

Procurement Process: What Is It, Steps, and How To Optimize



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Without the right tools, procurement can become a complicated process that's vulnerable to costly mistakes—and a drain on your company's time and resources.

The emergence of digital procurement processes enables companies to obtain goods and services with much greater efficiency, accuracy, and speed.

In order to fully take advantage of digital procurement processes, it's important to understand how they work.

In this article, we'll dive into what the procurement process is, the steps it entails, and how to optimize it with digital tools.

What Is the Procurement Process?

The procurement process is a series of steps an organization takes to procure the goods and services they need to conduct business.

It's sometimes also referred to as the procurement process flow or the procurement management process.

To be effective, a good procurement process must:

- Define the goods and services to be obtained, as well as the business need.
- Clearly identify all parties involved in obtaining these items.
- Assign roles for requesting, approving, processing, and payment.
- Provide well-defined, step-by-step instructions for all necessary actions in the process.
- Define and clarify contingency plans to reduce potential bottlenecks.
- Support transparent communication for all stakeholders.
- Keep centralized records for accounting, marketing, and other purposes.

Poor procurement processes can lead to a 5X increase in costs. Manual procurement processes (stacks of paper forms, handwritten instructions, etc.) turn this process into a difficult ordeal.

But eProcurement software has made it easy to integrate the procurement process more seamlessly with your entire organization while saving time and money.

What Are the 4 Types of Procurement?

For most procurement departments, there are three types of procurement to be aware of: direct, indirect, and services procurement.

1. **Direct Procurement**

Procuring goods and services obtained for manufacturing purposes, i.e. to create new goods, is called direct procurement. This is typically the raw materials and equipment used in production.

For digital-based companies such as software companies, expenses like cloud-based servers could be considered direct procurement.

Goods and services from direct procurement directly drive a company's profitability and value and are necessary for the company to function.

2. **Indirect Procurement**

Goods and services purchased for internal use by employees and for facilities, such as travel expenses, office supplies, and janitorial services are considered indirect procurement.

These are generally considered the 'cost of doing business' but don't directly contribute to generating revenue.

With the growth in the importance of the service sector, the classification of indirect and direct spend is a little more complicated and may be less useful in many cases.

3. **Services Procurement**

Fees for consultants, contractors, and software subscriptions all fall under services procurement.

These are purchases that provide extra productivity and help get the job done faster, but technically the work could still go on without them.

These purchases contribute to improving the bottom line through increased efficiency and productivity.

4. Goods Procurement

Procuring physical goods is called goods procurement. These tangible items are used for manufacturing, operations, and resale.

These can be anything from items that a company uses for raw materials to office furniture.

Goods procurement is a wide category. They can fall under direct or indirect procurement and can directly impact a company's profitability or not, depending on the purchase.

What Is the Difference Between Indirect, Direct, Services Procurement, and Goods Procurement?

The difference between the four types of procurement activities is shown in the chart below.

Type	Direct Procurement	Indirect Procurement	Services Procurement	Goods Procurement
What is it?	Goods and services for manufacturing and production purposes.	Purchases for internal use by employees and maintaining facilities.	Fees for consultants, contractors, and software subscriptions.	Physical items purchased for production, day-to-day operations, or resale.

