Unit IV: E-Procurement

Difference Between Purchase and Procurement:

Purchase:

Purchasing, simply, is the activity of acquiring goods or services to accomplish the goals of an organization. **Purchasing** is purely a commercial activity covering necessary documentations to affect a trade process to result in physical delivery of intended material to the buyer or its appointed agent using various components of the supply chain. There are many procedures in purchasing which will vary from country to country involved in the trade as well as movement of materials.

Objectives:

a. Maintain the quality and value of a company's products
b. Minimize the cash tied-up in inventory
c. Maintain the flow of inputs to maintain the flow of outputs
d. Strengthen the organization's competitive position.

Purchasing Process:

1. A Problem Is Identified:

The purchasing process does not begin until someone identifies a problem within the organization, which can be solved by purchasing a good or service. Anyone within the organization can initiate this – from a customer service rep out of printer paper – to the CEO who decides that it's time to expand to a larger facility. In some instances, a salesperson may help someone in the organization to identify a need that no one had previously recognized.

2. General Need Description:

After a problem is identified, the organization determines which product or service is required. When an office is out of printer paper, the office manager may decide that more paper is needed. However, a software engineer in the same company might suggest that the organization become paperless by providing all employees in the office with tablet computers.

3. Product or Service Specification:

Once the general need is agreed upon by those who have purchasing authority in that organization, they will then narrow down the options by specifying what the product or service must offer. If they have decided on tablets, they would then specify the size they want, how much memory the tablets offer, and so on. If they decide on paper, then they would determine the quantity and quality of paper required.

4. Potential Supplier Search:

The third step of the buying process involves looking for potential suppliers. If the company doesn't already have an established relationship with a vendor that offers the product, then often the company must look online, attend trade shows or contact suppliers by telephone. Purchasers determine if the suppliers are reputable, financially stable and if they'll be around for future requirements.

5. Request for Proposals:

For large purchases, organizations usually write out a formal RFP, a Request for Proposal, and then send it to their preferred suppliers. Alternatively, they may make the process public so that anyone can send in a proposal. For smaller purchases, this could be as simple as looking at the price on a website.

6. Supplier Evaluation and Selection:

In this part of the process, supplier proposals and prices are evaluated to determine who is offering the best price and the best quality. Often, price alone is enough to win an organization's business, as many businesses will weigh the price against financing options, supplier reputation and whether or not a supplier can provide the organization with future goods and services.

7. Establishing Credit and Order Specification:

Once the winning supplier has been selected, the organization places the order. This may involve establishing credit with the supplier, agreeing on terms, as well as reviewing the shipment times and any other deliverables that may come with the sale, such as installation or product training.

8. Supplier Performance Review:

After the product has been delivered or the service has been performed, the organization will review the purchase to see if it meets acceptable standards. For larger purchases, this could be a formal review involving key decision-makers in the organization and the supplier's sales staff. For smaller purchases, it is often informal. For example, if the company ordered a box of paper that arrived late or was damaged, the company may decide not to buy from that supplier again, without ever informing the supplier of a problem.

Procurement:

Procurement is the process of identifying the **right source of supply** for the **right material** to be delivered **at the right time at the right cost**. Essentially, procurement involves the process of selecting vendors, establishing payment terms, strategic screening, selection and the negotiation of contracts.

Procurement is, essentially, the umbrella term within which purchasing can be found. That means purchasing is a subset of procurement. Purchasing is a repeated process but procurement is either continuous or can be a one-time process also.

Simple procurement may involve nothing more than repeat purchasing. Procurement is more of technical than commercial, which precedes purchase, which is a purely commercial activity in business.

Direct Procurement: it relates to the production-related procurement which directly affects the production process of manufacturing process.

Indirect Procurement: it relates to the non-production related procurement which refers to activities concerned with operating the resources that a company purchases to enable its operations.

E-procurement (electronic procurement, sometimes also known as supplier exchange) is the B2B or B2C or B2G purchase and sale of supplies, work, and services through the Internet as well as other information and networking systems, such as Electronic Data Interchange (EDI) and Enterprise Resource Planning (ERP).

The e-procurement value chain consists of indent management, e-Tendering, e-Auctioning, vendor management, catalogue management, Purchase Order Integration, Order Status, Ship Notice, e-invoicing, e-payment, and contract management. Indent management is the workflow involved in the preparation of tenders.

Procurement Process:

Stage 1: Identify Goods or Services Needed:

The onset of the procurement process begins when a business requires a good or service. 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, our client 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 our 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, we would build a mutually beneficial relationship that can last long-term, if necessary.

