

Introduction to Procurement and Supplier Management

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Key concepts, processes, and best practice guidelines

1. What Is Procurement?

Aspect	Description
Definition	The systematic acquisition of goods, services, and works needed to achieve an organization's objectives.
Goal	Obtain the right product/service, at the right time, in the right quantity, at the right price, and with the right quality.
Scope	Includes needs identification, market research, sourcing, negotiation, contracting, ordering, receipt, payment, and performance evaluation.
Strategic vs. Tactical	<i>Strategic procurement</i> aligns purchases with long-term business goals; <i>tactical procurement</i> handles day-to-day purchasing activities.

2. Procurement Process Flow

1. Identify Need

- Requisition from end-user or department.
- Verify budget and approval authority.

2. Define Requirements

- Technical specifications, quality standards, delivery schedule.
- Create a *Bill of Materials (BOM)* or *Statement of Work (SOW)*.

3. Market Research & Supplier Discovery

- Conduct spend analysis, benchmark pricing, assess supplier landscape.
- Use databases, trade shows, e-procurement portals.

4. Sourcing Strategy

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- **Single source** – one supplier (often for critical or proprietary items).
- **Multiple source** – several suppliers to reduce risk.
- **Competitive bidding** – RFQ, RFP, or e-auction.

5. Solicitation & Evaluation

- Issue RFQ/RFP.
- Score proposals using weighted criteria (price, quality, delivery, sustainability, risk).
- Perform supplier audits or site visits if needed.

6. Negotiation & Contracting

- Negotiate price, terms, service level agreements (SLAs), penalties, and incentives.
- Formalize in a contract or purchase order (PO).

7. Order Management

- Issue PO, confirm order acceptance, track lead times.
- Use ERP or procurement software for visibility.

8. Receipt & Inspection

- Verify quantity, quality, and compliance with specifications.
- Record receipt in inventory system.

9. Payment & Close-out

- Match invoice to PO and receipt (three-way match).
- Process payment per agreed terms.

10. Performance Review

- Evaluate supplier on cost, quality, delivery, innovation, and compliance.
- Feed results back into supplier selection and risk management.

3. Supplier Management Fundamentals

Component	Purpose	Typical Activities
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Supplier Selection	Choose partners that best meet strategic needs.	Pre-qualification, scoring, reference checks.
Onboarding	Integrate new suppliers into the organization's processes.	Documentation collection, system access, training.
Relationship Management	Build collaborative, long-term partnerships.	Regular business reviews, joint improvement projects.
Performance Management	Ensure suppliers meet agreed standards.	KPI monitoring, scorecards, corrective action plans.
Risk Management	Identify and mitigate supply-chain disruptions.	Risk assessments, contingency planning, diversification.
Continuous Improvement	Drive cost reduction, innovation, and sustainability.	Lean/Six-Sigma projects, co-development, sustainability initiatives.
Contract Management	Maintain compliance and maximize contract value.	Renewal tracking, clause compliance audits, amendment handling.
