Procurement Process

Procurement in general is part of the supply management which is divided into logistics, procurement and materials management. The term procurement is used in Business to Business (B2B) and stands for the buying process of companies of services and goods. The goal of the procurement process is to buy the needed product or service for the most favourable price. To support this, often tenders are used in which potential suppliers compete. Companies and public bodies often define specific procurement and processes and selection criteria to avoid fraud.

Forms of procurement

There are two forms of procurement: **strategic** and **operative** procurement. Strategic procurement includes an assessment of demand, a tendering phase, the selection of the supplier and finally the placing of the order. The operative procurement starts when the strategic one ends with the supervision of orders, stock receipt, accounting control and the payment. 1)

Steps of the procurement process

1. Define Business Need
2. Develop Procurement Strategy
3. Supplier Evaluation & Selection
4. Negotiation and Award of Contract
5. Induction & Integration

The first step is to **define business needs**, which includes the identification of the business requirements to consult the stakeholder. The category of good that is needed also has influence on the procurement process, please see the next paragraph. Afterwards the **procurement strategy** is developed. This step of the process has the objective to agree on the procurement approach and timescales, evaluate the current environment and calculate a budget. The third step is the **supplier evaluation and selection** with the objective to select the right supplier (not necessarily the cheapest). Step four is the **negotiation and award** of contract which completes the negotiation with a signed contract. If there was already a framework agreement in place, there is only a purchase order (PO) send to the seller. The last step is the **induction and integration** to ensure that the supplier is fully prepared to deliver all aspects of the contract and to initiate the relevant performance measures and reporting. 2)

Differences in procurement according the category of the purchased good

Purchased goods are categorized into **ABC** goods. For **A** goods, the cost of the procurement process is relatively unimportant because there is a great value creation with those. Examples are investment goods. **C** goods have a relatively low purchase value but need a high effort concerning the procurement process. This means that the cost driver is not the price for the good but that costs that are created within the procurement process. One example for a C good is writing materials. Category
B goods are in between and need to be handled situation-dependant. 3)

**E-procurement**

Whereas former orders where placed via telephone, fax or mail, e-procurement are electronic procurement methods. There are the following three forms of e-procurement:

**Electronic data interchange (EDI)** means the buyer and sellers have a defined, standardized way of exchanging business information—such as quote, order, order confirmation, invoices, inventory data and furthermore on an electronically basis. EDI is only used in business 2 business. The information transaction by definition needs to be done via computers or data bases. Placing an order via e-mail is therefore not part of EDI. Companies can communicate via a point-to-point private network, via the Internet, or via value-added networks (VANs). Since 2000s, the Internet increased its importance for the procurement process because it is an open network and access is rather cheap than doing EDI. The term open EDI is another expression for communication within the e-procurement process via the Internet.

**Online marketplaces** function as intermediaries for buyers and sellers and bring them together. The costs for this kind of service varied. Sometimes, all users (suppliers and purchasers) have to buy certain software from a third party provider in order to be able to access the online marketplace. Charges for that software, transactions within this marketplace and entry fees varied from different online marketplace providers enormously. Those add additionally services such as inventory management, process improvement, tracking shipments or financing services.

**Mixtures of above mentioned**: software applications allow purchasers to create a system in which they can manage invoices, purchase orders, receipts and requests for quotations (RFQs). This function is only used by the purchaser. Mainly companies, which are not capable, too establish such a system, delegate the hosting of the software to a third party. Another mixed form is online auctions. Success factors for this kind of e-procurement are kind and number of bidders and the length of the bidding session.

**Advantages of e-procurement**

Hard advantages of the usage of e-procurement are:

- Price savings
- Process cost reduction (head count)
- Reductions in cycle times (days/weeks)
- Consequent reductions in inventory holdings (value/stock turnover)

Next to that are soft benefits which are hard to measure but never the less important, e.g. more time that enables staff to spend more time on value-added aspects of procurement due to more efficient processes. 4)

**Disadvantages of e-procurement**

Many of the disadvantages are in relation to technology and business practices:
• Bandwidth problems
• Security issues
• Accessibility
• Acceptance

Most of the disadvantages should be solved soon as technological progress goes on and on the younger generations are known as “digital natives”.5)

References

1) Stoll, Patrick P.: E-Procurement - Grundlagen, Standards und Situationen am Markt; 2007, p. 10
2) Stoll, Patrick P.: E-Procurement - Grundlagen, Standards und Situationen am Markt; 2007, p. 13
3) Purchasing Insight: Using a Procurement Process to Reduce Time, Risk and Cost; in External Link, May 2011