The Definitions of ‘Procurement’ and ‘Supply Chain Management’
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Introduction - Why define Procurement & Supply Chain Management?

One of the first recommendations of the CIPS Australia 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 CIPS Australia 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 email 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. This is why we also need to define Supply Chain Management (SCM). A marketer might define SCM as the fulfillment of the marketing process - from conception to consumption. But, then a procurement professional might not!

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. More so, in the context of the broader definition of SCM.

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.

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Suggestions
Any comments, suggestions or alternative definitions are always welcome. Please email them to info@cipsa.com.au.
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 CIPS Australia 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 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 CIPS Australia 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 fulfill 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 fulfill 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.

CIPS Australia 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 CIPS Australia Steering Group as a research analyst in an honorary capacity.

The definition of Procurement work was begun by a small sub committee of the CIPS Australia Steering Group including several people from NSW Department of Commerce. All members of the CIPS Australia 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.
Executive Summary

Supply chain management is still evolving and developing and there are, therefore, numerous definitions of it, some of which are presented in this paper.

- Supply chain management may be said to be broadly about the efficient and effective management of all activities from primary suppliers right through to the point of sale.
- In some sectors supply chain management is a key activity whilst in others it is somewhat less important. Procurement and supply management professionals should become increasingly involved in supply chain management, ideally playing a leading role in its development wherever possible.
- For best results, supply chain management requires a senior sponsor appropriate to the sector.
- Supply chain management has a pivotal role to play within the organisation, involving as it does responsibility for predicting and satisfying end customers’ demand back through to the suppliers.
- Supply Chain Managers have a vital role to play in managing cost, being, as they are, in a position to monitor and influence the whole cost base across the business and the supply chain.

- Supply chain management creates opportunities for the procurement professional to contribute to the organisation’s success. It is an important activity that purchasing and supply management professionals need to understand and interface with; furthermore they should develop their supply chain management skills so as to supplement the knowledge they possess as far as traditional procurement procedures are concerned.

Background

Supply chain management is a business process which although still evolving has been in existence for many years. It affects every business irrespective of size, age, sector or location. Supply chain management has undergone many changes in recent years; in particular in the 1980s there was a recognition that holding inventory was an inefficient use of resources and that supply chain management was one area where buyers, suppliers and internal customers could work closely together to ensure goods and services were delivered as required, of the appropriate quality and at the agreed cost.

In essence, the supply chain starts with the extraction of raw material (or origination of raw concepts for services) and each link in the chain processes the material or concept in some way, or supports this processing. The supply chain extends from the raw material or extraction or raw concept origination through many processes to the ultimate sale or delivery to the final consumer, whether goods or services. Arguably it can also include the disposal of the waste associated with the consumed product.

Although an accepted term, ‘supply chain’ as one expression is inadequate to cover all the complexities to be found in the interconnections within and between organisations; an alternative way of thinking is to consider it as a network with various nodes in which the nodes can be customer of other suppliers, supplier to other customers and collaborator or competitor with many.
The primary function of the supply chain might be said to be the provision of goods or services required by the end customers. However the chain also acts as a channel or medium for the exchange of information as well as the communication of orders or instructions. As well as providing for the flow of products it also provides a channel for the flow of customer requirements and ultimately payment back up the chain.

Although, as noted previously, supply chain management is an evolving process, there are distinctions to be drawn between supply chain management 'as was' and supply chain management 'as is'. Reasons for these differences include the following:

- New management thinking on supply chain management as such, and on partnership sourcing generally
- New opportunities for close liaison with key suppliers and their key customers, supported through the use of IT
- New legal, consumer and ethical demands on the supply chain - for instance the emergence of the preference for GM-free food and the avoidance of child labour

- The drift of branding (and hence of product responsibility) from the manufacturer to the retail level recognising however that product liability is not easily transferred
- The number of mergers within industry and the rise of multinationals gave certain parties an increasingly dominant position within their supply chain. Effective supply chain management is certainly facilitated if the most powerful party decides to enforce on the others but power to force is not the most productive approach. Co-operation can be argued to surface costs hidden in traditional approaches whose removal permits both to benefit

This new profile for supply chain management creates opportunities for the purchasing and supply management professional - in, for example, developing a deeper involvement in the procurement of production materials and by bringing supply chain management thinking into MRO (Maintenance, Repairs and Operations) procurement and in the strategic issues associated with partner selection and relationship management.
What is Supply Chain Management?

