Types of procurement

Definition of procurement

Basically, procurement includes purchase and supply of goods. These two elements interrelate to each other.  

In the past, the purpose of procurement was to make goods available for the production process, which were not produced by oneself. Today the focus changed in the way, that more often the offer is bigger than the request. The possibility for negotiation of the customer increased and so their buyer-power.

The upcoming spread of internet and new media offers new possibilities for the whole procurement process. New trends lead towards E-Procurement and Online Market Places.  

The basic procurement decision of each company is the so called make-or-buy-decision. Companies have to decide whether to produce or to buy components. By choosing the concept of outsourcing, the company concentrates on its core competences.

Types of Procurement

Single procurement

Single procurement is triggered by a specific customer order and initiates the suppliers process of production.

Stock procurement

Stock procurement means that goods are shipped to stock in periodically defined terms without any specific order of a customer. The important premise is, that the demand can be forecasted. When finishing the production process, the goods will be stocked until the next order is received from the customer. One way of applying stock procurement by the customer is to define the minimum stock level. If the stock level falls below this defined limit, the procurement process is initiated. This type of procurement offers high flexibility to the customers, but the procurement costs tend to be higher.

Vendor Managed Inventory (VMI)

By using the VMI-concept the supplier is responsible for the stock at the customers company. A crucial premise to achieve optimized processes, lower costs and high flexibility is a close network with the supplier.
Just in time procurement

This integrated concept is based on the production system of Toyota / Japan. **Toyota Just-in-Time-System**

Just in time procurement is characterized by low stock levels at the customers’ company. This leads to a reduction of costs and to lean and balanced processes. The entrepreneurial appliance of just in time delivery only makes sense, if the suppliers' place is in the maximum radius around 100 km to the customers’ place. In times of global sourcing, logistic centers are therefore established in strategic areas close to the customer.

For a successful implementation of just in time procurement it is very important to install and build up an operating, close network. Therefore processes with the suppliers, communication, transport and logistics as well as quality management are crucial processes. These processes need to be perfectly coordinated. 

**Just in sequence procurement**

This concept is based on the just in time concept. It is extended by the supply of goods in the required sequence at a defined time. This leads to a very efficient and lean way of procurement.

**Ship to line**

The goods are directly delivered from the last value added process of the supplier to the first value added process of the customer. That means that only few logistical steps are needed.

**Reference literature**

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- [www.vnl.at](http://www.vnl.at)

1) see: Heiserich / Helbig / Ullmann 2011, p. 160.
2) see: Heiserich / Helbig / Ullmann 2011, p.185-193.
3) see: Heiserich / Helbig / Ullmann 2011, p. 162-166.
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