



Dennis Roßbach (Autor)

Changing Purchasing towards Procurement 4.0



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Cuvillier Verlag, Inhaberin Annette Jentzsch-Cuvillier, Nonnenstieg 8, 37075 Göttingen,
Germany

Telefon: +49 (0)551 54724-0, E-Mail: info@cuvillier.de, Website: <https://cuvillier.de>

CHAPTER ONE

WHAT IS PROCUREMENT?

Because it will provide a thorough knowledge of procurement and supply procedures, it is essential first to understand procurement. The word “procurement” refers to the process or action to source or acquire services or products for a company. Depending on the company, procurement may refer to simply the act of purchasing, or it may include the whole process leading up to the acquisition of goods and services.

Procurement is a term that refers to large-scale purchases made for a company. In the procurement process, there are two parties involved: the buyer and the supplier. However, procurement refers to the act of purchasing rather than the actions of the seller.

When a business utilizes the products or services it procures to create its end product, procurement is part of the input. As a result, it’s a critical part of every company’s operations. In addition, procuring high-quality products or services at competitive prices is crucial to the buyer’s company’s success.

Procurement seems to be a straightforward procedure at first glance. While this may be fun, it’s frequently very competitive, with considerable attention given to every detail along the way. The following are examples of procurement-related activities:

- ❖ Selecting a Vendor
- ❖ Negotiation of the Amount Owed
- ❖ Vetting in the Long Term
- ❖ Negotiation of a Contract
- ❖ Making the Big Purchase

Direct vs. Indirect Procurement: What’s the Difference?

Sourcing the products, resources, or services used as inputs in the company’s production process is known as direct procurement. Purchasing immediate-

ly affects the company's production of products and services; therefore, it's critical. As a result, the direct buying approach significantly impacts the end product's quality and cost.

If you're using direct procurement, you should know when to use it. Manufacturing firms often use direct buying. Therefore, a strong working connection with the direct suppliers is the goal of the procurement team.

Organizational daily operations need the acquisition of products and services for internal use; a practice is known as indirect procurement. Long-term contracts with suppliers are the most common way to get them.

Software licenses may be procured via IT services procurement. It's called services procurement, and it's a one-time, very short-term deal.

Indirect Sourcing

- ❖ Purchasing Done Through Unusual Means
- ❖ Sourcing of goods and services
- ❖ the acquisition and/or manufacture of products and/or services
- ❖ buying and obtaining products and services for one's usage
- ❖ Management of temporary workers as well as the provision of advisory services
- ❖ Items for selling and raw materials
- ❖ Services such as utility management, facilities management, and travel are examples.

Examples include paying for specialized services, software subscriptions, and so on. Increases revenue and profits from outside the company is in charge of running the business daily to fill up the gaps in processes and people is made up of pre-production materials or components used to make purchases of nonperishables and consumables.

Used to pay for third-party services and hire more employees create long-term, collaborative partnerships with your suppliers. Use transactional, short-term relationships with providers as a last resort maintain contractual agreements with providers that are limited in scope.

What's the procedure for procuring goods and services?

So, what's the procedure for procuring goods and services? Sourcing is defined as the identification and execution by companies of specific procedures to guarantee their ability to purchase products and services to fulfill and accomplish their goals. When it comes to saving money, the procurement process matters since it directly affects it. Continuous evaluation of the procurement process guarantees that the company's objectives are being fulfilled. It may be adjusted when a process isn't functioning as expected or when it runs into difficulties. Businesses must make sure they get the most out of their procurement process to maximize efficiency.

Because each company's requirements differ, the procurement procedure isn't uniform for everyone. Each company has a unique set of criteria, and as a result, its procurement process will vary from the procurement process of another company with different specifications.

