departments without involving procurement. The procurement policy prevents this through clear channel requirements, approval levels in the system and alternatives for simple requirements such as catalogue orders. Training and KPIs on circumvention rates provide additional support.

### ? How often should a procurement policy be updated?

An annual review has proven its worth in practice, supplemented by ad-hoc updates in the event of

significant changes to the legal situation, the organisational structure or the systems landscape. Version control with a change history is important. After each update, a brief communication and, where necessary, training of affected staff should take place.

### ? Does the procurement policy differ for MRO and capital goods?

Yes, in practice different procedures and value thresholds are often defined for MRO requirements and capital goods; the keyword is procurement policy MRO vs. capex. MRO procurement requires short lead times and the material availability check (ATP), whereas capital expenditure requires budget approvals and multiple quotations. A clear separation avoids delays and grey areas.


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