Procurement vs Purchasing: What Is The Difference?

Mark Twain said, "The difference between the almost right word and the right word is really a large matter—it's the difference between the lightning bug and the lightning."

While purchasing may get materials in the door, professional procurement strategies can reduce a company's purchase spend by an average of 8 to 12 percent per year, significantly impacting liquidity. Knowing the difference between procurement and purchasing pays off.

What is Purchasing?

Purchasing is a simple transaction, when companies pay for and receive goods or services. Purchasing can be considered a subset of procurement. For a small business with no procurement department, this may mean a phone call to an office supply store when the supply of pens runs low or a new computer is needed. Small businesses often lack the purchasing power of a major enterprise and have no leverage with which to negotiate.

A simple purchasing process is generally performed on a transactional basis with little strategy:

1. ## Placing the order

   Without strategy, goods and services are ordered as needed. Reactive purchasing comes with a host of money-wasting issues. Businesses that buy on demand without approved purchase orders (PO) typically lack oversight and budget control.

2. ## Supplier communications

   Most companies have a established list of suppliers they work with to purchase supplies.

3. ## Receiving of goods or services

   Purchasing requires receipt of goods and services. Good purchasing strategy includes protocols for recording and tracking purchases.

4. ## Invoice receipting

   In companies with no procurement department, invoices are usually sent to accounts payable. With no automated tracking system, each invoice recording must be verified by hand, an inefficient and time-consuming process prone to error.

5. **Supplier payment**

   Invoices are typically paid without completing the 3-way match to verify the invoice against the PO and packing slip. Common results of poor strategy include late payments, over-payments for items not delivered, and duplicate payments.

For a growing business, purchasing without procurement strategy has distinct disadvantages. Lack of control, purchasing rules, preferred vendor relationships, and accurate metrics leaves companies vulnerable to fraud and overpayment. Well defined procurement process helps minimize spend, even for a small business.

> *In essence, the procurement process is a comprehensive set of strategies and protocols designed to extract the best value of purchasing; purchasing is the end result – the transaction.*

What is Procurement?

Procurement is a far more over-arching concept, encompassing end-to-end supply chain management strategies for sourcing, negotiation of contracts and acquiring goods, raw materials, services or work from external sources, then following through to ensure contracts are fulfilled according to contract terms. The ultimate long-term goals of the procurement function are cost savings, spend control, and workflow efficiency.

Where a simple purchasing decision may include considerations such as price, delivery, and convenience, procurement plans are a corporate strategy with a comprehensive overview of every detail affecting purchases.

Procurement considerations include:

- ## Business ethics

Today's consumers expect businesses to conform to certain standards, and sourcing scandals can be fatal. Distasteful stories of sweatshops or destructive mining processes sweep social media like wildfire, burning customer trust in its wake. Procurement department responsibilities include ensuring that company values are upheld and raw materials are sourced in ethical, legal, and customer-approved ways.

- ## Logistics

What is the optimal method of delivery, factoring in time, cost, taxes and tariffs, risk, and ethical considerations? Procurement departments determine the most efficient and timely ways to receive goods.

- ## Quality

In some industries, it can be acceptable to cut corners to save money. Tee shirts made of thinner fabric, for example, are harmless and cheaper fabric may even appeal to buyers. In other industries, quality of materials is the single most important consideration. Building projects and food products are examples of industries where cutting quality can be dangerous. Procurement strategy includes identifying the best possible quality at the lowest price.

- ## Supplier capability

Procurement departments keep a close eye on suppliers, making sure they are capable of delivering the quantity needed on time. Strategic sourcing includes alternate plans for suppliers who may be in the path of a disruptive event capable of destroying supply lines, like a hurricane or flood. These sourcing activities can ensure the supply chain is not disrupted.

- ## Cost

the price of raw materials is an issue for every business. Typically, a procurement department uses a tendering or competitive bidding process to request proposals from trusted suppliers and ensure the lowest price and most favorable payment terms after all other considerations are factored.

- ## Overall budget

One benefit of a centralized procurement department is enhanced buying power. By consolidating spend from all departments, a savvy procurement manager can negotiate better deals based on bulk pricing.

- ## Spend control

Comprehensive procurement strategy identifies spend categories and sets protocols for purchasing based on category, expected purchases, or dollar amounts. Tight control eliminates maverick spending and unapproved purchasing while simplifying expected purchases.

- ## Risk analysis

Systematic identification, assessment and strategies to minimize risk contribute significantly to procurement success. Risk management is integral to effective procurement management, particularly for large scale or geographically diverse businesses.

- ## Establish protocols for purchasing

  Procurement strategy facilitates ordering and eliminates bottlenecks by establishing governing rules for automated purchases and defining the process for goods and services requiring approval.

- ## Accounts payable

  The procurement department uses 3-way matching to verify invoices against the purchase order and goods receipt. This eliminates duplicate payments, ensures invoice items are delivered as promised, and flags invoices for timely payment in the procure-to-pay cycle.

A strategic approach to procurement seeks to streamline operations by defining every aspect of the supply chain and setting protocols for purchase requisition, automated spend, approval process, and optimal delivery options.

Where a purchase begins and ends with the acquisition of goods and services, procurement is an ongoing detailed design process to make informed buying decisions based on available data, which must be kept up to date. The purchasing department continually seeks to optimize and improve supplier relationships, forge connections, and find ways to lower supply chain cost and minimize losses.

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