Purchasing Process: Steps and Best Practices

Like individuals, businesses and organizations need to purchase goods and services to meet their needs on a regular basis. And also like individuals, businesses absolutely need a formalized purchasing process if they want to extract maximum value from every dollar they spend. The way in which your company develops and implements its purchasing plan can have a major influence on not just expenses, but your business’ overall competitive performance, profitability, and efficiency.

By learning and implementing a few best practices for your purchasing process—particularly with help from modern procurement software—you can help reduce waste, protect your business from needless risk and expense, and develop workflows that maximize efficiency, profits, and value recovered from every dollar invested.
What is the Purchasing Process?

It’s often considered interchangeable with the term *procurement process*, but the purchasing process itself is more confined to actually obtaining goods and services, while procurement refers to the overall framework established to optimize that purchasing for maximum value, savings, and efficiency. A better synonym for the purchasing process is the *procure-to-pay (P2P) process*. The purchasing process is, at its most basic, as simple as conducting a transaction. Much in the same way a consumer might research and purchase the best appliance for their home, your procurement team uses the purchasing process to requisition goods and services through your supply chain.

The primary benefit of a formal process for purchasing is avoiding waste due to fraud, rogue spend, theft, and other financial pitfalls that accompany undocumented, non-optimized buying habits. But because procurement sits at the heart of the value creation process for your company, formalizing and optimizing your purchasing process is also important to:

- Creating and efficient and effective buying process for not just direct spend (e.g., raw materials) but indirect spend (e.g., office supplies, IT services, etc.).
- Successful supplier relationship management.
- Optimal supply chain management and strategic sourcing (for both cost savings and value)
- Streamlining the procurement cycle and all its sub-processes.
- Providing a solid audit trail for internal and external review.
- Establishing a model for business process management that can be applied across your entire organization.

Whether you’re a small business or a multinational corporation, having a formalized purchasing process is essential to competing in the modern marketplace.

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Manual workflows and paper-based record-keeping are no longer sufficient for companies that want optimal return on their purchasing investment or a healthy, strategic supply chain. Automation and artificial intelligence do much to eliminate or mitigate the challenges that come with these outdated methodologies.

The Purchasing Process

Traditionally, the purchasing process is a cycle, with each step requiring the exchange of information and various approvals to move forward. Every business will have its own unique touches to add, but generally speaking, the purchasing process follows a well-established pattern of events.

1. Needs Analysis

At this stage, the company recognizes and documents a need for goods or services to solve a particular problem. The procurement team describes the need to be met, and works with others to determine how best to do so. For example, a
company facing high travel expenses might invest in more fuel-efficient company transportation for its sales staff, or reduce the amount of travel required for remote employees by investing in advanced telecommunication software.

2. Purchase Requisition to Purchase Order

The “purchasing” portion of the purchasing process kicks off with a purchase requisition submitted to the purchasing department or purchasing manager by the individual, team, or department requesting the goods or services. The purchase requisition contains full details on the items or services to be obtained. Purchase requests below established budget thresholds are automatically updated to purchase orders, and submitted to the preferred supplier for that item or service. More expensive purchases, or unexpected purchases not in the budget, will be forwarded to the appropriate individuals for review and approval before they can be transferred to POs. Rejected purchase requisitions are returned to the issuing party for review and correction or clarification as needed.

3. Purchase Order Review and Approval

Approved purchase orders are sent to accounting to verify the funds exist in the appropriate budget to cover the requested goods and services.

4. Requests for Proposal

POs that receive budget approval are returned to the procurement department and, as required, used to create requests for proposal (RFPs), also known as requests for quotation, or RFQs. These are dispatched to vendors to solicit bids to fulfill the order for goods or services. Potential suppliers submit their bids, and are carefully reviewed based on their performance history, compliance records, and important characteristics such as average lead times, reputation, and price.
5. Contract Negotiation and Approval

The vendor with the winning bid is then awarded a contract, which is further refined before signing to ensure optimal terms and conditions and to ensure a mutually satisfactory arrangement for both parties. Once the contract is signed, the purchase order is a legally binding agreement between buyer and seller.

