

# What Is Business Procurement?



Procurement refers to the act of “obtaining goods or services, typically for business purposes.” Sometimes, it is used interchangeably with “purchasing” because procurement is associated with the final purchasing act.

For many small businesses, procurement and purchasing are one and the same.

However, procurement encompasses the entire procurement process, including the final purchase.

Business procurement refers to the procurement process businesses use to secure the goods and services they need for operations.

Companies may be on either side of the procurement process - as the buyer or the seller - though, for the purposes of this article, we’ll discuss the buyer’s side, rather than the seller’s.

On the surface, procurement may seem like a simple process. However, it is often incredibly competitive with lots of attention paid to each step in the process. Procurement involves the following activities:

- Vendor Selection
- Payment Negotiation
- Strategic Vetting

- Final Selection
- Contract Negotiation
- Final Purchase

## **Stages of Business Procurement**

The steps within business procurement include:

- Requirement Identification
- Determination of the Specifics of the Requirement
- Sourcing
- Negotiation and Finalization of Terms and Price
- Purchase Requisition and Order
- Delivery
- Expediting
- Product/Service Supply and Inspection
- Payment
- Record-Keeping and Review

### **Requirement Identification**

The first step to purchasing something is recognizing that you have a need for it. This could be identifying the need to buy a new item, or reorder something when it falls below a certain stock threshold.

This may involve a requisition process for most businesses. It is crucial that all stakeholders are consulted at this stage to prevent issues later in the procurement process.

### **Determination of the Specifics of the Requirement**

Once it has been determined that there is a need, it is important to identify the exact specifics of the product or service that is required.

This would include technical specifications are part numbers.

If the item is not one that was previously purchased, the list of specifics is

generated with input from the technical people involved.

Detailed specific and proper consultation with all the Departments involved helps prevent expensive mistakes from occurring later on.

## **Sourcing**

After it has been determined that a specific item or service is to be purchased, the procurement team has to do research to determine the sources that supply.

When it comes to repeat orders, there is usually a pre-existing vendor list that can be used. For a new item, the process of identifying and wedding vendors take longer.

It's faster to work with pre-existing vendors who have already been determined to be good suppliers. New suppliers have to be thoroughly investigated to determine their speed, quality, reliability, pricing, and reputation.

## **Negotiation and Finalization of Price and Terms**

The procurement department has to conduct market research, investigate vendors, request quotes for the items needed, and then she was a vendor.

This is a crucial part of the process because reputation, speed of service, dependability, and cost all need to be investigated before you can make a final decision.

The general rule of thumb is to secure at least three quotes, but it's the best practice that needs to be determined by your organization.

It's also crucial to receive approval from all relevant levels of management based on your sourcing options in the costume.

If there is it in the process involved in the order, the request for proposal, bids, or tenders needs to be published.

*Whether you need to source raw materials for manufacturing, or office supplies to handle backend tasks, supply chain management is crucial.*

In the case of direct purchases, requests for quotes (RFQs) or requests for

proposals (RFP) will be sent to the shortlisted vendors.

General practice is to get a minimum of at least three quotes before making a choice. The quote is examined for price and speed competitiveness.

The company to procure from won't be selected not only on the lowest cost but also based on their quality, reliability, and promptness.

If there is a tendering or bidding process for the procurement, the selection of qualifying bids will occur based on the terms and conditions set.

The selected supplier will be chosen and announced as per the set process in a highly transparent manner.

Selecting from the various bidders is a process that needs to be fair and transparent to ensure that the buyer gets the best possible value inequality. If the selection process is compromised, it may also compromise the value of the goods or services received.

The buyer must decide between the merits of having a single high-volume supplier or choosing multiple suppliers.

When choosing to have a single supplier, the higher volume of orders gives you better bargaining power when negotiating.

However, if a single supplier isn't able to get to fill an order, it would affect the entire manufacturing process.

Though you have flexibility if a supplier isn't able to meet your needs, using multiple suppliers means you'll have less leverage during negotiations.

Sometimes though, using multiple suppliers helps to build competition regarding rates and quality.