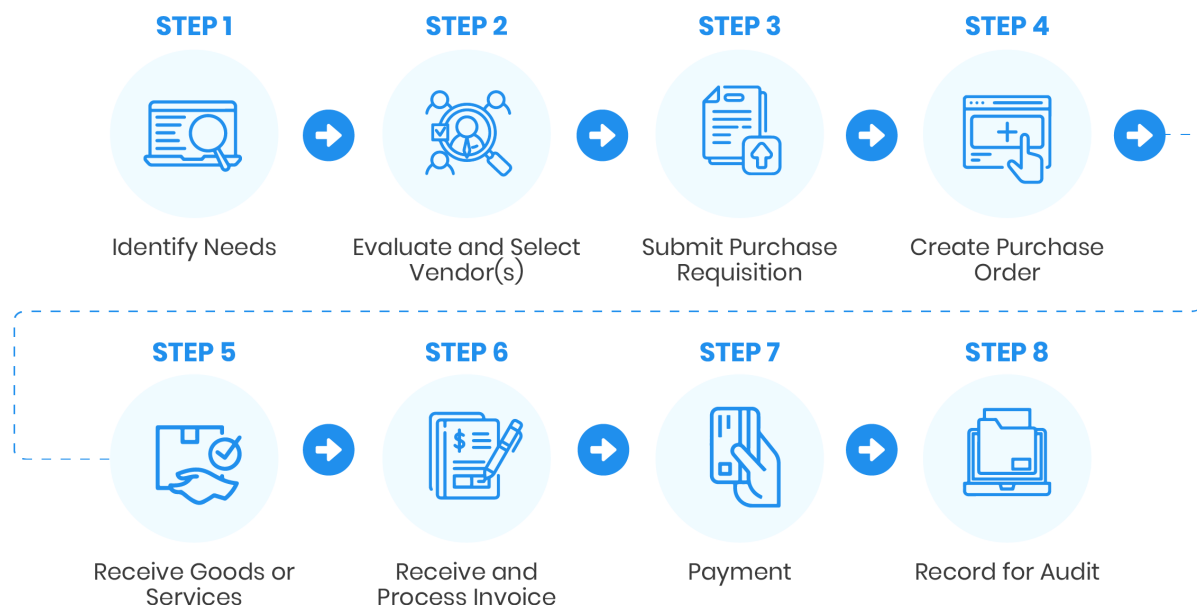
What are some examples?	Raw materials, factory equipment, and data servers (for digital-first companies).	Laptop computers, utility bills, and hotel rooms for business trips.	Consultants with niche expertise, temp workers for busy seasons, and accounting software.	Production equipment, office supplies, or raw materials for manufacturing.
How does it impact the business?	Necessary for producing revenues and keeping the business operating.	Supports day-to-day operations but doesn't directly contribute to producing revenue.	Increases productivity and efficiency while improving the bottom line.	Some purchases are vital to profitability, others are not.

Differences Between Types of Spend

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What Are the Key Steps of the Procurement Process?

Procurement Process Steps



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1. Identify Needs

The procurement process begins with a need for goods or services.

This can be an internal need—meaning any materials required to run the business, or external—materials that the business will eventually sell. This stage also includes setting a budget.

For example, let's use an auto tire distributor that's running low on a particular type of tire.

In this stage, they would determine which tire they're low on, how many they need, when they need them by, and how much they should cost.

2. Evaluate and Select Vendor(s)

This stage is for sourcing vendors and determining their ability to provide the best value and quality.

It's important to find vendors who not only deliver a high-quality product for a competitive price but who have a strong reputation.

Doing so will set you up with a sustainable supply chain for the long haul.

Creating a mutually beneficial relationship that lasts for the long term is ideal. The best practice for finding vendors is known as strategic sourcing, which takes a proactive approach to vetting preferred suppliers for key purchases long before they take place.

During this stage, our tire distributor would make a list of suppliers that provide the type of tire they need.

The selection criteria would weigh cost, quantity, reputation, speed of service, dependability, and customer service.

They may also send a request for quote (RFQ) to several suppliers to get quotes and compare options.

Sub-processes in this stage may include tendering, bid management, compliance checks, contract management, and supplier relationship management. Once all criteria have been evaluated, it's time to select the best vendor for the purchase.

3. Submit Purchase Requisition

The next stage in the procurement process is putting in a purchase request to get internal approval to make a purchase. This includes creating a purchase requisition form and submitting it to the department that's responsible for the finances. This could be the procurement team or other managers who control the budget.

When using manual processes like paper forms, this stage creates the first potential roadblock in the procurement cycle.

