

Procurement Policy: Guidelines for Strategic Purchasing and Supplier Management

The procurement policy is the set of rules established by company management that defines the framework and guidelines for all purchasing activities of a company. It answers key questions: Where does the company source from? Based on what criteria? With what risk and sustainability tolerance? For buyers and suppliers, the procurement policy is the binding compass that combines operational freedom with strategic steering.

Key facts

- The procurement policy is part of the corporate strategy and guides all operational and tactical purchasing decisions.
- It governs supplier selection, award criteria, make-or-buy principles as well as risk and sustainability requirements.
- In practice, it is usually documented as a written guideline of 5 to 15 pages and approved by the managing director or the board.
- Key building blocks include single versus multi-sourcing, regionalisation, compliance requirements and pricing and contract policy.
- Regulatory drivers such as the CSRD and the Corporate Sustainability Due Diligence Directive (CSDDD) make a documented procurement policy de facto necessary for many companies.
- Effectiveness is made measurable via KPIs such as On-Time Delivery (OTD), Savings Forecast and the Backorder Rate.

Definition: Procurement Policy

The procurement policy comprises all long-term principles, rules and objectives that govern a company's procurement behaviour. It is the strategic framework from which concrete purchasing objectives, processes and responsibilities can be derived. Unlike operational dispositioning, it has a planning horizon of typically three to five years.

Distinction from Procurement Strategy and Process

The procurement policy forms the top level of the hierarchy of rules: it sets the direction, the procurement strategy translates it into category and commodity plans, and the procurement process operationalises both in day-to-day business. A category vision, for example, describes at strategic level how a category should be positioned in five years' time – the policy specifies that regionalisation and supplier consolidation are permissible means to this end. Without a clear separation of these levels, contradictions between guidelines and actual purchasing practice frequently arise in practice.

Legal and Regulatory Anchoring

For capital-market-oriented and large companies, the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD) require documented due

diligence processes in the supply chain. A written procurement policy governing human rights, environmental standards and supplier vetting is a central piece of supporting evidence in this regard. Legal details should always be reviewed on a case-by-case basis – ideally with the legal department or external advisers.

Building Blocks of an Effective Procurement Policy

A practical procurement policy is lean, binding and measurable. It typically consists of five building blocks which together underpin the key purchasing decisions.

Procurement Objects and Make-or-Buy Principles

The policy defines which services and materials the company manufactures itself and which it buys in. Common benchmarks in practice: core components with competitively critical technology remain in-house, standard parts and services are purchased externally. For bought-in parts with a high obsolescence risk – such as electronic components with long life cycles – an explicit rule on obsolescence management is recommended, so that residual quantities and alternative solutions are contractually secured.

Supplier and Sourcing Policy

Here it is determined how many suppliers are targeted per category and according to what criteria awards are made. Single sourcing lowers costs and increases dependency; multi sourcing stabilises supply. The policy should also govern regionalisation targets, qualification procedures, bidder questionnaires and the handling of approval and audit processes. The stance on price commitments such as the freight surcharge – for instance when surcharges are acceptable and how they are verified – also belongs at this level.

Risk, Compliance and Sustainability Principles

The policy defines the procurement function's risk tolerance and commits to minimum standards: codes of conduct, restriction lists such as the Restricted Substances List (RSL), supplier audits and escalation routes. Sustainability requirements are increasingly formulated in measurable terms, for example through SBTi targets for emissions along the supply chain. It is important that the policy not only formulates requirements but also names responsibilities and control mechanisms.

Key KPIs and Steering Variables

A procurement policy only takes effect if its implementation is made measurable. Established KPIs in B2B purchasing are: On-Time Delivery (OTD), the Backorder Rate, the Savings Forecast hit rate and working capital management via payment-term steering and instruments such as reverse factoring.

Supply and Process KPIs

On-Time Delivery (OTD) measures the proportion of orders delivered on time and is commonly set in practice with a target value of more than 98 per cent. The Backorder Rate shows what proportion of ordered items was not available for delivery – an early warning indicator of supply chain problems. Both KPIs should be defined in the policy as minimum standards and reported to management regularly.

Financial and Value-Added KPIs

The Savings Forecast compares planned with realised savings and is an important instrument for

steering policy compliance in the cost area. Working capital management allows payment-term strategies and, where appropriate, reverse factoring solutions to be steered at policy level. Price-driven mechanisms such as the price escalation clause in long-term contracts or standardised costing approaches such as clean-sheet costing round off the financial steering.

Risks and Controls

Typical weaknesses of a procurement policy: it is formulated too generically, is not lived in practice, or contradicts operational emergencies. Risks can be mitigated through clear controls, early warning indicators and defined escalation paths.

Crisis Preparedness and Containment

The policy should govern how the company responds to supply failures: an established procurement emergency team, predefined containment measures such as dual sourcing or safety stocks, and clearly defined early warning indicators – for example rising backorder rates or failed orders. The more clearly the escalation routes are defined in the policy, the faster the operational department can act without breaking binding rules.

