



The Definition of Procurement

CIPS Australia





Introduction - Why define procurement?

One of the first recommendations of the CIPSA Steering Group was that we adopt the word PROCUREMENT in preference to the word PURCHASING as a name for our profession in Australia.

To some degree this reflected the view of the Steering Group that our profession was becoming more strategic and less operational in nature, and our name needed to reflect this trend. Surprisingly, elsewhere in the world, the “purchasing” word remains prevalent. The CIPS body of knowledge is eloquent on the definition of “purchasing” but was scant on the definition of “procurement”. The race was on for a new definition.

The CIPSA Steering Group set about the task with relish. Some initial work from some members of the team and their support staff was followed by some full and frank discussions and a small e mail storm amongst members of the team. Further formal discussions in the Steering Group and several drafts resulted in a consensus view of the definition of ‘Procurement’.

The resulting definition was published in the August 2005 edition of our magazine Procurement Professional. But this offering was not intended to be definitive, only the starting point for a bigger debate. Clearly, the definition encapsulates a broad commercial role ranging from external resource management through entrepreneurship towards customer benefit and even residual sales. It is said that it is only when a subject is understood that it can be taught. This is a principal reason why an agreed and accurate definition of the word ‘procurement’ is needed.

The supply chain is long and has many links. It is a broad church that encompasses many contributions. Definition is needed to clarify roles and avoid duplications.

For example there are such links in the supply chain as logistics, distribution, materials management, inventory control and freight in addition to the procurement function.

In the future, there will be new aspects to supply chain management that become commonplace. An era of commercial management, entrepreneurship, risk management and the realisation of commercial opportunity born from good supply chain practice.

Defining ‘procurement’ now, will help us define ‘procurement’ progressively in the future and so this work to finalise and agree a definition will help to ensure that the relevant resources needed by the profession are continuously provided.

Your contribution to this debate is most welcome and wanted. Do not be shy. Please send your thoughts on the definition of Procurement to us at info@cipsa.com.au.

Jonathan Dutton
Managing Director
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The meaning of life?

What do you call what you do? Is it procurement, purchasing, buying, contract management, supply management or supply chain management? What do these terms mean? Are some subsets of others? Are they interchangeable? How many such terms are there? Does it matter?

When CIPSA set out to identify the key issues for Australian procurement professionals we undertook a survey of those active in the profession. The survey responses indicate that there is a wide variation in the intended meaning of the terms we use. Many are used interchangeably, even loosely, by some, but have specific meanings to others. The word 'purchasing' is a good example. It can be an all-encompassing term synonymous with 'supply management' and 'procurement' or it can indicate just one step in a much-bigger process. Such variation is of concern as it could lead to miscommunication and hinder the development and sharing of our body of knowledge. A concern, at the most fundamental level, is that unless we can describe what we do and demonstrate our success to our stakeholders we cannot win their recognition and support.

The aim is to promote discussion on some of the key terms and concepts and to initiate development of an Australian procurement lexicon.

The starting point is that a business management process exists which deals with the management of those external resources brought into an organisation to support its activities. This management process applies a body of knowledge and practice to the resourcing goal to ensure the activity is effective and efficient and, importantly, that the resourcing outcomes support the key strategic objectives of the organisation. This business management process has a body of knowledge that, in the hands of a competent professional, is a reliable and tangible science and, in the hands of a leader, can be raised to an art. This business management process is known by the term 'procurement'.



After much discussion with CIPSA members, the following statements were circulated to initiate discussion on an agreed procurement lexicon:

“Procurement is the business management function that ensures identification, sourcing, access and management of the external resources that an organisation needs or may need to fulfil its strategic objectives.”

Procurement is the business management function that ensures identification, sourcing, access and management of the external resources that an organisation needs or may need to fulfil its strategic objectives.

Procurement exists to explore supply market opportunities and to implement resourcing strategies that deliver the best possible supply outcome to the organisation, its stakeholders and customers.

Procurement applies the science and art of external resource and supply management through a body of knowledge interpreted by competent practitioners and professionals.

One of the difficulties in defining the term ‘procurement’ is that it does not deal with a single action or process. Procurement covers the complete range of events from the identification of a need for a good or service through to its disposal or cessation. The term ‘procurement’ in Australia is very similar to the term ‘supply management’.

Procurement includes activities and events before and after the signing of a contract as well as the general management activities associated with a range of contracts:

- pre-contract activities such as planning, needs identification and analysis, and sourcing,
- post-contract activities such as contract management, supply chain management and disposal, and
- general activities such as corporate governance, supplier relationship management, risk management and regulatory compliance.



Procurement delivers a range of benefits. It not only seeks to reduce costs and to ensure supply, it also supports strategic organisational objectives such as market expansion and product innovation.

CIPSA has identified seven core benefits of procurement:

- security of supply,
- lower costs,
- reduced risk,
- improved quality,
- greater added value,
- increased efficiency,
- innovation.

Of the other terms we use, 'supply management' is very similar to the term 'procurement' and might be a synonym, but other common terms generally relate to just part of the overall process captured by procurement.

Strategic procurement is one, it relates to the strategies and mechanisms used to approach and interact with the supply market that take account not just of present business needs but also what the organisation's business future needs might be.

Strategic procurement requires an active approach to market building with regard to the acquisition of goods and services that are critical to an organisation's viability. It reflects the belief that the buyer can and should influence the behaviour of the supply market rather than accept it the way it is.

Purchasing is another, while it may be used interchangeably with buying it is just part of procurement. Purchasing begins with the placement of a requisition, which upon approval, becomes a purchase order and is sent to a supplier. Whereas procurement necessarily includes a contract development stage purchasing does not always include contract development.

Andrew Kidd

About the author

Andrew Kidd is Chief Procurement Strategist of the Contract Services division of the South Australian Government. He has provided significant support to the CIPSA Steering Group as a research analyst in an honorary capacity.

The definition of Procurement work was begun by a small sub committee of the CIPSA Steering Group including several people from NSW Department of Commerce. All members of the CIPSA Steering Group between December 2004 and August 2005 contributed to the work.

Andrew Kidd provided research support and analysis and wrote the final article which is reprinted here from Procurement Professional magazine August 2005.

Suggestions

Any comments, suggestions or alternative definitions are always welcome.

Please email them to info@cipsa.com.au.



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