Purchase Management: What Is It, Process, and Best Practices



IN THIS ARTICLE

- What Is Purchase Management?
- Purchasing, Procurement, and Sourcing: Which One Does What?
- What Is the Process of Purchase Management?
- What Are the Best Practices for Purchase Management?

To ensure success, every company needs to buy goods and services in the most efficient way possible and get the best price they can. Purchase management can help companies achieve this.

In this article, we'll cover what the purchase management process is and what best practices you can follow to make sure this process is a success.

What Is Purchase Management?

Purchase management is managing the processes involved when a company purchases goods and services from suppliers and vendors. This includes making the purchase itself.

It is an integral part of most companies operations covering identifying what needs to be purchased, getting approvals, sending purchase orders, ensuring deliveries are received on time, inspecting items for both quality and quantity, and more.

The goal is to efficiently extract the most value possible from purchasing and to ensure that the business is set up to continue making the purchases it needs by minimizing supply chain risk.

Ultimately, it’s about keeping the business running smoothly and efficiently.

Purchasing, Procurement, and Sourcing: Which One Does What?

In the purchasing world, a lot of similar terms get tossed around that can create confusion. Before we dive into the purchase management process, we’ll clearly define three terms that are important to know before you begin.

- ## Sourcing

  This is the work that’s done before a purchase is made, and it involves strategically finding and vetting the best suppliers possible. It evaluates factors such as price, quality, delivery times, and vendor reputation.

