

Services Procurement: What Is It and How To Manage It



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Understanding services procurement is essential for any successful business.

It is the process of acquiring external services to meet the needs of an organization and involves different steps, such as identifying a need, setting up a contract, and managing the relationship between the service provider and the customer.

In this article, we will discuss services procurement, how it works, and how to manage it best.

What is Services Procurement?

Services procurement is acquiring services from external vendors or suppliers to fulfill organizational needs.

It involves procuring services from outside sources and managing the relationship with supplier or service provider.

This type of procurement can be used for virtually any service, including IT, consulting, legal advice, web design, marketing services, engineering support, etc. It typically is project-based and relies on a statement of work, or SOW.

For example, you could hire a contingent workforce of freelance writers to handle your company's website content rather than hiring for the position in-house.

You set the budget and deliverables, then work with various freelancers with a test assignment. You hire the freelancer (or freelancers) you feel do the best job, and they follow your processes to provide what you need.

This contingent labor allows you to optimize your marketing without fully engaging an internal marketing department or marketing agency. Marketing procurement is a common case where services procurement is required.

You don't pay for the service if no content needs to be created, so there's no need to keep a retainer or spend money on unused services, allowing for better control over spend management.

Types of Procurement and How Services Procurement is Different

▪ Direct Procurement

Direct procurement is the process of obtaining items necessary to produce a desired end product. This typically includes raw materials and components.

▪ Indirect Procurement

Indirect procurement involves purchasing items essential for day-to-day

operations but not necessarily related to the company's final product. Examples include office supplies or advertising campaigns.

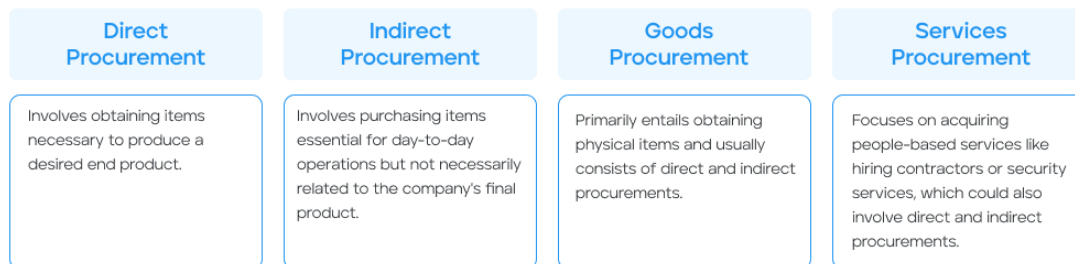
▪ **Goods Procurement**

Goods procurement primarily entails obtaining physical items and usually consists of direct and indirect procurements.

▪ **Services Procurement**

Services procurement focuses on acquiring people-based services such as hiring contractors or security services, which could also involve direct and indirect procurement.

■ Types of Procurement



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What Is The Difference Between Goods and Services Procurement?

Goods procurement involves the buying of tangible goods, while services are non-tangible services provided by vendors.

Goods have fixed prices, whereas services usually involve negotiation between buyers and sellers to reach a pricing agreement.

Goods can generally be bought off the shelf, but most service procurements require custom contracts to meet specific requirements.

Services procurement is a complex task that involves finding the perfect individual or organization to complete the job.

It's more than just selecting the service that best fits a need; it requires writing a job description of someone who may never be seen during the selection process, making a judgment call on estimating demand for services, and then ensuring the quality of those services.

Quality assurance can also be challenging since conversations between procurement and suppliers are more direct and personal when sourcing services.

Technology solutions are incredibly helpful in dealing with goods, but they must have an agile stance to maximize value creation as they are applied to service category sourcing.

Fitting skills and requirements into a single box is undeniably one of the most intricate components of services procurement.

Steps in the Services Procurement Process

Before beginning any services procurement process, you should establish goals and requirements for what you are looking for in terms of service delivery.

This helps ensure you get what you need the first time instead of having to go back and renegotiate contracts or change vendors mid-way through your project.

Once your requirements have been established, it's time to search for potential vendors.

Here are some key steps to consider when developing a services procurement plan:

1. Requirements Gathering

Determine precise specifications for what type of service is needed and set expectations regarding quality, cost, and timeline.

2. Vendor Selection

Research potential vendors and compare each one against your criteria before selecting a few finalists with whom you can negotiate contracts.

Send multiple requests for proposals (RFPs) to learn more about each business partner and what they could offer you.

3. Contract Negotiation

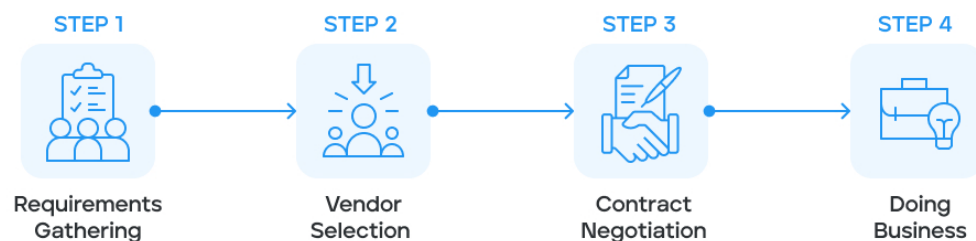
Finalize agreements with selected vendors, considering budget constraints and legal considerations.