## **Purchase Requisition and Order**

A purchase requisition generated within a company is approved by the appropriate authority which then leads to the generation of a purchase order with all of the specifics of the order including the terms and conditions.

Some companies choose to involve the buyer in the process of generating specifics of the order so that both buyer and seller understand everything.

The specifications must be carefully compared with the purchase requisition as well as the supplier quote to prevent mistakes.

Your company needs to work with your CPO to develop clear procurement policies to ensure all employees are following the appropriate guidelines during all purchasing activities.

## **Delivery**

When applicable, the shipment notice is sent to the buyer.

Purchase order delivery depends on the practices of both the buyer and the seller. It can be delivered by email, by fax, or in person.

This is also as per the agreed-upon specifications.

## **Expediting**

Expediting involves creating a timeline for the prompt delivery of requested goods or services after considering any unforeseen delays.

It may also include information regarding the payment as well as delivery schedules.

## **Inspection**

When the product or service is ready, it is given to the buyer. It is the buyer's responsibility to thoroughly inspect the items to ensure they match the agreed-upon purchase order.

The buyer can either approve or reject it. Both options trigger actions per the agreed-upon terms and conditions. If the buyer takes delivery of the items, it is implied they are accepted and the payment process begins.

## **Payment Process**

For payment to be made, documents relating to the order must match the

specifics of the original purchase order, the receipt of the items, and the payment request invoice.

If any mismatches are present, they must be resolved before payment for seeds. After the payment is approved, the payment is made for the terms and conditions agreed upon during negotiations.

## **Record-Keeping and Review**

In the final step, both the buyer and seller maintains the records for auditing and Taxation purposes.

The entire process needs to remain under constant review to improve and settle any disputes that may arise.

Re-evaluation ensures the procurement process remains as efficient as possible and prevents dispute recurrence.

The steps of procurement detailed above, vary from business-to-business but the flow remains generally the same.

Efficient procurement processes keep the flow of purchase goods and services prompt. The people involved in the process must continually keep up with negotiations throughout the relative relevant steps to ensure that the goods and services that are procured meet the exact requirements, with the highest standards, at the most competitive price.

Meticulous record-keeping not only helps in the auditing of records but also in the case of reordering the same items. The ethical selection of vendors ensures the fair supply of high-quality items.

## **Procurement vs. Purchasing**

Procurement and purchasing overlap in some instances, but they are not one and the same.

Their goals, what they define, their processes, and what they focus on is entirely different.

The procurement process involves ensuring that the goods and services are received on time or before time and the correct amount of goods and services have been delivered to the business at a specified in the purchase order.

Purchasing on the other hand focuses on acquiring goods and services that an organization needs. It doesn't focus on other aspects like procurement. Purchasing is a part of procurement.

Purchasing is more basic in nature since it focuses on the cost of the order and how to get the items needed at the best price possible.

Procurement management is ongoing because the people associated with it focus on maintaining supplier relationships throughout the supply chain while maintaining other parts of the process and continually making assessments when and where needed.

Purchasing itself is not ongoing because once the goods and services are required, that is the end of procurement.

## **Procurement vs. Sourcing**

Business procurement is the end-to-end process for determining a need and securing the products or services to fulfill those needs.

Sourcing, like purchasing, is just a single step in the process. Sourcing is the part where the buyer company does research to determine the best possible vendor options to make the purchase from, in terms of the best possible price and best quality.

The bottom line is that the procurement strategy a company uses can make or break cash flow.

If you have people spending money with vendors who aren't on your approved list or making purchases without using a formal purchase requisition or purchase order, you could be losing a lot of money.

One of the best ways to ensure your company is procuring only the things it needs, from the vendors you approve, is to invest in procurement software. E-procurement helps streamline and automate the entire process, ensuring

payments are only made on invoices that match purchase orders and goods receipts.

In the past, the procurement cycle hasn't been considered a vital part of the corporate strategy, but as businesses are expected to do more with less, the procurement department plays an important role.

They can help identify areas for cost savings, influence cashflow by negotiating better payment terms, and shortening the overall lifecycle so the company earns more faster.

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