There are numerous definitions of the supply chain and supply chain management:

“The supply chain conceptually covers the entire physical process from obtaining the raw materials through all process steps until the finished product reaches the end consumer. Most supply chains consist of many separate companies, each linked by virtue of their part in satisfying the specific need of the end consumer.”

“A distinction may be drawn between strategic and tactical supply chain management, the respective definitions being:

“The selection and linking of suppliers and customers through negotiation and agreement to achieve customer satisfaction by providing value added products and services within beneficial and profitable relationships of all parties within the supply chain.”

and

“Supply chain management is the continuous planning, developing, controlling, informing and monitoring of actions within and between supply chain links so that an integrated supply process results which meets overall strategic goals.”

Supply chains are not linear; rather, any organisation has several supply chains coming into (upstream), going through and going out of (downstream) the organisation. It has been suggested that it incorporates a number of key success factors which include a clear procurement strategy, effective control systems, and development of expertise. Supply chain management therefore represents and reflects a holistic approach to the operation of the organisation. In other words, supply chain management relates to the entire procurement cycle not just at the end (which is the commonly-held view). In particular it has a pivotal role to play in the development of an initial sourcing strategy.

Few organisations have fully integrated their supply chains; one example of where supply chain management has been successfully implemented is in the automotive sector where Nissan, the car manufacturer, has integrated its upstream supply chains - certainly for its car production if not for its entire business. The supermarket sector is an excellent example of where the supply chains close to the final customer have been managed to the extent that all goods and services required by the organisation are demand-driven, with technology enabling end-customers' requirements to be communicated direct to suppliers. CIPS encourages organisations to manage their supply chains for both direct spend i.e. those goods and services required for the business (components for a manufacturing
process for example), as well as indirect spend i.e. those goods and services required to support the business - professional services for instance.

Supply chain management involves identifying where the value lies within the whole supply chain i.e. identifying the value chain and then segmenting it so that each segment can be addressed individually. It is also concerned with analysing and identifying all the non-value adding activities across the entire supply chain and removing them. This process is sometimes referred to as ‘diagnostics. The purpose of this is to diagnose each value segment to determine whether the organisation could improve it - whether the value segment could be more enhanced, whether cost could be taken out or whether knowledge about it could be bettered, for instance.

Supply chain management is evolving - it is becoming more complicated with many organisations having 80% of their turnover comprising bought-in goods and services. This trend has been exacerbated by an increase in outsourcing; make/buy decisions resulting in more goods and services being bought in, and longer-term partnering arrangements leading to fewer key suppliers who are more willing to take a greater responsibility for efficient upstream supply chains.

Technology, notably eProcurement, eMarketplaces and eAuctions, are creating new and alternative upstream supply chains which also have to be managed. Some organisations have outsourced their production to their suppliers so that the organisation's role becomes one of brand management; this is an example of where supply chain management is critical to the success of an organisation.

Practical aspects/issues associated with supply chain management within the organisation will vary from one organisation to another and from one industrial sector to another but a typical list might include:

- Perception by individuals that supply chain management represents a threat; for example, the job profile may change perhaps necessitating new approaches to supplier management
- Suppliers, buyers, manufacturers and sub-contractors may all be at different levels of development
- Upstream - some clients are keen to develop supply chain management but the great majority are price-driven - therefore education as to the benefits of supply chain management is very important
- Board members sponsor the supply chain management programme and the work being carried out by the buying teams
- Whole cost rather than lowest price is key
- Supply chain management will only be a success where the relationship is two-way and risk/profit/opportunities are shared
- New eCollaborative software has emerged which facilitates supply chain management

What is Supply Chain Management?
Supply chain management has a strategic role to play within the organisation; it is pivotal because, as stated above, it spans all demand, right from the end-customer's requirement to the suppliers that provide the goods and services to meet that need. Sometimes, supply chain management involves going beyond the suppliers that interface with the organisation to their suppliers, in order that improvements can be made. These may include removing cost, increasing quality or ensuring ethical, environmental or socially responsible inputs. Very few organisations have worked closely with their suppliers' suppliers; working at more than two suppliers removed is unusual.

