

# PROCUREMENT CYCLE



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# CIPS Definition

- ▶ The procurement and supply cycle is made up of 13 clear steps.
- ▶ Starting at specification, to tender and finishing up with asset management, this cycle is a clear and trusted resource for all procurement and supply professionals.



# Definitions

- ▶ The CIPS Procurement Cycle is a comprehensive framework that outlines the key stages involved in the procurement process
- ▶ The CIPS Procurement Cycle is a systematic approach to acquiring goods, services, or works. It involves a series of interconnected stages, from identifying a need to managing supplier relationships
- ▶ The CIPS Procurement Cycle is a systematic approach to acquiring goods, services, or works.
- ▶ The CIPS Procurement Cycle is a comprehensive framework that outlines the key stages involved in the procurement process. It is a systematic approach to acquiring goods, services, or works, ensuring efficiency, cost-effectiveness, and compliance.

# Stages

Stage	Description
1. Define business needs and develop a specification	Clearly define the requirement, including quality standards, delivery timelines, and performance metrics.
2. Market analysis and make or buy decision	Conduct market research to identify potential suppliers and assess their capabilities. Decide whether to procure internally or externally.
3. Develop the strategy and plan	Develop a procurement strategy aligned with the organisation's objectives, including timelines, budgets, and key milestones.
4. Pre-procurement market test and engagement	Conduct market research and engage with potential suppliers to gather information and identify suitable options.
5. Develop documentation (PPQ and detailed specification)	Develop detailed procurement documentation, such as purchase requisitions, requests for quotation (RFQs), and requests for proposals (RFPs).
6. Supplier selection to participate in tender	Select potential suppliers to participate in the tender process based on their capabilities and qualifications.
7. Issue tender documents	Issue tender documents to shortlisted suppliers, including invitations to tender (ITTs) and RFQs.
8. Bid and tender evaluation and validation	Evaluate bids and tenders based on the specified criteria, such as price, quality, and delivery time.
9. Contract award and implementation	Award the contract to the most suitable supplier and implement the contract terms.
10. Warehouse, logistics and receipt	Manage the logistics and receipt of goods or services, ensuring timely delivery and quality assurance.
11. Contract performance and improvement	Monitor supplier performance and identify opportunities for improvement. Conduct regular reviews to ensure compliance with contract terms.
12. Supplier relationship management (SRM)	Build strong relationships with suppliers, foster collaboration, and improve performance through effective communication and feedback.
13. Asset management	Manage the lifecycle of procured assets, including maintenance, disposal, and replacement.

# Advantages

Advantage	Description
Improved Efficiency	Streamlines procurement processes, reduces lead times, and lowers administrative costs.
Enhanced Cost-Effectiveness	Promotes competitive tendering, negotiation, and cost analysis to reduce costs.
Increased Quality	Ensures the delivery of high-quality goods and services through effective supplier selection and performance management.
Reduced Risk	Identifies and mitigates risks, such as supplier failure, supply chain disruptions, and quality issues.
Stronger Supplier Relationships	Fosters collaboration, innovation, and long-term partnerships with suppliers.
Ethical and Sustainable Procurement	Promotes ethical and sustainable sourcing practices, ensuring compliance with social and environmental standards.
Compliance and Governance	Ensures compliance with relevant laws, regulations, and internal policies.
Data-Driven Decision Making	Encourages the use of data analytics to inform decision-making and improve procurement performance.
Innovation and Continuous Improvement	Promotes a culture of continuous improvement, encouraging the adoption of innovative procurement strategies and technologies.

