

# What is Purchase Management?



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According to Method123, procurement management, or procurement process is, “a method by which items are purchased from external suppliers. The procurement management process involves managing the ordering, receipt, review and approval of items from suppliers. A procurement process also specifies how the supplier relationships will be managed, to ensure a high level of service is received. This is a critical task in Procurement Management. In essence, the procurement process helps you ‘get what you have paid for’.”

*Organizations won't survive if procurement prices are higher than the profit earned when selling products and services.*

Purchasing is an activity that's more than buying goods and services to keep

business running smoothly. It involves researching the materials and sources, following up to ensure the deliveries are received on time, inspecting the items for both quality and quantity, receiving, inventory, and accounting operations related to purchases.

Neglecting to factor the entire procurement process into operations can cost businesses a lot of money. By keeping basic records that show your profit is more than you're spending, you show the business is afloat, but by focusing resources - time, money, and effort - on the intricacies of procurement at all times, you can bring in a great deal more revenue. If you just go with the first supplier you find, you could be costing yourself money without even realizing it. That's why it's important to go beyond profit vs. loss and look for ways to improve the process.

## **How to Foster Strong Purchase Management in Your Organization**

If you've been making purchases without a purchasing strategy or considering the purchasing cycle, you can create a purchase management program in your organization to get control of spend and increase revenue.

### **Develop a Purchasing Strategy**

Purchasing strategies are not something you can create without the input of professionals. If you don't have a dedicated procurement staff with experience dealing with the purchasing function, it is best to bring in consultants to assist you.

A solid purchasing strategy ensures you'll end up with the most cost-effective outcomes. It generally means selecting vendors that will deliver quality products within set timelines at affordable prices, with negotiated discounts or other value-added services.

## Consider the Purchasing Cycle

Part of creating a sustainable purchase strategy means developing a purchase cycle that works well for your budget. The purchasing cycle demonstrates the steps your organization must go through before making purchases. It involves making sure there is a need for the product, determining how much product is needed, and when it is needed by.

The purchasing cycle involves starting with a purchase requisition that is then approved by the appropriate staff, such as a department head before an official purchase order is created. Once the purchase order is in the system, it too may need to be approved by multiple people, depending on a variety of factors such as cost. This is determined by creating an approval process that's specific to your company and policies. For instance, purchases below a certain dollar amount may not require approval, or purchases from a certain vendor are automatically approved to a certain threshold.

Before a request is made, prices and quality of various products needs to be compared to ensure you're ordering from the best possible vendor. Because the price is not the optimal indicator of quality, going with the cheapest vendor may mean the product quality is not where you expect to be - making that purchase a waste of funds. Instead of opting for the best price, it is often worth it to spend a bit more to guarantee quality. You can often achieve cost savings by negotiating a lower price for bulk orders or receiving a discount for early payment.

Once you've selected a supplier, the procurement department can negotiate with the supplier to develop a contract for an ongoing relationship with the supplier, unless it will be a one-off purchase. Once the goods have been received, they should be inspected for quality and recorded for inventory and future reference.

## Invest in a Purchase Order System

For streamlined purchasing management and greater overall efficiency, it is best to invest in a purchase order system such as PLANERGY. It allows you to digitize your records, eliminating the need to keep up with a ton of paper. The automation rules negate the need for a time-consuming manual process full of error potential. Purchasing activities are tracked in real-time to keep everyone on budget. The increased spend visibility helps the purchasing department find more cost savings opportunities. The system also allows for improved inventory management and better supplier relationships because everything is tracked from a centralized location.

A good purchase order system offers a number of benefits to your organization, including:

- Adequate vendor control throughout the supply chain for easier supplier management
- Long-term cost savings
- Improved efficiency and productivity in terms of monitoring spending and accounts payable function
- Access to real-time information for any department involved

Above all, the system needs to be easy to use or it won't benefit the company at all. PLANERGY is a robust management system capable of providing all the above benefits and more. With it, you can create customized approval routing rules to give approvers the ability to approve purchases with a click. Not only this, but you can instantly view budget and spend information, rather than waiting for reports from accounting. It's accessible from anywhere there's an internet connection, so it works just as well on a mobile device as it does an office computer.

# 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 Purchase Order Software page to see how PLANERGY can digitize and automate your purchase order process saving you time and money.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

## 2. Download our guide "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

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

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