What’s The Difference Between Procurement & Sourcing?

Much like procurement vs. supply chain management, procurement and sourcing are two related, but different terms that are often used interchangeably. Let’s take a look at the difference between the two so you can better understand which term should be used and when.

Procurement vs. Sourcing: What’s the Difference?

What is Procurement?

Procurement is the full process of sourcing and then using suppliers to gather all the materials you need for your products, services, and indirect costs. It involves placing orders with each supplier, receiving the goods, and paying for them. Procurement is an end-to-end process that covers everything from planning purchases to negotiating pricing, making the purchases, to handling inventory control and storage.

Procurement is the process of placing purchase orders with each of the suppliers, getting order confirmation, following up with suppliers until materials are delivered, and then ensuring the materials are paid for. Procurement starts overall supply chain because once the materials you need

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for manufacturing are in place, you can begin making the products you sell to others.

Without a solid procurement strategy in place, there’s always a chance that operations will have to halt. If you can’t get access to the materials you need to make a product, then you must stop production until a suitable alternative is developed.

What is Sourcing?

Sourcing is the stage that comes before any purchases are made and can be considered a subsection of the procurement department. Before you can procure materials from your suppliers, you must first find and vet those suppliers. When you have an effective strategic sourcing process in place, you’ll find reliable, affordable, and quality suppliers to supply the goods you need. Good work here makes the procurement process more streamlined and efficient.

Sourcing is about finding the balance between the quality of raw materials and the affordability. The less you can spend on materials, the more profit your business can earn. But, if you are too cheap and buy shoddy materials, your resulting product is of lesser quality. It is important to retain standards of quality because your customers want quality, too!

Sourcing is a balancing act. It is the process of requesting quotes for new products, obtaining vendor information and uploading into your procurement software, determining the lead time, pricing, minimum order quantities, and so on. Generally, this is done one time for each supplier, with the exception of updating pricing information. However, because it’s important to have a backup supplier or two in case one is not able to meet your needs for any reason, sourcing departments are always busy. With global sourcing you may find a more expensive supplier may be more reliable and able to deal with larger volumes than your preferred cheaper alternative. Or you may need to identify alternative suppliers due to supply chain risks.

Before sourcing can begin, you must assess your purchasing needs, map out a plan, conduct market research, and identify potential suppliers. After all this is completed, you’ll then evaluate the suppliers, and then choose the most suitable supplier for the need. Then, the process repeats for all other purchasing needs, until suppliers are in place for everything you must buy.

“Procurement is the process of getting the materials you need. Sourcing is finding and vetting the suppliers of those materials.”

Differences Between Procurement & Sourcing

Both involve the materials you need to operate your business. Sourcing happens to make procurement easier. The main difference is sourcing focuses on direct goods and services, while procurement focuses on indirect goods and services. This, of course, isn’t a hard and fast rule. Many
factors come into play, such as the size of the organization, industry, and business structure.

Sourcing and procurement typically work together, but that doesn’t have to be the case with all purchasing needs. You don’t always need a sourcing team to find and vet suppliers. The procurement department can address ordering and managing indirect goods or services.

At the same time, you don’t always need a procurement team to be involved in direct goods ordering. In certain situations, the sourcing team can place bids in an auction-style purchasing environment that allows purchases to be made without procurement. It’s also possible sourcing can make purchases with suppliers where a long-term contract is in place. In larger organizations, these contracts are often established by a legal team or contract management team, bypassing the need for procurement.

Both departments maintain high levels of contact with suppliers and both maintain actionable data that can further improve processes. The sourcing department focuses their effort on ways to speed up the process of looking through purchase activity and transaction history. They will analyze supplier list and performance and pay more attention to the risk potential of each supplier. Sourcing is more concerned with how to get the product that meets all the business needs – time, quality, location, and quantity – at the best price.

Though there is a clear difference between the functions of procurement and sourcing in that sourcing happens before procurement begins, often times, smaller organizations combine the two. Viewing them as two separate “departments” with their own goals, key performance indicators (KPIs), and challenges helps ensure a smoother experience for your entire organization.

Use PurchaseControl to streamline your sourcing and procurement processes.

Find Out How

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About PurchaseControl

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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