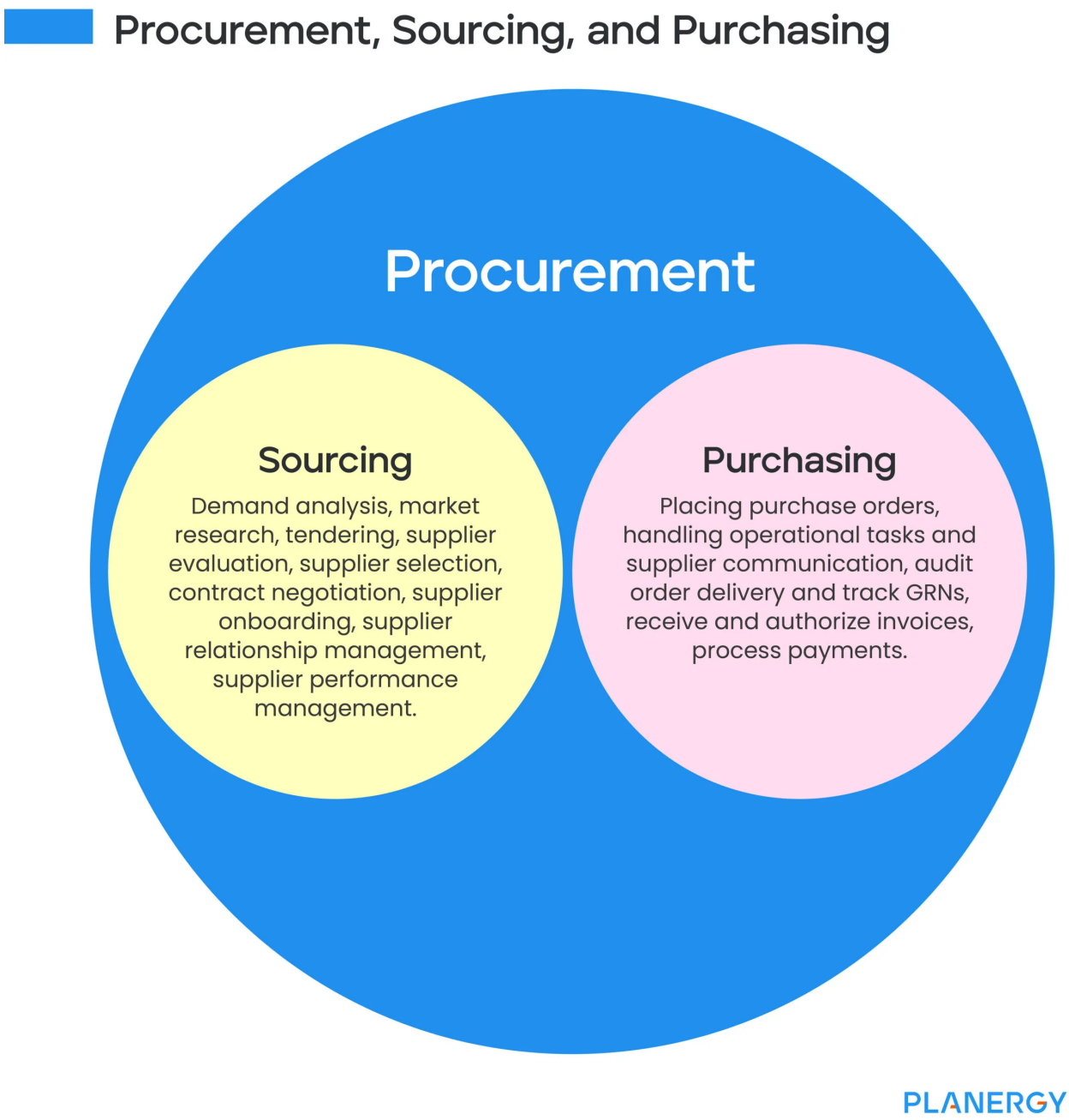
- ## Purchasing

  This is the process that involves making the purchase itself. It typically starts with the requisition (covered below) and ends with a purchase order (also covered below).

- ## Procurement

  Procurement is the overall process a company goes through in order to obtain the goods and services it needs to conduct business.

  This involves all aspects of the procure-to-pay process, from supplier selection to paying the invoice.



What Is the Process of Purchase Management?

The purchase management process is a cycle that goes from an internal need to external payment and involves everything in between.

While different organizations will have different ways of managing purchases, the purchase management process typically follows the seven steps below.

Note that this is the process for managing first-time purchases for important

needs. These steps are intended to set your company up for a lasting supplier relationship.

Once you go through this process once and do it right, you should expect to eliminate steps 3 and 4.

1. ## Purchase Requisition

   Every purchase starts with a need and a purchase requisition is how teams state their needs and request internal approval.

   A requisition is typically a paper or electronic form that outlines the exact requirements for the purchase and a justification for the expense.

   Requisitions are easier to manage with procurement software than with paper forms or Excel.

2. ## Budgeting and Approvals

   Once the requisition is received, managers and procurement teams will review it to ensure it meets a viable need and check that there is enough room in the budget to make the purchase.

   In some cases, team managers will be the final decision-makers in the approval process, in other cases, it will be the procurement team itself.

3. ## RFP or RFQ

   Some, but not all, purchases will require a Request for Proposal (RFP) or Request for Quote (RFQ), which are similar but not exactly the same.

   These requests will go out to all relevant suppliers and ask them to submit a quote or proposal for the required needs.

   Alternatively, some companies skip this step by reviewing supplier catalogs or reaching out to them directly.

4. ## Vendor Selection and Contract

   Once RFPs or RFQs are received (or not if skipping that step), companies will review them for the best terms and ability to meet their needs.

   Price will not be the only deciding factor, as delivery speed, quality, ESG procurement compliance, and a number of other factors can affect which vendor is picked.

   Organizations can also draw up a contract at this stage of the process that lays out all the details for payment terms, delivery expectations, quality, and more.

   However, this isn't a requirement and can be worked out later on if there is an immediate need to move forward with the purchase.

5. ## Purchase Order

   To make the purchase official, organizations will send a purchase order (PO), which an official document that states all the information needed for the purchase: quantity, price, delivery address, expected delivery date, payment terms, etc.

