Module 1: Introduction to Procurement
Upon completion of this module, you should better understand that in an organization, acquiring goods and services is the business of procuring materials and that this function is related to many others.

You should grasp that these Integrated Functions share inputs and outputs, creating a proper sequence of activities throughout the organization.

You should understand that Materials Management provides the effective, standardized, integrated, organizational-wide functions for all handling of materials.

You should understand that Procurement is the Materials Management function concerned with acquiring materials, while Purchasing is the specific activity in Procurement that is making the buy of materials.

You should also grasp that Materials Management functions provide the proper sequence of activities leading to good procurement. That is, Authorized/"Legal" Procurement of materials.
This course module introduces the functions associated with Procurement by showing the connections to Materials Management and Purchasing, and illustrating that the sequence of work inputs/outputs matters in good Procurement.

Procurement staffs continuously work to improve efficiency and effectiveness in Procurement. This is the process used to acquire goods and services to specifically meet the objectives for materials in the agency.

However, they must understand that making the purchase is only part of the Procurement process. That is, Procurement and Purchasing are not names for the same process. Staff must see the bigger picture of procuring materials.

It is the Materials Management process that ensures all functions handling materials and information about materials are consistently applied and do comply with organization-wide (enterprise) business rules. This means Procurement is part of the Materials Management process and Purchasing is a part of Procurement.
Materials Management is

- a business strategy for accomplishing good procurement throughout the organization;
- a business process for handling materials, step-by-step, anywhere, anytime by any Procurement staff in the organization; and
- the planning and control functions used by the organization to supply the materials and the information about materials needed to meet its goals of buying, storage and movement.

Materials Management functions operate for the benefit of the enterprise. No matter how many business units or their structure/restructure, Materials Management inputs/outputs and practices support the materials needs of every unit equally and make provisions for enterprise changes, when necessary.
While many functions in Materials Management may be familiar, the cycle of managing materials across an enterprise may not be.

Staff and systems anywhere in an organization can access materials and information about materials because Materials Management Identification uniquely names each material, while Cataloguing ensures sensible organizing of like materials. However, Standardization provides common approaches to handling materials.

Need Determination ensures materials satisfy goals for inputs and outputs.

Scheduling controls timing aspects of materials such as ordering, delivery, validity dates, receipts, and release. Following Scheduling is the Procurement function to actually obtain materials. And, Inspection relates to verification of new materials such as monitoring, tracking, and follow-up activities.
Quality Control assures value in materials is within agreed upon levels, while Packaging maintains proper quantities, units of measure and pricing of materials.

Storage supports physical management of materials. However, inventory control assures levels of materials for Distribution—issuing, picking, using—and/or Disposal such as scrapping.
At the core of Materials Management is the data generated by the Master Information functions. This includes records, documents and formulations such as catalogues, tax calculations, and funding sources.

With MM information, procurement staffs can competitively justify the need for materials and then acquire those materials.

Once acquired, materials are stored and then moved in the organization, as consumed.

The ordering of work is clear: Acquiring, storing and using materials should not occur ahead of approval.
Now, look at Procurement.

Procurement is
• a base process within Materials Management that is concerned with
• the step-by-step activities involved in obtaining materials.
• Procurement is the preparation and processing of a request for goods or services

Procurement steps consist of making the request, approval, management decisions, purchase, and then follow-on activities such as receiving the material and creating a record of it. Proper follow-on activities provide support for approving the payment of invoices.
In Materials Management, Procurement follows Need Determination. That is, Procurement occurs because there is a need. This is an important requirement, as the step-by-step activities of Procurement satisfy this objective.

Procurement includes:

Building the Request
- Purchase Planning, which leads to making a request for materials.
- Standards Determination seeks uniformity in those materials. And,
- Specifications Development aligns needs to the requested acquisition.

Authorizing the Request
- Next, Supplier Research and Selection competitively align material specifications with an appropriate vendor.
- Value Analysis ensures best materials at best prices.
- Financing ensures funding is available for the costs assigned.
- Price Negotiation occurs according to rules for doing so. And,
- Supply Contract Administration ensures terms and conductions and supplier validity.
The output of these steps is authorization to purchase.

Purchasing
- Once Purchasing is initiated, Management of the purchase begins.

Storing
- Storage and Inventory Control maintain master information about levels of materials, Which may be evaluated for movement and Disposals.

Following-Up
- Finally, Follow-On Activities occur such as receipt of the materials for approval of the payment.
A closer look at Purchasing is now possible.

The process of Purchasing is a planned activity integrated among the many functions in Materials Management. It uses Master Information and meets Organizational Goals for materials. It follows all the steps leading to Scheduling and building the request for materials, but occurs after Price Negotiation and winning the authorization to purchase.

Obviously, Purchasing must take place prior to activities leading to receipt of material and approval to make payments for the material.
By now you should begin to see Purchasing as a planned activity to make the buy of materials with specific objectives in mind. Purchasing follows Price Negotiation in Procurement.

Making the Purchase is maintaining the quality and value of the agency's goods and services, while minimizing encumbrances of cash.

At the same time, Making the Purchase is
• maintaining the flow of materials to meet agency needs,
• strengthening the agency's competitive position with vendors,
• developing and reviewing goods/services specifications, and
• receiving and processing of approved requests.

Additionally,
• advertising for bids, bid evaluations, awarding of goods/service contracts,
• inspection of goods/services received, and
• appropriate storage and release of materials are also parts of Making the Purchase.
Once again, you can see there is proper sequencing of functions in Purchasing within Procurement, within Materials Management.

You should see the “awarding of goods/service contracts” prior to “receipt and processing of approved requisitions” can be problematic and deemed “unauthorized (illegal) procurement.”

Similarly, if “inspection of goods/services received” and “appropriate storage and release of materials” do not occur, then “minimizing encumbrances of cash” cannot occur.
You should now have a better understanding that in an organization, acquiring goods and services is the business of procuring materials and that this function is related to many others.

You should grasp that these Integrated Functions share inputs and outputs, creating a proper sequence of activities throughout the organization.

You should understand that Materials Management provides the effective, standardized, integrated, organizational-wide functions for all handling of materials.

You should understand that Procurement is the Materials Management function concerned with acquiring materials, while Purchasing is the specific activity in Procurement that is making the buy of materials.

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This is the end of PR101 Module 1. Please continue to Module 2 of the PR101 course.