Managing approvals without centralized digital processes can cause requests to be put on the back burner or slip through the cracks as papers are stacked in growing piles or emails are ignored.

With modern procurement software, purchase requisition are sent to the

proper parties automatically.

Crucial information can instantly help management decide how best to leverage preferred vendors and gain the best value for each purchase. Approvers can also reject a request quickly and request more information if needed.

The tire supplier would share the following information with purchasing for their approval:

- Store name
- Quantity and description (30 winter tires, size 215)
- Vendor name (e.g. Firestone®)
- Price (\$1,500)

The tire supplier would then share this document directly with the purchasing department for approval, rejection, or further discussion.

4. **Create Purchase Order**

Once the purchase requisition is approved, the purchasing team submits a purchase order (PO) to the vendor.

Purchase orders contain all the information a vendor needs to fulfill and deliver the order, including payment terms.

Once accepted and signed, they become a legally binding document that ensures the vendor will deliver and the purchaser will pay.

Purchase orders are typically created through Word or Excel templates, digital purchasing systems, or full Procure-to-Pay software like PLANERGY, which enables businesses to submit digital POs and easily track their acceptance by vendors.

Our tire supplier's purchase order would include:

- Purchasing company name (ABC Tire Company)
- Unique purchase order number (345)
- Description and quantity (30 winter tires, size 215)
- Price (\$1,500)

- Mailing address (15 Fake Lane, Sacramento, CA, 12345)
- Payment information and terms (to be paid in 45 days via wire transfer)
- Invoice address (could be the same as mailing address)

Before sending a purchase order, buyers should verify funds are available to cover the purchase.

This process is greatly simplified with clear roles, buying limits, and authorization hierarchies—all of which are built into PLANERGY.

5. **Receive Goods or Services**

Once the PO is confirmed, the vendor is able to deliver the goods or services ordered. Because the PO is a legally binding document, the vendor can deliver goods or services before receiving payment.

When the purchaser receives the goods or services they ordered, they have a limited amount of time to notify the vendor of any issues.

Sometimes, the invoice and the order arrive at the same time. In other cases, the invoice will arrive before the goods or services are delivered.

6. **Receive and Process Invoice**

The vendor sends an invoice to the purchaser that describes what the order includes. The invoice also confirms the sale and states when payment is due.

Three documents— purchase order, order receipt, and invoices—are aligned and reconciled in a process called three-way matching.

This process finds any discrepancies and ensures that what you are being charged matches what you have received.

7. **Payment**

Once the invoice and order have been received and approved via three-way matching, the accounts payable team will process the invoice for

payment.

On the invoice, the vendor will provide payment details (such as account numbers for a wire transfer).

The accounts payable team must pay within the agreed-upon time frame or face a potential late payment fee.

AP automation software can streamline the payment process, making it easier to avoid late payment fees and capture early payment discounts, if the vendor offers them.

8. **Record for Audit**

Once payment has been processed, the buyer records the completed transaction for the company's financial records. This final stage in the procurement cycle is important for bookkeeping and preparing for future audits.

Auditors require thorough documentation for all purchases, so documents from purchase requisition through invoice should be stored in one central location. With eProcurement software, the transaction is recorded automatically and made available for review at any time.

Having this information in a centralized database makes reporting, forecasting, and audit trails much simpler to manage.

Using modern software to manage procurement processes can ensure that you pay the best price, save time when choosing the most reputable vendors, and minimize order delays and mistakes.

What Are Common Problems in the Procurement Process?

Procurement processes can be long and complex, and rife with potential mishaps. Some of the most common problems that pop up are:

• **Poor Communication**

Without clearly defined processes and communication channels, there can be delays or misunderstandings between procurement teams and vendors that lead to costly mistakes and missed opportunities.

• **Decentralized Processes**

Using a mixture of different tools, approval forms, and other processes can create confusion amongst internal teams and vendors.