   Once the vendor confirms agreement with the PO, it becomes a legally binding document to ensure that the vendor delivers and the purchaser pays.

6. ## Receiving

   This is the step where goods or services are delivered. It's important for teams to check that the delivery meets the quantity, quality, and other requirements detailed in the purchase order and contract.

   The vendor will also send an invoice, which will be reconciled and paid in the next step if the order meets their expectations.

7. ## Accounts Payable

   Once the order and invoice have been received, the accounts payable

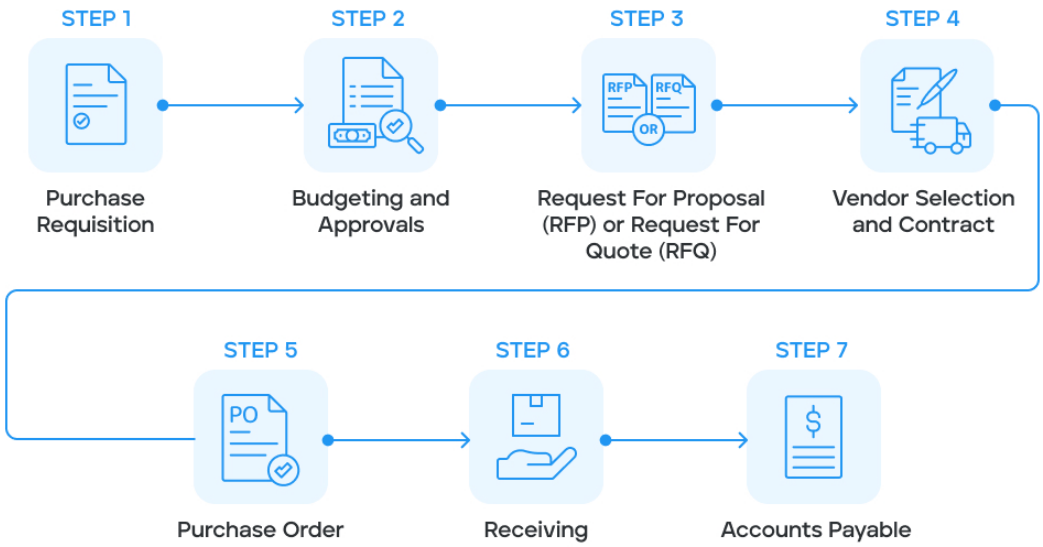
team takes care of the payment.

However, they will check that they aren't paying extra or paying for unreceived items by using a process called 3-way matching for invoice approval.

In this process, they verify the consistency of 3 documents: the PO, receipt, and invoice. If all three match, then they can pay the invoice. If not, they will send it back for clarification.

Using a procure-to-pay system for purchasing and accounts payable together makes it much easier to match these documents and ensure that payments are made swiftly and for the correct amount.

Purchase Management Process Steps



PLANERGY

Note that throughout this process, your organization can change requirements, find new insights from market research, switch suppliers, or do anything you can think of for more favorable terms.

Procurement teams should always be on the lookout for ways to extract more value from the purchasing process.

What Are the Best Practices for Purchase Management?

While following a purchase management process is a good start, getting it right from the beginning and sticking to a strategy can help extract the most value.

Best practices help your organization look beyond the short-term and stick to the mission while executing the day-to-day procurement process.

Every company will have different best practices depending on its unique needs (which is why it's good to use a flexible software system), but these three provide a general framework any organization could use.

Develop a Procurement Strategy

Before you begin executing a day-to-day purchase management process, it's smart to have an overall strategy.

The strategy shouldn't just be for purchasing, but for procurement as a whole (which includes sourcing and accounts payable).

Your overall holistic strategy should start with a mission statement that sets the tone for what you're trying to achieve.

Following that, you can add:

- Deliverables for the desired results
- Timeframe and deadlines
- A tactical plan for how your strategy will be implemented
- The metrics used to evaluate your process
- The tools used such as TCO, SWOT analysis, SCOPE analysis, Category Positioning Matrix, etc.