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

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 our goods or services. This includes creating a purchase requisition document and submitting it to that department. It's important to note here that we're not actually ordering anything from the vendor, we're getting the internal approval to do so.

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.

Stage 4: Create Purchase Order:

This is where 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 like Purchase Control, 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.

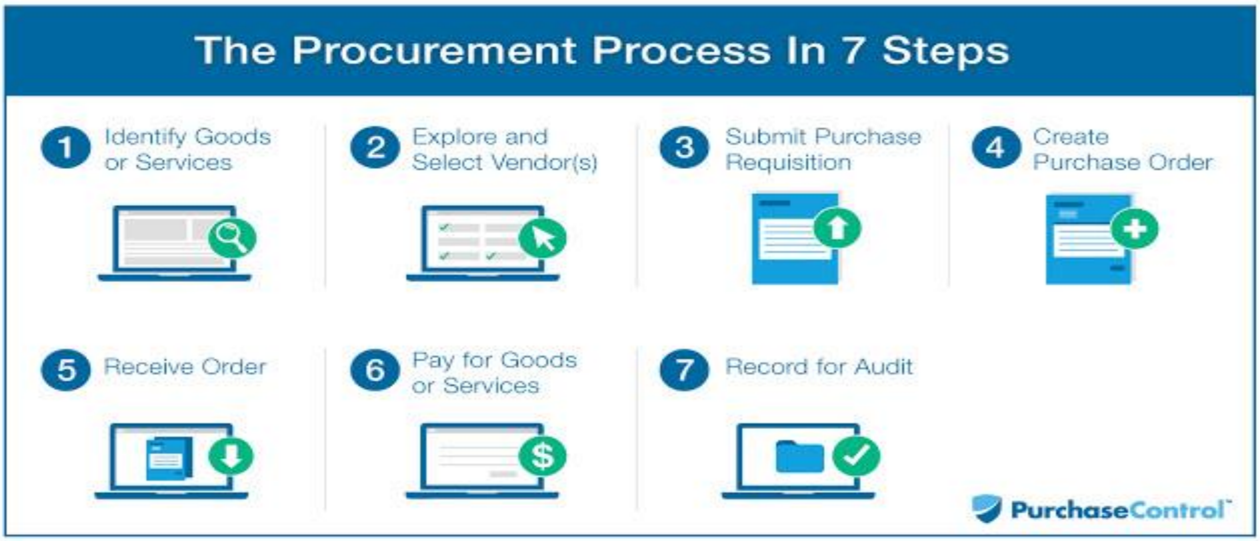
When the purchaser receives the order, they typically have a limited amount of time to notify the vendor of any issues with the good or service. At this point, three documents – purchase orders, order receipts (which arrives with the order), and vendor invoices – are aligned and reconciled, highlighting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

Stage 6: Pay for Goods or Services:

Upon receiving the order as described, the purchaser 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.



Differences:

Purchase	Procurement
Purchasing is the procedural aspects related to competitive processes and the methods employed to actually purchase equipment, products and services.	Procurement is the wider aspects related to the activities associated with the provisioning of equipment, products and services encompassing policy and strategy development and implementation, provisioning strategies and demand management etc.
Purchase is a purely commercial activity in business.	Procurement is more of technical than commercial.
It has smaller aspects.	It has wider aspects.
It only deals with the buying of an item.	It deals with the entire process.
Usually, Purchase is a team of responsible for day today production support.	Procurement is a team who is responsible for long term controls, vendor management etc.
Purchasing is a repeated Process.	Procurement is either continuous or can be a one-time process.
Purchase is a tool of aid to trade.	Procurement is techno commercial process preceding purchase.

For example, I purchase a pen, which means I gave money and in turn got a pen from shop	Direct procurement systems involve the integration of purchasing into a company's supply-chain management system, delivering the right supplies at the right time.

Market Solution: Sell-Side, Buy-Side, and Market Place:

Sell-Side:

The part of the financial industry involved with the creation, promotion, analysis and sale of securities. Sell-side individuals and firms work to create and service stock products that will be made available to the buy-side of the financial industry. The sell-side is made up of brokerage firms, investment banks and other entities that make buy/sell recommendations, upgrades, downgrades, target prices and research opinions investors can use to make investing decisions.

The sell-side tries to get the highest price possible for each security while providing service and support in the form of analysis and ratings. **A sell-side analyst** works for a brokerage or firm that manages individual accounts and makes recommendations to the clients of the firm. Any individual or firm that purchases stock to sell it later at a profit is from the buy-side.

Buy-Side:

Firms that buy securities and assets for their own or their clients' accounts are said to be on the buy-side. It is a term used in investment banking to refer to advising institutions concerned with buying investment services. Firms on the buy-side are money managers that try to create value for their clients by purchasing underpriced assets. Institutional investors on the buy-side include mutual funds, pension funds, hedge funds, private equity funds, insurance companies, proprietary traders and so on.