Flowchart of the Purchasing Process

The procurement process flow differs from organization to organization. In practice, procurement typically begins with recognizing a need and then drafting a purchase order outlining all of the needs' specifications in detail. When making a purchase, the purchase order will be submitted to the appropriate procurement or finance team for approval if the need currently has an approved supplier. If it's denied, you'll get a rejection letter along with the reason why. The purchase order becomes a buy requisition after it has been approved.

Because there isn't a preapproved supplier or vendor, the procurement team issues numerous RFQs, each with specific details on the order's needs. After evaluating the bids submitted, a suitable vendor is chosen. Finally, an agreement is negotiated with the selected vendor, and a purchase order is sent.

A three-way matching verification is performed on the vendor's invoice once the bought goods are received. A three-way matching is performed by comparing and verifying the purchase order, vendors' invoice, and products received. The purpose of this stage is to see whether the organization did place the order with the designated vendor and if the vendor delivered and billed the goods following the purchase order. If the order was received as requested and as invoiced, this is compared to the receipt of the products.

The vendor's invoice is approved, and payment is issued to the supplier after the three-way verification is complete. The finance department is in charge of accounting for the transaction.

The Procurement Process Has Several Stages. The procurement process is broken down as follows:

- ❖ The Determination of Need
- ❖ Determination of Requirement Specifics
- ❖ Sourcing
- ❖ Price and terms are negotiated and then finalized.
- ❖ Purchase Order and Requisition
- ❖ The Purchase Order Has Arrived.
- ❖ Expediting
- ❖ Providing and Inspecting Products/Services
- ❖ Process of Making a Payment
- ❖ Keeping Records And Conducting Reviews
- ❖ The method of identifying a need

Recognizing a need is the first step in making a purchase. The requirement to purchase a new item or to restock something when it is needed or falls below a particular stock level may be identified in this way. Most companies will need to go through a requisition procedure to get this. This consultation with all stakeholders is critical to avoid problems later in the procurement process.

Establishing the Particulars of the Requirement

If a need is found, the product or service details must be agreed upon before moving further. Technical requirements and component numbers are examples of what might fall under this category. This list of more information is produced with the agreement of all the technical personnel concerned if the item is not already purchased. Preventing costly blunders later in the procurement process requires precise details and appropriate engagement with all departments involved.

Purchasing

Once a particular item or service is decided upon, the procurement team must research to identify the different suppliers that provide it. If you place many orders with the same vendor over and over again, you'll have a list of preferred suppliers. Vendor identification and vetting take more time for a new product. Working with a pre-existing vendor who is already known to be a reliable provider saves time. Identifying new suppliers will require a comprehensive investigation into their track record, timeliness, quality, dependability, and pricing.

During this period, companies like Beroe can assist procurement departments by providing the market intelligence data they need to make well-informed choices.

Once the procurement department has researched suppliers and requested bids for the required goods, it's time to choose a supplier. This is a critical step since before making a final choice, factors including reputation, pricing, speed of service, and reliability must be considered. Three quotations are the standard, but your company will need to decide the best practice for this rule of thumb. Management approval will be required depending on the sourcing choices and associated expenses. The request for proposals, bids, or tenders will have to be publicized if the order is subject to a bidding or tendering procedure.

Price and terms negotiations and finalization

Requests for quotations will be made to the selected suppliers for direct purchasing. Before making a decision, it's customary to get at least three quotations. The quote's competitiveness in terms of price and turnaround time will be evaluated. While choosing a supplier, consider not just pricing but also promptness, dependability, and quality when making your decision.

Depending on the terms and circumstances of the purchase, the qualified offers will be selected via a bidding or tendering procedure.

Following the established procedure, the chosen provider will be picked and publicized transparently. The selection of bids should be fair and transparent to guarantee that buyers receive the greatest value for their money and supply quality. When the selection process is harmed, the value of the products or services provided may also be affected.

Having a single high-volume supplier vs. selecting numerous providers is now up to the customer. The more significant number of orders you have with a single supplier offers you more negotiating leverage when it comes to pricing.

