What is the Procurement Management Process?

A professional procurement process can be incredibly beneficial if you’re looking to streamline your supply chain. It can ensure that you pay the best price for goods or services, save time by choosing the most reputable vendors, and minimize order delays and mistakes.

Let it be known that there is no one-size-fits-all procurement process. This will vary based on your business needs. Some organizations require a formal process to suit their complex environment, which is often the case in government or education. In those industries, vendors must comply with strict guidelines. Others, like enterprise businesses, require a few key steps in an effort to manage budgets more effectively.

Each key step outlined here could be further broken down into sub-processes that could be looked at in more detail but here we will try to take a view from the helicopter of the procurement life cycle and avoid getting stuck in the weeds.

In any case, the following is representative of a typical procurement cycle from the perspective of the purchaser.
The Key Stages of The Procurement Process

Stage 1: Identify Goods or Services Needed

The onset of the procurement process begins when a business has a need for goods or services. These goods or services can be internal – meaning any materials required to run the business, or external – materials that the business will eventually sell. This stage also includes setting a budget.

Take, for example, a company that supplies tires for automobiles. One of their local branches is running low on a particular type of tire. In this stage, they would determine the type of tire, how many tires they need, when they need them to arrive, and approximately how much they should cost.

Stage 2: Explore and Select Vendor(s)

This stage is all about sourcing potential vendors and determining their ability to provide the best value and quality for your goods or services. While the stage seems straightforward, it’s important to find vendors who not only deliver a high quality product for a competitive price, but who have a strong reputation. Ideally, you would build a mutually beneficial relationship that can last long-term, if necessary. Best practice in this area is known as strategic sourcing. This would be a less responsive approach to procurement as the preferred supplier for most key purchase requirements will already be in place.

Using our tire supplier company as an example, during this stage, they would develop a short list of...
all the different tire manufacturers and wholesalers that provide the type of tire they need. The selection criteria would weigh cost, quantity, reputation, speed of service, dependability, and customer service – then select the best fit.

Sub-processes in this stage could include tendering, bid management, compliance checks, contract management, supplier relationship management, etc.

**Stage 3: Submit Purchase Requisition**

The next stage in the procurement process involves getting the thumbs up from the internal department that controls finances to purchase your goods or services. This includes creating a purchase requisition document and submitting it to that department.

It’s important to note here that you’re not actually ordering anything from the vendor, you’re getting the internal approval to do so. The process of turning a purchase requisition into a purchase order is known as the purchase order process. Depending on your company’s procurement process this could be straightforward or could include multiple steps of approval depending on the value of the order.

While purchase requisitions vary depending on the organization, the tire supplier would share the following information with purchasing for their approval: purchaser’s location or department (name of branch), the quantity and description of supplies requested (30 winter tires, size 215), the name of the vendor that is providing the goods (e.g. Firestone®), and the price ($1,500). The tire supplier would then share this document directly with the purchasing department for approval, rejection, or further discussion.

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**Stage 4: Create Purchase Order**

This is the part of the procurement where the buying happens. Once the purchase requisition has been approved, the department that controls finances issues a purchase order (PO) to the vendor. Purchase orders are typically created using electronic purchasing systems or a full Procure-to-Pay software like PurchaseControl, which enable businesses to track POs and submit them electronically. If there are no contracts involved, purchase orders are considered legally binding documents.

Again, information may vary, but our tire supplier’s purchase order would include the name of the company purchasing the goods or services (ABC Tire Company), the description and quantity of the goods or services (30 winter tires, size 215), price ($1,500), a mailing address (15 Fake Lane, Sacramento, CA, 12345), payment information and terms (to be paid in 45 days), invoice address
(same as mailing address), and a purchase order number (345).

**Stage 5: Receive Invoice and Order**

This stage in the procurement process – receiving the invoice and the order – may or may not happen together; one may arrive before the other. The vendor sends an invoice to the purchaser which describes exactly what the order includes. The invoice confirms the sale and reaffirms exactly when the payment is due.

When the purchaser receives the order, they typically have a limited amount of time to notify the vendor of any issues with the good or service. At this point, three documents – purchase orders, order receipts (which arrives with the order), and vendor invoices – are aligned and reconciled, highlighting any discrepancies to ensure that what you are being charged matches what you have received.

**Stage 6: Pay for Goods or Services**

The next step in the procurement process will involve the company’s finance team. Upon receiving the order and invoice as described, the accounts payable team will process the invoice. Matching the invoice against an approved PO and the delivery details for the order follows a best practice called three-way matching in the *accounts payable process*. If everything matches up the accounts team sends payment to the vendor within the specified timeframe.

**Stage 7: Record for Audit**

The final stage in the procurement cycle is important for all around good bookkeeping and for audit purposes. Auditors require thorough documentation of all purchases, so all relevant documents from purchase requisition through invoice should be stored in one central location.

**How does a Procure-to-Pay software fit into the procurement process?**

An *e-procurement software* like PurchaseControl helps streamline virtually every stage in the procurement cycle.

Automated vendor catalogues make searching for vendors (stage 2) far easier than scouring the web for hours on end. Purchasers are automatically linked to all vendors that have been selected previously company-wide. This helps maintain consistency across the purchasing company’s locations, as well as ensure you are getting the best bang for your buck.

Purchase requisitions can be generated, delivered, and approved all in one place (stage 3). The same goes for purchase orders and invoices (stages 4 and 5). Storing this information in one central
location makes communication easier and faster between all parties.

A full audit trail is kept for every order from requisition through invoice, making it easier than ever to ensure accountability (stage 7). With an e-procurement system like PurchaseControl, you can keep track of every detail related to an order - without the hassle of paperwork.

Following these procurement steps can help you control company spending. Choosing an e-procurement system instead of relying on Excel and email to manage your procurement process makes purchases faster, requires less time, and saves you money.

PurchaseControl can improve your procurement process and manage your purchasing

Find Out How
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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