Procurement FAQs: Common Procurement Questions, Definitions, and Explanations



From the newest buyer to the most experienced procurement pro, everyone has a question now and then about the procurement function and its many processes.

Having the answers to the most frequently asked questions (FAQs) about procurement makes things much easier than an afternoon hunting through Google or some dusty reference tomes.

The Most Common Procurement FAQs

1. What is Procurement?

While it's often used interchangeably with the term *purchasing*, procurement is actually a set of controls and procedures used to obtain the best possible return on investment (ROI) when making purchases.

Purchasing is itself only a part of the overall procurement process, which also includes strategic sourcing, quality control, and supplier relationship

management.

2. Why Does Effective Procurement Matter?

Since spend touches all areas of a business, organizations actively look for ways to optimize procurement services and accounts payable for both direct savings and lower total cost of ownership (TCO) through process optimization and automation.

Procurement is often paired with accounts payable within an organization as a center for cost savings and value creation, and procurement services themselves can, when automated and optimized, provide a template for organization-wide continuous improvement.

3. What is eProcurement?

When companies use digital tools (such as those built into procurement software) to streamline their procurement activities, they're using electronic procurement (usually abbreviated to *eProcurement*).

With help from artificial intelligence, cloud-based data management, advanced analytics, and process automation, organizations of all sizes can improve the efficiency, speed, accuracy, and transparency of all their procurement processes.

These procurement systems are often SaaS-based. They lower costs through the elimination of delays, the need for proprietary hardware, and human error, but also provide value through improvements to strategic decision-making, financial reporting and planning, and improved communication and collaboration with both internal and external stakeholders.

4. What is eSourcing?

eProcurement is often used in tandem with *eSourcing* (electronic sourcing), which leverages those same digital tools to capture supplier contact information, monitor and enforce vendor compliance, and integrate supplier workflows with the buyer's software environment and process management.

Vendor portals (which greatly simplify the vendor registration process), guided buying, punch-out catalogs and other tools make it possible to ensure every order

is fully visible, placed with the optimal supplier, and purchased at the best possible price and terms.

5. What is Invoice Matching?

To minimize the risk of invoice fraud and ensure a company meets its obligations as fully and accurately as possible (and, ideally, on or before the due date), accounts payable teams use a process known as invoice matching.

This process involves comparing vendor invoices to other documents to verify the accuracy and completeness of the order, and to prevent payment authorization for any order that doesn't meet the criteria set in the invoice matching process.

Depending on the company's accounting setup, the invoice matching process may involve a 2, 3, or 4-way match.

Generally speaking, a three-way match is the most common; supplier invoices are verified against the original purchase order and any receiving documentation accompanying the completed order to ensure every line item is of the type, quality, and price specified, at the terms indicated at the time of ordering.

6. What is Procure-to-Pay (P2P)?

Also known as *purchase-to-pay*, the procure-to-pay cycle (P2P) covers all of the activities involved in purchasing goods and services from suppliers, from the creation of the initial request for purchase (RFP) and purchase order through to payment of the vendor invoice.

In a typical P2P process, the buyer will fill out an RFP, send the completed form for approval (if necessary), then contact procurement to have a purchase order created and sent to the vendor.

Once it's accepted, the vendor fills the PO, ships the goods, and then bills the buyer.

The accounts payable team then verifies the invoice and pays the invoice, then enters all the transaction data in the company's financial records.

Managed effectively, the P2P process can provide not just savings, but spending data senior management can use to garner actionable insights that drive better

business process management and strategic decision making.

7. What is Source-to-Pay (S2P)?

Like the P2P process, source-to-pay is a comprehensive methodology for recording every step of the purchasing process. However, it starts even earlier in the purchasing process.

With S2P, companies can actually add a new supplier (or suppliers) to their vendor list before the requisition form is created.

S2P allows procurement teams to issue a request for proposal (RFP) or request for quotation (RFQ) to identify, evaluate, and then select a supplier for a given purchase. It also includes the contract negotiation process and the contract award to the winning vendor.

Government organizations may issue IFBs (invitations for bids) instead.

8. What is Spend Management?

Rather than a single, isolated process, spend management is an approach to controlling spend with optimal accuracy and efficiency.

The primary goal of spend management is strategic purchasing executed to support the organization’s goals for growth and innovation; ensure and enhance its profitability; and strengthen its competitive advantage.

Spend management is often part of a larger business enterprise management plan. It includes the company’s approach to both direct and indirect procurement, and focuses on eliminating costly inefficiencies, delays, and errors (including maverick spend) that can limit an organization’s ability to thrive.

Procurement professionals use spend management, along with its partner, spend analysis, to collect, organize, and analyze spend data to obtain useful insights that will improve process development and optimization, as well as financial planning.

For example, spend management coupled with process automation can help companies streamline high-volume, everyday processes to capture substantial savings, such as reducing the average cost of processing a purchase order or improving invoice processing time.

Leveraging spend data in this way can also help organizations pursue exciting business opportunities they might not have otherwise discovered, including strategic partnerships with suppliers, developing new products, or entering new markets.

9. What is Sustainable Procurement?

From small businesses to major corporations, organizations of all sizes are more aware than ever that the ecological and ethical costs of doing business are just as important as the economic expense.

Sustainable procurement, sometimes called *sustainable purchasing* or *green procurement*, is a formalized approach to purchasing goods and services at the best price and value possible while minimizing the associated ecological and ethical impact.

Companies who use sustainable procurement are proactive in selecting vendors who adhere to clearly defined standards.