4. Doing Business

Once you've started working with a vendor, having a clear statement of work and adequate contract management is key. There should be purchase orders and milestones to ensure your project remains on course.

Whether you work with a small business or enterprise-level partner, strategic sourcing is key because you want to keep stakeholders happy.

4 Steps in the Services Procurement Process



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Services procurement may be more complex, but when done correctly, it can make a world of difference for an organization.

Benefits of Services Procurement

Services procurement offers numerous advantages for businesses, particularly when done effectively by experienced professionals who know how to find the best deals while maintaining quality standards.

Here are some major benefits of utilizing services procurement:

• Cost Savings

By leveraging existing partnerships or getting competitive bids from multiple vendors, companies can save money on specific projects or ongoing activities such as employee recruitment or training programs.

• Improved Quality

Choosing reputable companies with proven track records ensures that businesses get high-quality services from experienced professionals who understand their industry and specialize in delivering effective solutions to clients' needs quickly and efficiently.

• Faster Time To Market

By outsourcing certain tasks related to new product launches or marketing initiatives, businesses can significantly cut down on development time and maximize their return on investment (ROI).

■ Benefits of Services Procurement



Cost Savings



Improved Quality



Faster Time to Market

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All of these benefits provide businesses with a competitive advantage over their

competition.

Money savings can be funneled into other business areas to fuel further growth.

Improved quality boosts the user experience and customer satisfaction levels, and a faster time to market ensures businesses can sell quicker for higher profits.

Challenges in Services Procurement

Although many advantages are associated with procuring external services for business operations, organizations also face some common challenges during this process.

• Inadequate Budgeting

Without a budget, a business may not be able to negotiate favorable terms with providers.

Without sufficient funds, businesses may be unable to pay for the necessary components of their service, such as technical support or maintenance fees, leading to reduced quality and performance.

• Unclear Requirements

Without fully understanding what a business needs from the service they're looking to procure, it's easy for businesses to purchase services they don't need or hire vendors that don't have the necessary skills and resources to fulfill requirements.

That's why it's critical to have a comprehensive and detailed list of requirements before engaging with potential suppliers.

• Lack of Appropriately Skilled Personnel

This can prevent businesses from finding the right providers.

Without the necessary expertise, businesses may be unable to evaluate and compare potential vendors correctly and make informed decisions.

Without the right level of skill in-house, businesses may not accurately define their requirements when engaging with potential vendors.

▪ **Difficulties Managing Relationships**

Managing supplier relationships in services procurement can be difficult as several parties are involved, including the business and its vendors.

Without effective communication and collaboration between these parties, it may be hard for them to work together to meet the service requirement.

Maintaining strong relationships with vendors can be tough due to changing market conditions, increased competition, and different expectations from both sides.

Establishing clear objectives at the outset and constantly improving understanding and trust between the various parties is essential.

▪ **Wasted Spend**

Without adequate supply chain management, organizations risk wasting a lot of money.

Oxford Economics and SAP research shows that external service providers account for 42% of external workforce spend.

Statista reports that approximately 31% of sourced projects are not completed on time, within budget, or do not meet the company's original goals.

limited visibility into these service providers can wreak havoc. If nearly one out of every 3 projects goes south, that's a lot of lost time (and money.)

▪ **Security Risks**

Without effective oversight, organizations face increased security risks. In a world of digital transformation, service providers are often entrusted with sensitive data and customer information.

Organizations risk unexpected outages or data breaches if supplier compliance is not properly managed, especially when it comes to applicable regulations such as GDPR or HIPAA.

Challenges in Services Procurement



Inadequate
Budgeting



Unclear
Requirements



Lack of
Appropriately
Skilled Personnel



Difficulties
Managing
Relationships



Wasted Spend



Security Risks

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Tips For Successful Services Procurement

The following tips will help ensure successful services procurement:

• **Set Realistic Expectations**

Both parties must enter into an agreement knowing exactly what they expect from each other so as not to be disappointed later down the line if something goes wrong or an unexpected expense arises due to unforeseen circumstances beyond either party's control.

• **Leverage Existing Relationships**

If you already have strategic partnerships with certain suppliers/providers, then use those connections instead of starting from scratch when sourcing new vendors & negotiating contracts.

This will enable you to take advantage of better terms due to pre-existing trust between buyer & seller.

Have an Experienced Team Member Lead the Negotiations

Having someone knowledgeable oversee negotiations ensures smoother transactions since they will be able to anticipate issues before they arise and craft strategies based on collected data points that maximize savings while ensuring compliance with company policies.

■ Tips for Successful Services Procurement



Set Realistic Expectations



Leverage Existing Relationships



Have an Experienced Team Member Lead the Negotiations

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Services procurement is an essential part of running any successful business today.

By understanding what it entails and properly managing relationships with suppliers through clear objectives, ongoing communication, and tracking payments/invoices, businesses can ensure they get exactly what they need from these external sources while remaining profitable in the long run.

With careful planning and management, services procurement doesn't have to be daunting; instead, it should be seen as another tool for success within any organization's operations strategy.

What's your goal today?

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