Procurement Definition



Procurement refers to the “act of obtaining goods or services” generally for business purposes. Though it is most often considered the final act of purchasing. It may also include the entire process companies use to get to the final purchasing decision.

Companies need to purchase goods or solicit services on a much larger scale than a regular consumer, which is why it is crucial for them to have a process to handle it.

The procurement process typically includes three steps: preparation, solicitation, and payment processing. Though it seems fairly simple, from end to end, it involves many areas of a company.

Why? Procurement expenses fall into multiple categories, depending on the particular mint demand. The procurement process may require a substantial portion of your company’s resources to manage and maintain.

Procurement budgets, for instance, generally provide managers with a certain amount of money they can spend to obtain the goods and services they require.

Procurement processes are often an important part of the company’s strategy because the ability to purchase certain raw materials or services determines

whether or not operations will be profitable and has a major impact on the bottom line.

> *Most of the time, procurement processes are dictated by company standards based on controls set by the accounts payable department within accounting, since the procurement function addresses everything through receiving goods and approving invoice payments.*

How Procurement is Different from Purchasing

It's possible to come across content that uses the words procurement and purchasing interchangeably. While they are in fact similar, there are some differences to consider.

Let's take a close look at the definition of procurement compared to the definition of purchasing.

Purchasing, on the other hand, refers specifically to getting something by paying for it.

By this logic, purchasing is the final step of the procurement process. The definition of procurement encompasses everything the company does to make the purchase, too, including the developing procurement policies, supply chain management process, inventory control, conducting market research and value analysis, and tracking the total cost of ownership.

For smaller companies, the two terms do mean the same thing.

The organization simply doesn't have enough people or the company is not large enough to make a distinction between the two.

Whoever works in purchasing or procurement has to do anything it takes to get the job done. in smaller companies, employees need to be Jacks of all trades.

They have to handle all the company's procurement needs, including competitive bidding from external sources, making the actual purchases, then handle goods receipt, whereas there are separate departments available for each of those

activities in large companies.

Others may say that procurement is indicative of more strategic planning and long-term activities, which plays into the overall corporate strategy while purchasing illustrates more of the transactional day-to-day activities.

Purchasing executes activities that are made possible after procurement complete their activities.

When the staff negotiates a contract to get the best possible price, for example, they have researched multiple vendors, sent out requests for proposals (RFPs) or requests for quotations (RFQs), found the supplier, developed the supplier relationship, qualified the supplier, negotiated the best price, and awarded the business to that supplier.

From there, the purchasing process can begin with e-procurement software. Staff can place purchase requests, which once approved, become purchase orders against the contract.

They can monitor performance and handle any daily issues that are related to quality, delivery, or anything else that may arise.

In extremely large corporations, the division of responsibility is least likely to follow the delineation above as to what is one or the other.

Since there are so many people involved, the division of labor tends to fall along the lines of what is considered more strategic and more transactional activities.

Since there is a larger amount of work involved in a bigger company, there’s greater potential for people who have specialized skills to be part of the staff.

It’s also important to consider the experiences of different industries and business models, different cultures, and different parts of the globe.

These issues may also cause those terms to be considered distinct from one another or possible to use interchangeably. For those who work in procurement consulting, covering all aspects of procurement and purchasing is part of the job.

Because service-based companies provide services as their primary source of revenue, these companies don’t have to rely heavily on a supply chain to keep

inventory in stock.

However, they still need to purchase goods for any technology-based services they may offer.

Instead of focusing on a supply chain for inventory, their main area of concern tends to be the cost of sales.

Typically based on the hourly labor cost of the employees who are providing the service, procurement isn't considered a direct expense – and therefore, isn't a major factor.

That said, service-based companies may see higher relative indirect costs because they often handle their own procurement as an indirect expense associated with their marketing budget.

When it comes to competitive bidding to procure services, the complexity goes beyond per unit price and shipping and delivery terms to factor in a multitude of details ranging from the technology services, the individuals involved, client servicing, operational procedures, service fees, training, and more.

It's common practice, especially in the case of government procurement, to solicit bids on a regular schedule to make sure they're continuing to maintain the relationships that are business for their business.

Technology's Impact on the Definition of Procurement

Beyond a company's size, location, or culture having bearing on the meaning of either term, technology also has a big impact.

Advances in analytics, bought technology, artificial intelligence, and ends to end digital supply chain connectivity continues to have a deep impact on this business area.

The majority of these technological advances aim to optimize and automate the transactional part of the procurement process usually associated with purchasing.

Purchase order management and performance tracking are also part of the scope of these technologies.

Investing in procurement software to move to e-procurement not only helps streamline the procurement cycle to cut procurement costs, but it also makes it easier for the procurement team to get more done with less time.

But, on the other hand, defining and deploying the application of these technologies to your transactional purchasing activities requires both strategic planning and strategic thinking within purchasing.

Purchasing has to perform strategic activities to adopt technology for the advancement of purchasing transactional activity.

Strict adherence to the definitions of procurement as a strategic approach and purchasing as the transactional side of things is inconsistent with the reality that future technology deployment requires purchasing to act strategically, too.

Ultimately, the distinction between procurement vs purchasing lies in a number of factors including but not limited to, your industry, business model, culture, and location.

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