They also establish their own internal controls to reduce waste, create positive ecological and social impact wherever possible, and engage in responsible corporate citizenship.

10. What is Strategic Sourcing?

As with spend management, the goal of strategic sourcing is to optimize procurement policies and processes for optimal value, savings, and efficiency. Strategic sourcing seeks to improve risk management, build value while maintaining or reducing costs, and streamlining the supply chain for both flexibility and resilience.

Collaborating with suppliers to integrate both process optimization and continuous improvement into every step of the S2P process (including supplier relationship management, contract management, and strategic planning/shared initiatives) is a hallmark of strategic sourcing.

11. What is Contract Management?

This process involves negotiating, maintaining, and executing contracts between

a company and its suppliers.

Contract management presents a valuable opportunity for procurement teams to leverage spend data to negotiate the best possible pricing and terms from suppliers, as well as connect contract data to the purchasing system in order to ensure both vendor and internal compliance with current contracts.

> *Whether you need a refresher or you're still mastering the procurement process, having the answers to the most common procurement FAQs will help you optimize all your procurement procedures and ensure your organization is making smart, strategic spending decisions.*

Procurement Glossary

When navigating procurement FAQs, it's always helpful to have a quick definition on hand for the terms most commonly used in the procurement and accounts payable functions.

- **Accounts Payable:** The financial function within a business dedicated to processing payments for goods and services.
- **Accounts Receivable:** The financial function within a business dedicated to offering credit for goods and services and receiving payment for any goods and services purchased by others.
- **Purchase Order (PO):** An official document creating a binding agreement between the party selling goods and services (the vendor) and the purchaser. Once an approved PO is sent to the vendor, the buyer has legally agreed to purchase the goods and services indicated on the form.
- **Purchase Request (PR):** Also known as a *request for purchase* or *purchase requisition*, a purchase request is the initial document created to obtain approval to purchase goods and services. Unlike a PO, it is not a binding agreement. The requestor sends the completed form to another party for approval (or, if the organization has contingencies and spending levels in place, simply forwards the completed form to purchasing based on the dollar amount involved).
- **Direct Procurement:** All spend for raw materials, components, finished goods and services essential to creating the products sold by a company is considered direct procurement. For example, contractors purchasing

lumber, stone, and other building materials, a restaurant purchasing ingredients, and a retailer purchasing finished goods for resale are all engaged in direct procurement. Some businesses, such as software companies, don't have a physical product to produce, and therefore do not engage in direct procurement. The same is true for providers of general services (such as cloud-based information technology (IT) companies), although some service-based businesses (such as janitorial or onsite IT service providers) may have direct procurement expenses based on the physical materials required to execute the services they provide.

- **Indirect Procurement:** Often called "the cost of doing business," indirect procurement covers all spend not immediately related to production, but rather those goods and services that support daily business enterprise activities. Indirect procurement includes spend for Maintenance, Repair and Operations (MRO), facilities costs (office space, for example), office supplies, marketing, Human Resources, and outsourced general services (e.g., accounting, security, IT, etc.)
- **Maverick Spend:** Known by many names, including *tail spend* and *rogue spend*, maverick spend is spending that takes place outside the approved purchasing system. Often, buyers using company credit cards to make small purchases are the culprit, but occasionally more problematic issues—such as drafting a contract with a non-vetted supplier—occur. This spend is often considered "invisible spend" because it's not captured in the purchasing system's database and therefore is likely to skew the company's financials. Maverick spend can create serious issues, including:

- Substandard goods, materials, and services at exorbitant prices.
- Inaccuracies in financial reporting and cash flow management.
- Supply chain bloat.
- Increased risk for invoice fraud and other loss of value.
- Increased risk of financial compliance issues.
- Wasted time, talent, and money.

- **Punch-Out Catalog:** An eProcurement tool allowing vendors to integrate their catalogs directly with the software environment of their customers, providing an eCommerce-style shopping experience while encouraging compliance with procurement policy and ensuring all spend data is captured for organization and analysis.

- **Request for Proposals (RFP):** A process where a company solicits a series of sealed bids from interested suppliers, evaluates the bids submitted, and then follows a selection process to award the contract to the winning supplier. Solicitation documents similar to RFPs include requests for quotations (RFQs), requests for offers (RFOs), requests for information (RFIs) and requests for tender (RFTs). These processes all extend an invitation for bids to interested parties, with differing criteria. RFQs ask for a specific price based on a detailed description of services; RFOs ask for offers based on a broader, more complex scope of services; RFIs ask for more information that can be used in moving forward with an RFQ or RFO, and RFTs are specific to item quality, quantity, and price but not broader contract-related concerns.
- **Single-Source Supplier:** A vendor who provides a company's sole source of a particular good or service.
- **Software as a Service (SaaS):** Many eProcurement solutions are hosted as services, rather than stored onsite in local servers. When software is delivered this way—usually via a subscription-based licensing model—it's referred to as "software as a service." These applications are more secure and mobile-friendly because they're hosted in the cloud. They also provide substantial savings by eliminating the need for local hardware, software, and data management (along with the local IT staff necessary to maintain them).
- **Supplier Relationship Management:** The process of managing a company's suppliers to ensure minimal risk exposure, the lowest possible costs, and maximum performance, compliance, and value.

Just the FAQs, Ma'am.

As the old saying goes, knowledge is power.

Whether you need a refresher or you're still mastering the procurement process, having the answers to the most common procurement FAQs will help you optimize all your procurement procedures and ensure your organization is making smart, strategic spending decisions.

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