

Streamline Your Procurement Process: A Complete Guide

How an automated procurement process
helps you compete better in the 21st century



POWERING DIGITAL TRANSFORMATION
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Introduction



PROCUREMENT IS AN ESSENTIAL BUSINESS FUNCTION

Effective procurement processes save costs, aid compliance, ensure you work with reputable suppliers and eliminate delays and mistakes. Procurement also helps modern organizations attain non-financial goals such as [sustainability](#), reduce their environmental footprint and burnish their green credentials.

Digital procurement processes can be measured through mutually agreed upon metrics. The resulting [alignment with corporate priorities](#) elevates procurement into a strategic function within the organization.



WHAT EXACTLY IS PROCUREMENT?

Procurement is an overarching term for a set of steps that an organization performs to acquire goods and services that are essential to its operations. Even though people use the terms “procurement” and “purchasing” interchangeably, [they are different](#).

To procure items, organizations must identify the internal need, evaluate suitable vendors, negotiate terms, approve an internal purchase requisition, [submit a purchase order](#), receive an invoice and pay it, take delivery of the goods & services and, finally, maintain records for audit purposes.



WHAT EXACTLY IS PROCUREMENT?

Procurement is, therefore, an umbrella term that includes several internal processes – part of the so-called Procure to Pay (or Purchase to Pay) cycle.

Obviously, the exact steps vary from one organization to another e.g. a large multinational will have a far more involved set of processes than a small business.



WHAT IS THE PROCUREMENT PROCESS?

Procurement process is a generic term for one of several processes within the organization related to the acquisition of goods and services. Some examples are:

- [Purchase requisition](#) – an internal document that a manager or finance team may review to approve the purchase.
- [Purchase order](#) – an external document that the organization sends to its chosen vendor. The PO details the goods and services being purchased, payment terms, delivery dates etc.
- Invoice – a request for payment that the organization receives from its supplier.
- [Sales or Work Order](#) – while this is not directly part of procurement, it's closely related. [Suppliers send sales orders](#) to the buyer for situations where the order is fulfilled in stages.

WHAT IS THE PROCUREMENT PROCESS?

[Procurement management](#) is a crucial function, especially for organizations that reach a certain size. Larger organizations will often have a centralized procurement function with its own employees and procedures.

For example, [Yale University Procurement](#) leverages the purchasing power of the entire institution to get the best price and to facilitate the acquisition of needed goods and services.