Types of Funds:

1. Mutual Funds:

A **mutual fund** is a type of professionally managed investment fund that pools money from many investors to purchase securities. They are sometimes referred to as "investment companies" or "registered investment companies“. *Siddhartha Mutual Fund – 1st in Nepal*

2. Pension Funds:

A **pension fund**, also known as a **superannuation fund** in some countries is any plan, fund, or scheme which provides retirement income.

3. Hedge Funds:

A **hedge fund** is an investment mechanism and a business structure that pools capital from several investors and invests in securities and other instruments. It is administered by a professional management firm, and often structured as a limited partnership, limited liability company, or similar vehicle.

4. Private Equity Funds:

A **private equity fund** is a collective investment scheme used for making investments in various equity securities according to one of the investment strategies associated with private equity.

5. Insurance Companies:

These are companies that offer insurance which is the equitable transfer of the risk of a loss, from one entity to another in exchange for money.

6. Proprietary Traders:

Proprietary trading (also "prop trading") occurs when a trader trades stocks, bonds, currencies, commodities, their derivatives, or other financial instruments with the firm's own money, as opposed to depositors' money, to make a profit for itself.

They often use sophisticated, complicated and highly secretive strategies they believe will give them the edge over other investors. **A buy-side analyst** usually works for a pension fund or mutual fund company. These individuals perform research and make recommendations to the money managers of the fund that employs them. Buy-side analysts will determine how promising an investment seems and how well it coincides with the fund's investment strategy.

Market Place:

A market, or marketplace, is regular gathering of people for the purchase and sale of provisions, livestock, and other goods. It is a place where buying and selling occurs. In the marketplace, either individuals or different firms can participate in the buying and selling process for themselves or on behalf of their customers.

An online marketplace (or online e-commerce marketplace) is a type of e-commerce site where product and inventory information is provided by multiple third parties, whereas transactions are processed by the marketplace operator. Typically, they are intermediaries that are part of reintermediation. Example of marketplace-based e-commerce includes Chemdex, VerticalNet etc.

How It Works:

Firms on the buy-side are money managers that try to create value for their clients by purchasing assets that are underprice. They often use sophisticated, complicated & highly secretive strategies they believe will give them the edge over other investors.

The sell-side made up of brokerage firms investment bank and other entities that make buy/sell recommendation upgrades, downgrades, target price and research opinions that can be used to make investing decisions.

Why It Matters:

Buy-side analyst conduct research for internal use only. If they derive a formula or strategy that can help the firm beat the market will keep it away from the public.

Sell side analyst conducts research for the public. They provide research to the client so they can make better-investing decisions. But a sell-side analyst generally has no skin in the game. In fact, it is highly unethical for a sell-side analyst to provide opinion on any assets that he/she has a financial interest.

Integration of Product Catalog:

Product catalogue integration is the process of offering products from different vendor catalogues for sale on a Web site. Another scenario that is conceptually similar concerns a company providing access to an office supply catalogue on their internal Web site, allowing employees to order their own office supplies.

Integrating the product catalogue allows customers to view the product details as per their choice, share products from Product Detail Pages as well as an item they just purchased from the Post Purchase Page. A business manager can select a catalogue and send it to a trading partner to be integrated into its website.

Procurement Service Provider:

Procurement is defined as the process to obtain materials, supplies, contracts at the best price reasonably available through open and fair competition.

A **Procurement Service Provider**, or **PSP**, is a third party organization or consultant which is used to supplement internal procurement departments. PSP's have their own staffing which assist in a variety of tasks for their clients. These tasks include strategic planning, implementing best practices, supplier rationalization, supplier collaboration, strategic sourcing and negotiation.

Why use a Procurement Service Provider?

The use of Procurement Service Providers are rapidly increasing due to global market conditions and the need for businesses to maintain and reduce costs without eliminating resources. At most organizations, it is very expensive and difficult to maintain domain expertise in every category of spend. So, using a PSP avoids the burdens of procurement infrastructure for non-strategic categories.

A Procurement Service Provider can provide a rapid analysis of an organization's spend and implement changes, negotiate with suppliers, and use proven industry best practices. A good PSP will become an extension of the organization's existing procurement resources, in a non-obtrusive fashion.

How To Decide PSP Is Right Us?

a. Select an organization that has a variety of product offerings.
b. Select an organization that has been established longer than FIVE (5) years.
c. Select a Procurement service provider that covers a variety of procurement product and service areas.
d. Check reference of PSP.