# Sourcing Stage Activities

Stage	Activities
Requirement Definition	Clearly articulate the specific need or problem. Develop detailed specifications outlining quality standards, delivery timelines, and performance metrics.
Market Analysis and Make-or-Buy Decision	Conduct market research to identify potential suppliers and assess their capabilities. Evaluate the option of producing goods or services internally versus outsourcing.
Develop the Procurement Strategy	Develop a procurement strategy aligned with the organisation's overall business objectives. Determine the appropriate procurement method (e.g., tendering, negotiation, direct sourcing). Establish clear procurement goals and objectives.
Pre-Procurement Market Engagement	Engage with potential suppliers to gather information, clarify requirements, and build relationships. Conduct market research to identify emerging trends and innovative solutions.
Develop Procurement Documentation	Prepare detailed procurement documentation, such as requests for information (RFIs), requests for proposals (RFPs), and requests for quotations (RFQs). Clearly outline the requirements, evaluation criteria, and contract terms and conditions.

# Data in Sourcing

- ▶ **Primary Data** is data collected firsthand for a specific purpose. It is original data that has not been previously published or analysed.
- ▶ **Secondary Data** is data that has already been collected by someone else for another purpose. It is often readily available and can be accessed through various sources.

<b>Data Type</b>	<b>Description</b>	<b>Example</b>
<b>Primary Data</b>	Data collected directly by the researcher or organisation.	Surveys and Questionnaires, Interviews, Site Visits
<b>Secondary Data</b>	Data collected by someone else and made available for use.	Industry Reports, Government Publications, Online Databases

# Linking the cycle to Governance

- ▶ The CIPS Procurement Cycle can significantly contribute to corporate governance by ensuring ethical, transparent, and accountable procurement practices



# Governance

<b>CIPS Procurement Cycle Stage</b>	<b>Impact on Corporate Governance</b>
Define business needs and develop a specification	Ensures clarity, transparency, and accountability in the procurement process.
Market analysis and make or buy decision	Promotes informed decision-making and cost-effectiveness.
Develop the strategy and plan	Aligns procurement activities with the organisation's strategic objectives and risk management framework.
Pre-procurement market test and engagement	Fosters fair competition and transparency in the procurement process.
Develop documentation (PPQ and detailed specification)	Ensures clarity, consistency, and fairness in the evaluation of supplier proposals.
Supplier selection to participate in tender	Promotes fair and transparent supplier selection processes.
Issue tender documents	Ensures transparency and equal opportunities for all potential suppliers.
Bid and tender evaluation and validation	Promotes fair and objective evaluation of bids and tenders.
Contract award and implementation	Ensures compliance with procurement regulations and contract terms.
Warehouse, logistics and receipt	Ensures efficient and effective management of goods and services.
Contract performance and improvement	Monitors supplier performance and ensures compliance with contract terms.
Supplier relationship management (SRM)	Fosters strong relationships with suppliers, promoting collaboration and ethical behaviour.
Asset management	Ensures efficient management of assets and compliance with asset disposal regulations.

# Added Value in each stage

<b>CIPS Procurement Cycle Stage</b>	<b>Added Value</b>
Define business needs and develop a specification	Ensures clear requirements and avoids unnecessary costs.
Market analysis and make or buy decision	Identifies the most cost-effective and efficient procurement option.
Develop the strategy and plan	Aligns procurement activities with organisational goals and objectives.
Pre-procurement market test and engagement	Identifies innovative solutions and builds strong supplier relationships.
Develop documentation (PPQ and detailed specification)	Ensures fair and transparent competition among suppliers.
Supplier selection to participate in tender	Selects the most suitable suppliers based on objective criteria.
Issue tender documents	Ensures fair and transparent tender processes.
Bid and tender evaluation and validation	Ensures the selection of the best value for money supplier.
Contract award and implementation	Ensures effective contract management and timely delivery of goods and services.
Warehouse, logistics and receipt	Ensures efficient and cost-effective management of goods and services.
Contract performance and improvement	Ensures supplier performance and identifies opportunities for continuous improvement.
Supplier relationship management (SRM)	Fosters strong relationships with suppliers, leading to improved collaboration and innovation.
Asset management	Ensures optimal utilisation and disposal of assets, maximizing their value.