6. Shipping and Receiving

The supplier delivers the goods or services within the agreed-upon timeframe. Once they’ve been received (in the case of goods) or performed (in the case of services), the purchaser carefully reviews the goods and services to ensure they’ve received what was promised, and notifies the vendor of any issues.

7. Three-Way Matching

A cornerstone of spend management, three-way-matching is the comparison of shipping documents/packing slips with the original purchase order and the invoice issued by the supplier. This comparison is used to ensure all the information related to the transaction is accurate. Discrepancies must be rectified as soon as possible to avoid additional charges, delays in production and payment, or damage to supplier relationships.

8. Invoice Approval and Payment

Successfully matched orders are approved for payment. Any modifications or additional charges may require another layer of approvals before payment can be issued. Once approved, payment is issued to the vendor. Ideally, such payments are made with the goal of capturing early payment discounts and other incentives while avoiding late payment fees.

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9. Accounting Records Update

Completed orders are recorded in the company’s books, and all documents related to the transaction are securely stored in a centralized location.

The Very Best Practice for Purchasing: Automation

Until quite recently, when digital transformation made advanced process automation and artificial intelligence (AI) tools standard components of many top-shelf software solutions, the purchasing process was done manually, on paper. The challenges that come with such an approach will be familiar to anyone who’s ever experienced a production shutdown due to delay of critical raw materials, or discovered a double payment for a major purchase, or simply had to chase down the purchase order number for a particular item in order to successfully match it to the shipping documents and invoice. Manual workflows and paper-based record-keeping are no longer sufficient for companies that want optimal return on their purchasing investment or a healthy, strategic supply chain. Automation and artificial intelligence do much to eliminate or mitigate the challenges that come with these outdated methodologies.

With a modern procurement solution, your purchasing process is improved through:

- Elimination of waste and expense from manual, paper-based workflows, records, and storage.
- Automation of tedious, time-consuming, and high-volume tasks.
- Additional accuracy, speed, and consistency, while removing human error and delays.
- Automatic three-way matching and optimal process flows help capture more early payment discounts and eliminate duplicate payments and late
fees.
- Automatic, contingency-based approval workflows help shorten every workflow, including the purchase order and invoice lifecycles.
- Complete data transparency combined with improved collaboration and communication for stronger, real-time data analysis and more strategic decision-making.
- Automatic strategic sourcing as buyers are matched with the best vendor for a given good or service automatically through a closed system that also prevents rogue spend and invoice fraud.
- Streamlined vendor management as new suppliers are automatically on-boarded with contract information instantly available on the central server.
- Improved supply chain management and supplier relationship management through integration with vendor systems and transparency into vendor performance, compliance, and contract information.

**Additional Best Practices for Purchasing Processes**

Beginning with automation sets your purchasing process on the fast track to success. It also provides direct support for additional best practices, including:

- **Focus on vendor collaboration and communication.** Your best vendors aren’t just suppliers; they’re partners who can help you discover new markets, develop innovative new products with next-gen materials, further streamline your workflows through contracted services, and boost your bottom line with better pricing and terms based on economies of scale or exclusive agreements.
- **TCO trumps price.** Every dollar you spend is a source of potential value as well as expense. Shifting your perspective to the total cost of
ownership (TCO), rather than the price tag, can help you transform your procurement function into a true value creation center for your entire organization.

- **Build social responsibility into your purchasing process.** From civil rights to environmental concerns, consumers take social and political issues seriously when considering their purchases—and so should your business. Pay special attention to reputation as well as compliance and performance histories when considering potential suppliers to minimize the chance you’ll violate your company’s ethics, create dangerous financial and reputational risk, or incur the wrath of the customers you count on to succeed.

Get More Value from Your Purchasing
Getting the most for your money requires care and skill—especially when you’re squaring off against the competition in a crowded and fast-moving global marketplace. Formalize and automate your purchasing process, and ensure the goods and services you buy don’t just meet your immediate needs, but add value, savings, and greater productivity to your business.

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