A single supplier, on the other hand, not being able to meet an order has an impact on the whole production process. One may negotiate lower prices by using more than one supplier for a given item. However, this limits the amount of opportunity for negotiation. Having a large number of vendors on hand may assist in creating price and quality competition.

Order And Purchase Request

Appropriate authority will authorize an internal purchase order request. As a result, a purchase order will be generated that includes all of the transaction details, including terms and conditions. Some businesses engage the customer in creating the order's details so that both parties are aware of them. For the sake of accuracy, the specifications must be thoroughly compared to the purchase order and the quotation from the supplier.

The Purchase Order Is Delivered

The buyer is notified once a shipment has been made. The buyer and seller's procedures determine how the purchase order is delivered. Alternatively, you may fax or email your request. Both the buyer and the seller agreed on these details, so everything fits together nicely.

Expedited Delivery

A timetable for timely delivery of requested products or services must be created, accounting for any unexpected delays. Payment and delivery details may also be included.

Supply and inspection of goods and services

The buyer receives the finished product or service when it is ready. The buyer is in charge of making sure the delivered goods comply with the purchase order. The buyer has the option of accepting it or rejecting it. Both choices will set in motion events following the terms and circumstances that have been agreed upon. As soon as the customer accepts delivery of the goods, the payment procedure begins.

Process of Making a Payment

The papers associated with the order must be examined to process the payment. The original purchase order, the goods received, and the payment request invoice is all compared to ensure everything is correct. Before payment is made, any discrepancies are corrected. Once the payment has been authorized, the funds are sent following the payment methods that were previously agreed upon.

Maintaining And Reviewing Records

Companies, buyers, and sellers must all keep detailed records for audit and taxation purposes to conduct audits and taxation. The whole process should be reviewed regularly to ensure it's working correctly and resolve any disagreements that may emerge. Reevaluation improves procurement efficiency while also reducing the likelihood of future conflicts.

The procurement process outlined above differs from company to company, but the logical flow is the same across. Procurement efficiency ensures timely delivery of bought products and services.

All parties must keep up with discussions at all relevant stages of the process to guarantee that the products and services purchased are precisely what is needed, up to the highest standards, and priced competitively. Excellent record-keeping is beneficial not only for checking the records but also for restocking the same products. An adequate supply of high-quality goods is ensured by careful vendor selection.

Purchasing Components

Procurement has three main parts:

Those involved

Procurement staffing levels are determined by how much manufacturing and procurement work is sold. Procurement employees are few and far between in a small business. A whole staff manages the buying process for the bigger companies. The number of approvals is also lower when ordering low-value goods. A greater degree of approval is required in management for purchase requisitions involving large or significant purchases.

Steps in the Procedure

To work effectively, the procurement process must be properly thought out and structured. Inefficient and inconsistent procurement departments may create delays and issues with purchases and payments, contributing to the weak and unstable process. In addition, it's essential to keep the process transparent to avoid corruption or manipulation.

Records or Documentation

Keep meticulous records at all times throughout the procurement process. Even though nearly all stages in the process are digital, it is critical for both the buyer and the seller that all essential information be recorded efficiently at each level and coordinated and compared at each stage.

Acquiring, Purchasing and the Supply Chain: A Comprehensive Overview

Procurement, purchasing, and supply chain are words that are often used interchangeably by businesses. The supply chain, on the other hand, is the most complex. The procurement process is only one link in the chain of supplies. Procurement is a stage in the purchasing process.

Purchasing vs. Procurement: In what way does the purchasing procedure work?

An organization's needs may be identified, the requirements obtained, and an effective working relationship with suppliers maintained via the procurement process. Procurement research finds potential providers after a requirement has been established.

The purchasing procedure, on the other hand, is a sub-function. It involves getting the purchase order, assessing the RFQs, creating a buy order, receiving the requested goods/services, confirming their quality, and then processing the payment. That's all.