A solid purchasing strategy helps you achieve more cost-effective outcomes.

You'll be more likely to work with vendors that deliver quality products within set timelines at affordable prices—with negotiated discounts or other value-added services.

Check out our complete guide on how to develop a procurement management strategy to learn more.

Note that it's helpful to work with a procurement professional when developing your strategy.

If you don't have a dedicated procurement department with experience dealing with the purchasing function, it's not a bad idea to bring in consultants.

Establish Your Purchasing Cycle

Developing a purchasing cycle that works well for your budget is key to purchase management. The purchasing cycle is 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.

This is part of the purchasing process that involves going from purchase requisition to purchase order.

It involves approvals from multiple people and can involve a number of different factors such as cost, urgency, timeline, and budget.

For example, there may be a certain threshold where purchases can be made without approval or a certain routine purchase that is always approved.

Having a purchase cycle established makes it easier for your to know whether or not to approve a purchase.

You may want to have rules or precedents in place for different situations, for example:

- Prices and qualities from different vendors must be compared when purchasing from a new vendor.
- Your organization must attempt to negotiate a lower price for bulk orders or early payment.
- Except for one-off purchases, your organization must have a

contract with all suppliers.
- All goods must be inspected for quality and be recorded for future reference.

The purchasing cycle at your organization may be very different, but having an established cycle will make it easier for your purchasing department to meet your needs.

These rules can also help gain control of spend and increase bottom-line profits.

Invest in a Purchase Order System

Investing in a purchase order management system will centralize purchasing management and create greater efficiency.

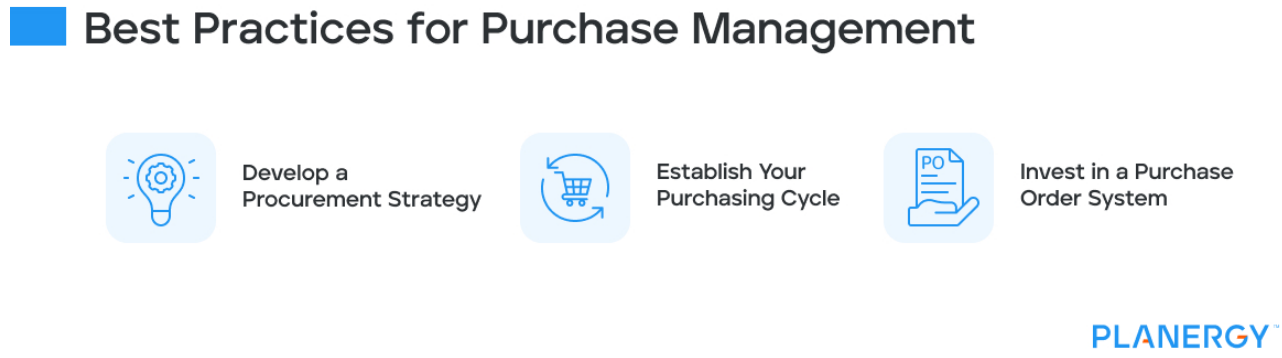
According to a report from the research firm Levvel, companies who added a new solution reported the following as the top three benefits:

- Reduced lifecycle times for purchase orders, invoice processing, and other P2P workflows.
- Improved spend transparency and visibility across procurement.
- Improved spend control and security.

Switching from Excel or paper-based purchasing provides the strongest benefits.

Digitizing records eliminates the need for paper, automation reduces manual labor time and human errors, and purchasing activities are tracked in real time for complete spend visibility.

Supplier relationships and inventory management also become easier.



Above all, the system needs to be easy to use or it won't work. PLANERGY is a robust puchase management system capable of providing all the above benefits and is easy for your team to get started with.

Whatever choice you make, investing in the right purchasing system is the key to better purchase management—and likely the most important best practice of all.

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 "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.

Related Posts