Supply chain management involves the sharing of risk with suppliers - this can involve moving the risk up the supply chains to those suppliers best able to manage it. Such devolution of risk will come at a cost and so it is to that extent an economic decision. An organisation has to determine the right approach to meet its own objectives, it should therefore evaluate the economic drivers to develop an appropriate level of sophistication in respect of its supply chains - this may involve deciding to bear most risks internally. For instance, organisations must ensure that the goods and services that are critical to them have security of supply and that the supply chains are managed accordingly. However supply chain management is not only about sharing risk - it is also about sharing benefits, which is an aspect which not all organisations would necessarily be comfortable with.

Procurement professionals must appreciate that passing responsibility on to suppliers in terms of risk, or even outsourcing a service, requires more, not less, management of supply chains on the part of the buying organisation. The work starts when the contract is signed. Some organisations make the mistake of outsourcing a requirement and believe that the supplier in question is then responsible for managing that need. CIPS believes that it is sometimes the reverse and outsourcing, and similar strategies, require very careful supply chain management in order to be successful.

Who should be responsible for Supply Chain Management?

Procurement professionals should become increasingly involved, and where possible lead, the development of supply chain management. However, it is recognised that not all buyers have the skills necessary to manage even the upstream part of an organisation's supply chains; these can be complex networks of complex supply chains, notwithstanding the supply chains within and downstream from the organisation.

For best results, supply chain management requires a senior sponsor appropriate to the sector; this is because it is such a central function and is fundamental to the commercial management of the business. Supply chain management is at the fulcrum of the business as it involves responsibility for the end customers' demand right through the organisation to the suppliers, and where appropriate, beyond. Such a role, requires objectivity, an open mind and an ability to work with all stakeholders within the chains such as Sales, Marketing, Finance, Production (if manufacturing), Procurement, Logistics and Distribution. In particular, supply chain management need to work closely with Account Managers who are best placed to feed information back into the supply chain. Many organisations still work in functional silos instead of cross-functionally - supply chain management demands this crosscutting approach to managing the customers' needs. The key skill of an effective supply chain manager is relationship management.
Good procurement professionals are well equipped in this skill. The ability to manage customer relationships, both internal to the organisation and external, and supplier relationships is fundamental to success in supply chain management. In the context of supplier relationship management, whilst CIPS would endorse backward integration as a technique; it would argue also that supply chain management is able to provide benefits over and beyond backward integration. In essence both supply chain management and backward integration are means to an end, and companies should select whichever of these two approaches is most appropriate for them in specific circumstances.

There are also many hard skills which are also key, notably process design (redesign); IT integration/role of eCommerce; supply chain modelling; and performance management.

The skill of the procurement professional working in a supply chain management environment lies in getting suppliers interested in working with the buying organisation i.e. so that the suppliers position and perceive the buying organisation as a valuable long-term client relationship which is worth investment. A key competence is sophisticated interpersonal skills e.g. an ability to persuade, influence, communicate, facilitate, coordinate and manage the human implications of change. Another valuable competence is the ability to challenge existing processes, policies, procedures - procurement professionals should continually question and challenge where it is appropriate to do so, and not just within the purchasing dimension.

Procurement professionals wishing to promote and develop supply chain management must adopt all of the above skills and competencies but most importantly, should be able to think in terms of the whole business.

To achieve maximum benefit, supply chain thinking would of course pervade the whole of the company’s corporate strategy; supply chain considerations would be as integral a part as Marketing, Production or Finance.

**Summary**

Supply chain managers have a vital role to play in the management of total cost - they are able to see and influence the whole cost base across the business. Supply chain management is responsible for bringing a product to market utilising all the resources, both internal and external, available and aligning this activity directly with the organisation’s strategies and objectives.

Supply chain management is spreading within the business world as larger blue chip and global organisations are demanding this approach in order to remain competitive. The effect of this is that smaller organisations, further down supply chains, are becoming involved with, or appreciative of, supply chain management. All procurement professionals should therefore equip themselves with supply chain management skills not least 'hard' skills such as process and performance management and to move from traditional procurement, namely managing upstream supply chains into the organisation-wide application of supply chain management.

**About the authors**

This definition of ‘Supply Chain Management’ was compiled and written by the CIPS Professional Practice Team after extensive consultations with the CIPS Professional Advisory Network, a work group involving CIPS members and the Key Practices Statements Group – a sub-group of the full CIPS council.