# E-procurement Definition

- ▶ **E-Procurement** is the electronic implementation of procurement processes. It involves the use of technology to streamline and automate various stages of the procurement cycle, such as sourcing, tendering, contract management, and supplier relationship management. E-procurement systems can significantly improve efficiency, reduce costs, and enhance transparency in procurement processes.

# E-procurement at each stage

<b>CIPS Procurement Cycle Stage</b>	<b>E-Procurement Solution</b>
1. Define business needs and develop a specification	E-sourcing platforms to collaborate and define requirements with stakeholders.
2. Market analysis and make or buy decision	Market research tools to analyse market trends and supplier capabilities.
3. Develop the strategy and plan	Procurement software to plan and manage the procurement process.
4. Pre-procurement market test and engagement	E-sourcing platforms to engage with potential suppliers and collect information.
5. Develop documentation (PPQ and detailed specification)	E-procurement software to create and manage procurement documents.
6. Supplier selection to participate in tender	E-sourcing platforms to invite and select suppliers.
7. Issue tender documents	E-procurement platforms to publish tender documents and receive bids electronically.
8. Bid and tender evaluation and validation	E-procurement software to evaluate bids and tenders based on predefined criteria.
9. Contract award and implementation	E-procurement software to manage contract creation, approval, and execution.
10. Warehouse, logistics and receipt	E-procurement software to track and manage inventory and logistics.
11. Contract performance and improvement	E-procurement software to monitor supplier performance and identify improvement opportunities.
12. Supplier relationship management (SRM)	E-procurement platforms to facilitate communication and collaboration with suppliers.
13. Asset management	E-procurement software to track and manage asset lifecycle.

# MRP and ERP

## **MRP (Material Requirements Planning)**

- ▶ MRP is a software system used to manage manufacturing processes. It helps businesses plan and schedule production, manage inventory levels, and ensure that the necessary materials are available when needed. By analyzing production schedules, bill of materials, and inventory levels, MRP systems generate purchase orders and production schedules to optimize resource utilization.

## **ERP (Enterprise Resource Planning)**

- ▶ ERP is a comprehensive software system that integrates various business functions, including finance, accounting, human resources, and supply chain management. It provides a centralized platform for managing all aspects of a business. ERP systems often include MRP modules as a component to manage manufacturing processes.

# Differences

<b>Feature</b>	<b>MRP</b>	<b>ERP</b>
<b>Focus</b>	Manufacturing and production planning	Comprehensive business management
<b>Scope</b>	Limited to production, inventory, and purchasing	Covers multiple business functions (finance, HR, sales, etc.)
<b>Integration</b>	Integrates with other manufacturing systems	Integrates various business functions into a single system

# How they link to the cycle

## ▶ MRP:

- **Demand Forecasting:** MRP systems analyze historical data and future demand forecasts to determine the quantity and timing of materials required.
- **Inventory Management:** MRP helps to optimize inventory levels by identifying stockouts and overstocks, ensuring that the right amount of materials is available at the right time.
- **Purchase Order Generation:** Based on the calculated material requirements, MRP systems can automatically generate purchase orders, streamlining the procurement process.
- **Supplier Scheduling:** MRP systems can be used to schedule deliveries from suppliers, ensuring timely receipt of materials.

## ▶ ERP:

- **Integrated Procurement:** ERP systems provide a centralized platform for managing the entire procurement process, from supplier selection to payment.
- **Real-time Inventory Tracking:** ERP systems enable real-time monitoring of inventory levels, helping to avoid stockouts and excess inventory.
- **Automated Purchase Order Generation:** ERP systems can automate the creation and processing of purchase orders, reducing manual effort and errors.
- **Supplier Relationship Management:** ERP systems can help manage supplier relationships, track performance, and evaluate supplier performance.
- **Financial Management:** ERP systems integrate procurement with financial accounting, enabling accurate tracking of costs and expenses.