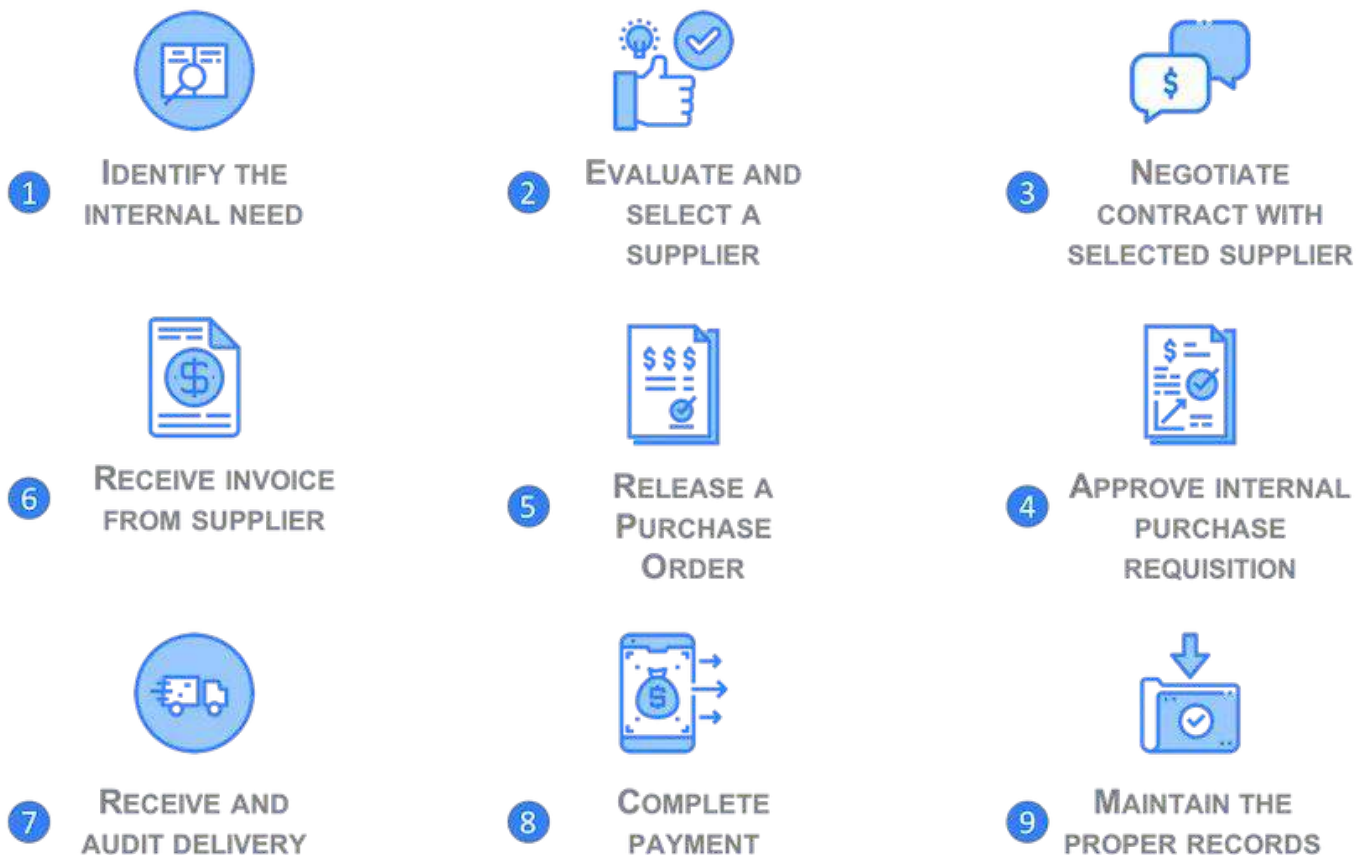
LET'S TAKE A LOOK AT THE

Steps in the Procurement Process

9 STEPS OF THE PROCUREMENT PROCESS

Here is an example of a typical Procure to Pay cycle broken down into 9 steps. Your process may include some or all of these steps depending on your unique business context and requirements.

Steps in the Procurement Process



1

IDENTIFY THE INTERNAL NEED

A department needs some goods or services to operate. If multiple departments have the same need, procurement will consolidate their requirements to lower costs and increase visibility.

Let's say your organization's HR Department needs to upgrade its training software. Procurement will try to take into account the needs of other departments that may have a similar requirement.



2

EVALUATE AND SELECT A SUPPLIER

The evaluation process varies widely – from a simple web search all the way to a months-long structured RFP or RFI.

The goals of this stage are straightforward – evaluate vendors based on price, quality, reputation, reliability, customer service and other relevant criteria. For example, your organization may require cloud-based software providers to have security certifications if the software deals with personally identifiable information.

Procurement selects the best vendor after completing this analysis.



3

NEGOTIATE CONTRACTS WITH SELECTED VENDOR

It could again be straightforward or may involve significant back-and-forth. Often, purchasers choose to completely skip contracting relying instead on a legally binding purchase order.

For a significant software purchase, the contracts team looks at the End User License Agreement, payment terms, warranties, any indemnification clauses and other legal aspects. If there are any implementation services as part of the contract, they'll want to ensure that timelines, delivery schedules, scope of work etc. are well-understood upfront.



4

APPROVE AN INTERNAL PURCHASE REQUISITION

This next step essentially boils down to getting the green light from the department that will pay for the purchased items.

Your organization may use a purchase requisition (PR) for that purpose. They aren't actually ordering anything at this point; simply getting internal approval to do so. The PR includes relevant details – purchaser and supplier info, list of requested items, prices, and terms – so that the department can approve or reject the purchase.



5

CREATE AND RELEASE A PURCHASE ORDER

The procurement (or finance) department will then [create and release a purchase order \(PO\)](#). This is where the actual purchase takes place. They'll send the PO to the chosen supplier. It contains a PO number, detailed terms & conditions, delivery dates etc.

In the absence of a formal contract, the PO serves as [a legally binding document](#).



6

RECEIVE INVOICE AND MATCH IT WITH THE PO

The supplier will send an invoice with a list of ordered items along with prices and payment due dates. The invoice usually lists the PO number. The procurement team will match the [invoice with the PO](#) to ensure consistency and accuracy.

Depending on the negotiated terms, payment may be made pre- or post-order fulfillment. Partial upfront payment is very common e.g. a 50% deposit for implementation services.



7

RECEIVE ITEMS AND AUDIT DELIVERY

The supplier will deliver the ordered goods and services according to the terms of the contract. Typically, you have a limited time to audit the delivery and notify the supplier of any discrepancies such as missing items or quality issues.

For software, fulfillment could mean that the supplier activates an account and a designated individual in the HR department must login and verify that it is active.



8

COMPLETE PAYMENT

Once the order has been verified, the Finance department will send payment according to the terms specified in the contract e.g. net 30 days.



9

MAINTAIN THE PROPER RECORDS

Finally, it's just good business practice to store all documents from the original requisition through invoices in a single centralized location. It helps navigate any future audit. Analysis of this data helps track and optimize spend management.

Now that you know our 9 steps, let's look at some of the challenges that come with modern-day procurement



Manual Procurement Processes Create Significant Challenges



PROCUREMENT INVOLVES A COMPLEX SET OF ACTIVITIES

Just consider the various procurement steps outlined above and think about the challenges procurement managers face. They must deal with everything from needs identification to supplier selection and management to invoice processing.

Yet, too often, procurement is managed using a hodgepodge of solutions without a serious digital procurement strategy.