• **Inefficient Use of Time**

Poorly defined manual processes lead to employees doing things the hard and costly way. Filling out paper forms and repeatedly pinging management for approvals is not a good use of employee time.

• **Maverick Spending and Budget Mismanagement**

Without well-defined processes, some employees may try to skirt the system and engage in maverick spending.

This happens when employees try to go around the procurement process to make purchases on their own—making it impossible to track budgets and gain proper approvals.

Common Problems in the Procurement Process



Poor Communication



Decentralized Processes



Inefficient Use of Time



Maverick Spending and Budget Mismanagement

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How Can You Improve Your Procurement Process?

An eProcurement software like PLANERGY helps improve every stage of the procurement process.

For steps 1 and 2, automated vendor catalogs make searching for vendors far easier than scouring the web.

Guided buying pushes purchasers to order from vendors that have been selected previously company-wide and have the best prices and contract terms.

This helps maintain consistency across the organization and ensures you are selecting preferred vendors with a track record of providing the best value.

For steps 3-4, purchase requisitions can be generated, delivered, and approved all in one place.

The requisition process is streamlined by auto-generating the information needed, electronically submitting forms, and automatically pinging and reminding approvers that a requisition is ready for them to approve.

Once approved, they are automatically turned into POs with all the relevant information ready to go.

During steps 5-8, having purchase orders and invoices linked under one system makes communication between purchasing and accounts payable much easier.

It also makes it easy to ensure that invoices match what was ordered, and speeds up the payments process to produce better vendor relationships.

For the last stage, procurement software automatically records a full audit trail for every order from requisition through invoice. This makes it easier to ensure accountability and always be audit-ready with up-to-date metrics.

With PLANERGY, you can keep track of every detail with automated audit trails and no paperwork.

What Are the Benefits of Procurement Software?

The benefits of procurement software go beyond just creating a more effective procurement process.

Investing in procurement software is taking a step towards increased productivity, higher profits, and digital transformation.

Procurement software provides many benefits across different parts of the procure-to-pay process, some of which include:

- More control over every stage of the process.
- Faster and more informed decision-making.
- The procurement lifecycle is streamlined and shortened at all stages.
- Less paperwork means fewer wasted hours, fewer errors, greater productivity, and a smaller ecological footprint.
- Accountability for all purchases.
- Reduced cost of doing business by automating busywork and freeing up staff for more productive tasks.
- Increased ability to find savings opportunities through data-driven

insights and spending reports.

- Centralized, transparent management improves communication, accuracy, and consistency.
- Policies can easily be set and automatically enforced without fear of maverick spending, cash flow challenges, or costly contract compliance issues.
- Every transaction is automatically recorded in real-time and made available for audits, forecasting, and reporting.

Benefits of Procurement Software



More control over every stage of the process



Faster and more informed decision-making



Streamlined procurement lifecycle



Less paperwork



Accountability for all purchases



Reduced costs



Increased ability to find savings opportunities



Better communication internally and with suppliers



Automate compliance with purchasing policy



Real-time reporting and audit trails

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Optimized Procurement Processes Build a Sustainable Business

The procurement process is one of the most important aspects of doing business. It impacts the bottom line more than just about anything else, so optimizing it is crucial.

Companies that lag behind in adopting digital procurement risk losing a competitive edge to those who are able to act faster and gain better insights into

their company spend.

Optimizing your procurement strategy with automated software saves time and frustration while providing more value at every stage of the procurement process.

From vendor payments to contract negotiation, digital procurement enables you to implement best practices and set up your organization for sustainable lasting success.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Procurement Solutions page to see how PLANERGY can digitize and automate your procurement processes saving you time and money.
- Learn about us, and our long history of helping companies just like yours.[lanergy](#)

[Book a Live Demo](#)

2. Download our "Indirect Spend Guide"

Download a free copy of our guide to better manage and make savings on your indirect spend. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

[download a free copy of our guide](#)

3. Learn best practices for purchasing, finance, and more

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consultants for the advice in these articles.

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