Even while procurement and buying have some overlap, many individuals mistakenly consider them to be the same thing. This is not the case because their objectives, definitions, methods, and areas of emphasis are wholly distinct. Compare and contrast how procurement and buying vary.

Aspects of procurement include selecting, identifying, and purchasing products and services from vendors via a variety of procedures, as well as negotiating with them. Direct purchase and tendering are examples of acquisition procedures. Procurement requires that the products and services be supplied on time or earlier, as stated in the PO, as well as that the correct quantity of goods and services is provided to the company. While procurement focuses on obtaining products and services that a company needs, buying doesn't. The word "procurement" covers more than just the act of making purchases. In other words, procurement includes buying.

Both of these procedures have different stages involved. Before making a purchase request, you must first establish the business need. After that, you must authorize the request, approve it, and then look for potential suppliers. The next step is to make inquiries, find out the supplier's quotes, and then negotiate. Additionally, procurement entails carefully choosing the supplier and then receiving the products to verify they are of the required quality and keeping invoices for future reference after three-way matching.

The last step of procurement entails paying the vendor. Buying is a lot easier now since there are fewer stages to complete. PO acknowledgment, receiving and checking products, keeping invoices, verifying the invoice's validity, and paying the supplier are all stages in the process.

Procurement is seen as strategic, whereas buying is viewed as tactical when it comes to business functions. This is because procurement begins as soon as the company identifies a need and concludes after the supplier has been paid for items delivered. It includes actions such as assessing several suppliers before placing an order with one of them. Additionally, it includes making sure that the contracts formed have the greatest possible value. Instead of focusing on the acquisition of products and services, purchasing consists only of transactional activities. It doesn't have the same complexity as procurement, yet it nevertheless performs the same job.

The procurement function is necessary for a company's requirements to be met. Finding a need is only the beginning; making sure that need is met most effectively. These requirements are met since it considers the whole picture from beginning to end. The proactive approach to procurement means that issues are prevented before they ever arise, which may be described as such. Purchasing is distinct from other types of spending since it's more of a response. When a need arises, it fulfills the needs of the company. You might say that it's all about getting things done to commit money to a company when it comes to buying.

Preventing supply chain and business function issues starts with assessing procurement's risk assessment. By reducing the risk, possible problems may be addressed before they worsen. When procuring, for example, the risks associated with different suppliers are carefully weighed and evaluated. Procurement also entails evaluating various risks, including data security risks and operational risks. However, unlike procurement, purchasing does not place as much emphasis on reducing or eliminating risk as does procurement. Thus the two are distinct—a transactional approach to purchasing means that risk assessment and mitigation aren't a priority.

Each function has distinct objectives, and as a consequence, the things they achieve vary. For example, procurement aims to generate value and consider the total cost of ownership throughout the process of purchasing. On the other hand, purchasing is a more fundamental activity since it focuses on the order's cost and how to obtain the greatest deal. Procurement is ongoing because the individuals involved in it are concerned about maintaining appropriate supplier relationships and continuously evaluating other procedures. However, unlike procurement, once products and services are purchased, the procurement process ends.

Purchasing doesn't pay attention to supplier connections, while procurement does. On the other hand, procurement is concerned with the long term, while buying is more concerned with the immediate future. To guarantee long-term savings and advantages, it's critical for businesses to maintain good relationships with their suppliers. Procurement stresses finding the finest suppliers who can fulfill those needs and maintain those relationships after being established.

The buying department works with the company's existing supplier network. To make sure they're working with the appropriate vendors that provide high-quality services and on-time deliveries, procurement goes further.

The difference between sourcing and procuring

In the procurement process, a requirement is identified, a supplier is found, an order is placed, delivery is received, a payment is made, and the transaction is documented. Inventory and storage are included since it is necessary to determine the requirement for a specific item. Much work is involved in ensuring the buyer receives the best bargain possible, including negotiating and preparation.

Additionally, relationship management should be part of procurement so that suppliers can retain quality supply while also offering preferred prices and