MANUAL PROCESSES HAVE SIGNIFICANT ISSUES

A fragmented approach makes it difficult for the procurement team to address the following challenges:

1. **Tactical vs Strategic Procurement:** Procurement has become a strategic area for the business rather than an operational one. Without cohesive procurement processes, it's hard to even think strategically never mind implement a strategy across multiple functional areas.
2. **Managing suppliers:** Supply chain issues can hinder growth even at technologically advanced companies like [Adidas](#). A piecemeal approach to procurement makes it hard to ensure reliable suppliers who deliver quality goods and services on time.
3. **Impatient stakeholders:** In most cases, when people want to procure something, they need it yesterday. A project is behind schedule or they are facing pressure to deliver products. Inefficient procurement processes cause critical slowdowns, missed project deadlines and stunt growth.

MANUAL PROCESSES HAVE SIGNIFICANT ISSUES

4. **Unreliable data:** Bad data = Bad decisions. Inaccurate procurement negatively affects profitability by creating an over- or under-supply of inventory. Worse, it could lead to senior management making commitments that the company cannot meet. [Without quality data, investments in new technologies like AI and ML are doomed to failure.](#)
5. **Maverick purchasing:** When employees are forced to deal with tedious internal procedures, they're more likely to make purchases outside the normal procurement channel. Not only is this expensive for the business e.g. it's hard to secure the best price, but the resulting lack of control exposes it to compliance and other unnecessary risks.
6. **Talent management:** Finally, no one likes to spend their work day chasing down mountains of paperwork. Lack of talent is already a problem – a [Deloitte survey](#) revealed that over 50% of procurement leaders do not believe that they have the capability in their teams to deliver their procurement strategy.

How Digital Procurement Helps



DIGITAL STRATEGIES HAVE COMPELLING ADVANTAGES

Procurement leaders need a serious digital strategy if they truly want to address these challenges and move procurement into the 21st century. Automation enables:

1. **Efficiency:** Digital procurement processes are faster, more accurate and ensure business standards cannot be bypassed. That means project managers get needed items on time, employees spend less time deciphering confusing instructions and correcting errors, and maverick purchasing is reduced.
2. **Data Analytics:** Digital procurement produces reliable data. With accurate data, it's easier to optimize inventory levels and immediately have a positive impact on the bottom line. More important, clean digital data opens the door to analytics, machine learning and a host of opportunity e.g. ML could detect demand automatically and requisition deliveries.

DIGITAL STRATEGIES HAVE COMPELLING ADVANTAGES

3. **Better use of talent:** Ultimately, people are the difference between success and failure. It's hard to find good people but one thing you can do is to make the best use of those you have. Digital procurement is a direct investment in your team's job satisfaction since they're now spending less time on paperwork and more time on the things that matter.
4. **Lower risk:** Automation improves transparency in pricing, supplier relationships and inventory levels. Transparency naturally reduces compliance and [supply chain risks](#) as well as corporate risk associated with fraud.
5. **Strategic procurement:** Procurement becomes an effective strategic partner only when aligned with key corporate priorities and when it's measurable through objective performance metrics. Digital processes are the foundation.

In spite of this, [Deloitte's survey](#) found that the level and speed of digitalisation across procurement functions is abysmally low. Just 18% of procurement leaders have a [digital procurement strategy](#) supported by a complete business case.

How Can YOU Digitize Procurement?



START WITH A CLEAR PLAN ...

Obviously, any serious digital procurement strategy starts with a plan. That being said, the transactional processes in the Procure to Pay (P2P) cycle are the first place to start. These are the areas that often involve the most repetitive work.

It's relatively easy to [automate business processes](#) like [purchase requisitions](#), [purchase orders](#) and invoicing using a modern, low-code platform. These [platforms provide pre-built templates](#), [easy customization](#) using simple, visual designers and wizards, and don't require skilled programmers or data scientists who are hard to find and expensive.



... AND LAY DOWN A STRONG FOUNDATION

More important, automated processes lay a strong foundation by producing digital data. You can build upon this foundation by deploying technologies like machine learning and AI to predict future demand, snuff out upcoming risk, and monitor sustainability.



Final Thoughts



PROCESS AUTOMATION IS THE KEY TO DIGITAL PROCUREMENT ...

A well-designed and effective set of digital procurement processes is a critical business need.

There's no need to rely on spreadsheets for purchase requisitions, purchase orders and invoices any more. In fact, using these outmoded techniques is inefficient, slows you down and exposes your business to unnecessary risks.

A digital procurement strategy starts with the foundation of transactional process automation which opens the door to deploying high impact technologies like ML and AI.



... AND IT'S EASY USING AFFORDABLE, VISUAL TOOLS.

Modern [procurement process automation tools](#) are easy to use and affordable. You don't need expensive programmers or large budgets. Business users in your finance department – not just coders by trade – can start with pre-built templates and drag-and-drop to create electronic processes in a matter of minutes.

Discover how frevvo can help you automate procurement processes with our modern, visual platform.

Find out how