Controls, Data Quality and Compliance

Effective controls require a coherent procurement data model: harmonised item master data, supplier master data and reporting structures. Without reliable data, policy requirements cannot be monitored. Supplementary control instruments include four-eyes principles for contract awards, regular supplier evaluations and a catalogue management system that ensures only approved products and suppliers can be procured.

Current Developments

Three trends are currently changing the procurement policy significantly: regulatory density, digitalisation and risk appetite. Companies that fail to adapt their guidelines risk falling behind both in regulatory and competitive terms.

Sustainability and Supply Chain Due Diligence

The CSRD and the CSDDD expand the reporting and due diligence scope of procurement. For example, documented Scope 2 emissions (purchased energy) and, depending on the demarcation, direct Scope 1 emissions as well count towards sustainability reporting. The procurement policy should therefore formulate sustainability requirements for suppliers in concrete terms: required data deliveries, depth of verification, sanctions in the event of violations. Note: the exact reporting obligations depend on the size and legal form of the company and should be reviewed on a case-by-case basis.

Digitalisation and AI-Supported Procurement

Digital processes are changing the implementation of the procurement policy: automated enquiries, standardised bidder questionnaires, AI-supported risk analysis and an integrated procurement data model enable significantly faster policy implementation. Processes such as PO flip (a supplier-confirmed order is digitally converted into an invoice) or self-billing reduce transaction costs and improve data quality. The policy should therefore also formulate digital minimum standards for suppliers – for example the ability to process electronic orders and confirmations.

Typical metrics

On-Time Delivery (OTD): > 98%

Common target value for on-time deliveries in series production

Backorder Rate: < 2%

Proportion of items not available for delivery; early warning indicator of supply risks

Savings Forecast Hit Rate: $\pm 10\%$

Deviation between planned and realised savings

Supplier Consolidation: typically 5–10% fewer suppliers per year

Benchmark for strategic consolidation programmes

Practical Example

A medium-sized mechanical engineering company with around 350 employees had previously operated without a written procurement policy. Following supply failures at an electronics supplier and rising freight costs, an 8-page guideline was drafted and approved by the managing director.

- Introduction of a multi-sourcing principle for critical electronic components with a qualification procedure for new suppliers.
- Binding rules for handling freight surcharge requests, verified via clean-sheet costing and market comparisons.
- Establishment of a procurement emergency team with defined containment measures and early warning indicators such as OTD and Backorder Rate.
- Anchoring of sustainability requirements including a Restricted Substances List (RSL) and an annual supplier self-audit.

Conclusion

The procurement policy is the strategic backbone of professional procurement: it translates corporate objectives into binding procurement rules and creates reliability for buyers and suppliers alike. What matters is a pragmatic scope – concrete enough to steer decisions, lean enough to be lived in practice. Measurable KPIs, defined escalation routes and regular reviews keep the policy current and effective. Given the increasing regulatory density brought about by the CSRD and CSDDD, a documented procurement policy has long since become a mandatory component of good governance rather than an optional extra in DACH industry.

Frequently asked questions

What is a procurement policy?

A procurement policy is the set of rules established by company management that defines the principles and guidelines for all purchasing activities. It typically governs make-or-buy decisions, supplier selection, award criteria, risk tolerance and sustainability requirements. It forms the top level from which procurement strategies and operational processes are derived.

Who drafts the procurement policy and who approves it?

It is usually drafted by the head of procurement together with executive management, the legal department and the quality department. It is approved by executive management or the board so that it

is binding across departments. In practice, an annual review and adjustment to changed market and regulatory conditions is recommended.

What belongs in a procurement policy?

Core content includes make-or-buy principles, sourcing policy (single versus multi-sourcing), award and qualification criteria, compliance and sustainability requirements, and rules on risk, escalation and containment. In addition, KPIs such as On-Time Delivery (OTD) and the Backorder Rate are defined as minimum standards. Digital requirements for suppliers and pricing mechanisms such as the price escalation clause may also be governed.

What is the difference between a procurement policy and a procurement strategy?

The procurement policy sets out long-term principles and framework conditions; the procurement strategy translates these into concrete category and supplier plans. The policy answers the question 'by what rules do we buy', the strategy answers 'how do we win a category'. In small companies, both levels are often combined in a single document.

Is a procurement policy required by law?

In most cases, a standalone procurement policy is not directly required by law. However, large and capital-market-oriented companies must document supply chain due diligence and sustainability under the CSRD and CSDDD, which in practice virtually requires a written procurement policy. The specific obligations depend on company size and business model and should be reviewed on a case-by-case basis.

How long should a procurement policy be?

In practice, compact documents of around 5 to 15 pages have proven effective. What matters is less the length than the binding nature: clear rules, named responsibilities and measurable criteria. Overly long documents are often no longer read and lose their steering effect.