The 7 stages of the procurement cycle.

The procurement cycle is the stages that outline the steps that should be taken by buyers through their time in the procurement phase. They clearly show what the buyer needs to do throughout the whole process. Let's look at these stages in more detail.

1 Need recognition and analysis.

This first stage is about understanding what the organisation needs and then in response to that need, sketching out an accurate plan for procuring goods and services promptly and at a reasonable market rate.

If you think back to the risks associated with not having a plan, not recognising your actual needs can have drastic knock-on consequences. It can include things like choosing a supplier that is too expensive, or you may buy far too many of one product, or the service does not meet expectations. In turn, this can lead to unsold stock, which piles up and causes increased storage costs, having to pay twice for the services, or paying over the market rate. Worst case scenario is that you may find yourself unable to pay the said supplier for the next batch of goods or services.

Several questions can be asked at this stage to identify if the goods and services fulfil the identified requirements, such as;

- Is there a real need for the goods/services?
- Can existing contracts fulfil the needs of the organisations?
- Does it require special approval/chain of command to approve?

2 Supplier identification and selection.

Once your needs have been identified, the second phase is understanding who your suppliers are and should be. The supplier identification and selection process can involve tendering – a process where suppliers are asked to submit very specific information based on the organisation's needs.

The most important step here is, Requesting for Information (RFI), Pre-Qualification Questionnaire (PQQ), or Selection Questionnaire (SQ), which provides you with the opportunity to gain relevant information from suppliers. This includes items such as the size of the business, financial situation and resources.

An RFI/PQQ/SQ allows you to cross reference the supplied information with your preferred supplier requirements, which will help you understand whether the supplier meets the criteria to be included in the tender process.

Of course, suppliers today will also be selected on other criteria such as availability, pricing, green credentials, ethical practices and other factors – however, understanding if they meet your needs remains the most important element of successful procurement.
To be able to make the right judgements on suppliers, researching the marketplace is going to be key. This will not only help identify those who can meet your needs but also those who are also reliable, ethical and have offers that are based on performance or payment terms or even seasonal extras.

3 Contract development and agreement.

The next stage in this process is to develop and agree on contracts with the identified suppliers – this will happen after the tender evaluation stage or following a successful RFI/PQQ/SQ with identified suppliers. The contract covers the lifetime of the partnership and will include the terms and conditions for supplying the goods, works or services, as well as covering things such as timescales, costs, required stock levels to minimise risk, Service Level Agreements (SLAs) and Key Performance Indicators (KPIs).

All of these contracts should identify and define the agreed obligations from suppliers.

Importantly, the contracts can be used to measure against targeted SLAs and KPIs and help you manage supplier relationships over the long term. You can raise issues or identify where the process can be improved and find opportunities for mutual innovation. Remember, maintaining supplier relationships are part of the success of the procurement process and helps you to establish better conditions for your products and services to flourish to your customers as well.

4 Purchase order preparation and submission.

The procurement cycle now moves into the purchase order preparation stage. This is where once a product or service has been identified to be ordered, a formal purchase order (PO) is raised and submitted (usually following approval from department heads or senior management.)

A purchase order should contain at the very least the purchaser and supplier details (names, addresses), the order itself (product or service description, technical specs, price, quantity), and payment terms (due date and form of payment, e.g., bank transfer, credit card).

The difference between a contract and a purchase order is that a contract establishes the long-term relationship between the two parties whilst the purchase order represents a single transaction. For example, payment terms are set in the contract, but a purchase order is only showing what is required for the purchase that one time.

5 Order delivery and verification

Order delivery and verification is part of the procurement cycle where the goods or services are delivered from suppliers. Once received, the purchaser will examine the products or service to see if it meets the agreed contract terms and conditions. This is where any issues may be raised with the supplier if things do not meet the agreed terms and conditions.

This includes things such as, was the product delivered in the agreed timescales or were the goods/services delivered exactly as ordered or as required, within agreed SLAs/KPIs?

Service review meetings can be used at this stage or further down the line, to understand how the supplier is doing when compared to the contract that was agreed to. Any information that helps the supplier relationship manager understand the performance of the supplier will help ascertain if the supplier can continue to be used or not.

6 Invoicing and payment processing.

The procurement cycle now moves on to the supplier issuing their invoice. This is where the contract terms come into play, as the invoice will reflect the contract in terms of things such as agreed payment terms, timescales and even delivery dates in some instances.

From the purchaser's side, once an invoice has been received, it will only be processed once it has been approved. Questions for this stage include;

- Was it handled on time?
- Were the goods/services received as promised?
- Were the goods/services delivered as per contract terms?

Once these have been answered, the payment can be processed.

7 Accurate record keeping.

The procurement cycle requires accurate record keeping throughout, from supplier selection to purchase orders, to paying invoices and supplier relationship management. All the documents that are used throughout the process can be used for finance and supplier reviews. Supplier relationship management is again essential to help establish if the supplier is sticking to agreed terms and any payment discounts that may be in the original contract.

Doing this through technology solutions is not only the easiest option as it reduces paper trails and waste, but also, it helps to streamline the process and improve future transactions too. It also helps to improve efficiency, both in time used by the system over people but also cost saving is established by reducing errors and having a system that is designed for purpose.