

The Procurement Process Purchasing vs Procurement

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Aim and objectives

- The aim of this presentation is to discern the differences between two terms that although more than often are used interchangeably, namely the terms “purchasing” and “procurement”, yet they have a quite different content/meaning.

Learning outcomes

- At the end of this presentation, you will be able to:
 - **LOut1** Differentiate between terms “purchasing” and “procurement”

Terms and keywords

- **Goods, Services to purchase/procure**

Raw materials, office equipment, services, and supplies, furniture and facilities, IT and technical equipment and support, telecommunications, worker recruitment, testing and training, travel-related services, etc.

- **Procurement**

A wide-ranging concept/function describing the activities and processes dealing with covering end-to-end strategies for sourcing, negotiation of contracts and acquiring goods, raw materials, services or work from external sources, while following through to ensure contracts are fulfilled according to contract terms.

- **Purchasing**

A simple activity, where an organization pays for and receives goods or services.

- **Purchase order (PO)**

Is a commercial document and first official offer issued by a buyer to a seller indicating types, quantities, and agreed prices for products or services. It is used to control the purchasing of products and services from external suppliers

- **Supplier Quotation**

Is document by a potential supplier specifying the cost of goods or services they'll provide within a specified period. It may also contain terms of sale, terms of payment, and warranties

- **3-way match**

Refers to matching three documents -the invoice, the purchase order, and the receiving report- to ensure that a payment should be made.

- Section 1 **Intro**
- Section 2 **What is “Purchasing”**
- Section 3 **What is “Procurement”**
 - Procurement Considerations
- Section 4 **Procurement vs Purchasing**
- Section 5 **Synopsis**

“The difference between the *almost right* word and the *right* word is really a large matter. 'tis the difference between the lightning bug and the lightning.”

Mark Twain

More than often, when dealing with the process of acquiring goods or services, two terms are interchangeably used, although their meaning is not identical; the terms "***Purchasing***" and "***Procurement***".

In the following slides, we will try to make clear what each of these terms is about, what is their relationship and which of the two is an important, value-adding process for a museum opting to enter the digital era.

What is “Purchasing”

Purchasing is a *simple activity*, where an organization pays for and receives goods or services. It is generally performed on a transactional basis with *little strategy*, and entails the following steps:

1. Receive purchase requests from organization’s departments
2. Attain and evaluate quotes from suppliers
 - *Most companies have a established list of suppliers they work with to purchase supplies/services.*
3. Raise purchase order (PO)
 - *Without strategy, goods and services are ordered as needed.*
4. Receive goods/services
 - *Good purchasing strategy includes protocols for recording and tracking purchases*
5. Process payment to supplier
 - *Invoices are typically paid without completing the 3-way match to verify the invoice against the PO and packing slip.*

What is “Procurement”

Procurement is the collection of activities and processes by which products and services are selected based on quality and cost; These deal with defining products and services needed, their quality and environmental specifications, when and where they will be needed, the strategic selection of vendors/providers and the criteria to be used, the management of the contracts, as well as the establishment of all **purchasing, receiving, storing and issuing policies**.

Note that procurement includes actions that must take place *before purchasing* (which effectively is a subset of the procurement process).

Procurement considerations include:

- **Business ethics**

Responsibilities include ensuring that organizational values are upheld and goods and services are sourced in ethical and legal ways.

- **Logistics**

Procurement departments determine the most efficient and timely ways to receive goods.

- **Quality**

Procurement strategy includes identifying the best possible quality at the lowest price.

- **Supplier capability**

Procurement departments keep a close eye on suppliers, making sure they are capable of delivering the quantity/quality needed on time.

- **Cost**

Price of goods and services is an issue for every business. Typically, a procurement department uses a tendering or competitive bidding process to request proposals from trusted suppliers and ensure the lowest price and most favorable payment terms after all other considerations are factored.

- **Overall budget**

The benefit of a centralized procurement department is enhanced buying power. By combining spend from all departments, better deals can be negotiated.

- **Risk analysis**

Systematic identification, assessment and strategies to minimize risk contribute significantly to procurement success. Risk management is essential to effective procurement management, especially for large scale or geographically diverse businesses/organizations.

- **Establish protocols for purchasing**

By establishing governing rules for acquiring good and services, procurement strategy facilitates ordering and eliminates bottlenecks.

- **Accounts payable**

The use of 3-way matching to verify invoices against the purchase order and goods receipt eliminates duplicate payments, ensures invoice items are delivered as promised and invoices are paid in time.

Procurement vs Purchasing

It should be clear by now that **procurement** is a far more wide-ranging concept, covering end-to-end strategies for sourcing, negotiation of contracts and acquiring goods, raw materials, services or work from external sources, while following through to ensure contracts are fulfilled according to contract terms. The critical goals of the procurement process are cost savings, spend control, and workflow efficiency.

Procurement is closely connected with several core business functions, and as such, it should be considered **a core component of an organization's corporate strategy.**

- For example, if a museum's identity is based on being environmentally conscious, then the procurement strategy must focus on engaging green suppliers. If the museum has specific goals (i.e. to expand the range and quality of digital services offered to staff and visitors), it needs to procure the right workers and equipment to help it achieve these goals, etc.

Procurement vs Purchasing

On the other hand, a simple **purchasing** decision/activity although may include considerations such as price, delivery, and convenience, differentiates from procurement in a sense that it lacks, amongst other, an important characteristic; strategy.

In the following presentations, we will go through the stages of the procurement process, focusing on its importance and context in today's museums' digital-era strategic challenges.

- This presentation was about introducing you to the terms “purchasing” and “procurement”, pointing out their context, their points of convergence and their differences.
- Now that you finished watching it, you should be able to:
 - **LOut1** Differentiate between terms “purchasing” and “procurement”

List of references

- <https://www.purchasecontrol.com/uk/blog/procurement-vs-purchasing/>



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