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PROCUREMENT FINANCE

**The Digital Revolution
in Commercial Banking**

BERNARDO NICOLETTI



Palgrave Studies in Financial Services Technology

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Procurement Finance

The Digital Revolution in Commercial Banking

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To my Parents for all the tacit lessons

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ABBREVIATIONS

| | |
|-------------|--|
| 4PL and 3PL | Fourth- and third-party logistics providers |
| AI | Artificial intelligence |
| AMA | Advanced measurement approach—one of the three possible operational risk methods under Basel |
| AML | Anti-Money Laundering (regulation/controls/activity) |
| AMLD | Anti-Money Laundering Directive |
| AnaCredit | European Analytical Credit Dataset |
| API | Application programming interface |
| AR | Acquisition request or accounts receivable |
| ASF | Available stable funding |
| ATO | Assemble-to-order |
| B2B | Business-to-business |
| BaaS | Blockchain as a Service |
| BAU | Business as Usual |
| BCT | Blockchain technology |
| BI | Business intelligence or business indicator method for risk measurement |
| BL | Business line (type classification for risk) |
| BOL or B/L | Bill of lading |
| BPO | Bank payment obligation or business process outsourcing |
| BRRD | Bank Recovery and Resolution Directive |
| BTO | Build-to-order |
| C2C | Cash-to-cash cycle |
| C2M | Consumer-to-machine |
| CCC | Cash-to-cash cycle or cash-to-cash cycle of organizations |
| CCCTB | Common consolidated corporate tax base |
| CCF | Credit conversion factor (Basel risk weighting) |

| | |
|--------------|--|
| CCR | Central credit register |
| CEBS | The EBA’s Committee of European Banking Supervisors |
| CEO | Chief executive officer |
| CET | Core equity tier |
| CFO | Chief financial officer |
| CI | Credit institution |
| CIF | Cost, insurance, and freight |
| CMU | Capital Markets Union |
| CODP | Customer order decoupling point |
| COGS | Cost of goods sold |
| CPFR | Collaborative planning, forecasting, and replenishment |
| CRR 2, CRD 5 | Proposals to update the Capital Requirements Regulation (1) and Directive (4) Reviews |
| CRR, CRD 4 | The third iteration of the Capital Requirements Regulation and Directive Reviews, effective January 2014 |
| CS | Consignment stock |
| CSP | Customer security program |
| CVC | Corporate venture capital |
| Dapp | Decentralized application |
| DCF | Discounted cash flow |
| DGS | Deposit guarantee scheme |
| DL | Deep learning |
| DLT | Distributed ledger technology |
| DP | Data protection |
| DPO | Days payable outstanding |
| DSO | Days sales outstanding |
| DTC | Digital trade chain |
| E2E | End-to-end (total supply chain, including all steps) |
| EAD | Exposure at default (of a loan) |
| EBT | Earnings before taxes |
| ECA | Export credit agency |
| EDI | Electronic data interchange |
| EMEA | Europe, Middle East, and Africa |
| EMS | Environmental management system |
| EMU | European Monetary Union |
| e-SCM | e-Supply chain management |
| EUF | Federation for the factoring and commercial finance industry in the EU |
| FATCA | Foreign Account Tax Compliance Act |
| FCF | Factoring and commercial finance |
| FEC | Financial and economic crime |
| FI | Financial institution |

| | |
|----------|---|
| FSP | Financial service provider |
| FTT | Financial transaction tax |
| FX | Foreign exchange |
| GDP | Gross domestic product |
| GPI | Global payment initiative |
| ICO | Initial coin offering |
| ICT | Information and communication technology |
| ID | Identity |
| IFRS | International financial reporting standards |
| IoT | Internet of Things |
| IRB | Internal ratings-based system approach to capital requirements for credit risk under Basel III |
| ITD | International Trade Department |
| ITP | International Trade Portal |
| JIT | Just-in-time |
| KPI | Key performance or process indicator |
| KRI | Key risk indicator |
| KYC | Know your customer |
| LC | Legal Committee of the EUF or letter of credit |
| LCR | Liquidity coverage ratio |
| LGD | Loss given default (of an exposure) |
| LMA | Loan Market Association: standard lending documentation |
| LOC | Line of credit |
| LSL | Lower stock limit |
| LSP | Logistics service provider |
| M2M | Machine-to-machine |
| MBO/MBI | Management buy-out/in |
| MCTFL | Multi-product capacitated facility location |
| MiFID II | Directive on markets in financial instruments |
| ML | Machine learning |
| MMR | EUF monthly monitoring report |
| MNE | Multinational enterprise |
| MTO | Make-to-order |
| MTS | Make-to-stock |
| NLP | Natural language processing |
| NLU | Natural language understanding |
| NOD | National options and discretions |
| NOI | Net operating income |
| NPL | Non-performing loan |
| NSFR | Net stable funding ratio |
| NWC | Net working capital |
| O2O | Online-to-offline |

| | |
|--------|---|
| O2P | Order to pay |
| OCR | Optical character recognition |
| OM | Operations management |
| OR | Operational risk |
| OWC | Operating working capital |
| P2P | Peer-to-peer or purchase-to-pay |
| PD | Probability of default (of an exposure) |
| PF | Procurement finance |
| PO | Purchase order |
| PoW | Proof-of-Work |
| PRC | Prudential Regulation Committee of the EUF |
| PSC | Physical supply chain |
| Pub-PL | Public and permission-less (blockchain) |
| QMS | Quality management system |
| RF | Reverse factoring |
| RSF | Required stable funding |
| RTS | Regulatory technical standards |
| RWA | Risk-weighted assets |
| S&OP | Sales and operations planning |
| SA | Standardized approach—one of three possible operational risk methods under Basel |
| SC | Supply chain |
| SCC | Supply chain council |
| SCF | Supply chain finance or supply chain flexibility |
| SCI | Supply chain integration |
| SCM | Supply chain management |
| SCTFL | Single-product capacitated facility location |
| SG&A | Selling, general, and administrative (expenses) |
| SKU | Stock keeping unit |
| SMA | Standardized measurement approach (to risk) |
| SME SF | Small and medium-sized enterprise supporting factor which allows for a reduction in capital requirements for banks which lend to SMEs under the CRR |
| SME | Small and medium-sized enterprise |
| SMS | Safety management system or short message service |
| SO | Sales order |
| SREP | Supervisory report and evaluation process |
| SSCM | Sustainable supply chain management |
| STP | Straight-through processing |
| TSU | Trade services utility |
| TA | Total assets |
| TLTRO | Targeted longer-term refinancing operations |

| | |
|------|--|
| TMA | Transaction matching application |
| TTIP | Transatlantic trade and investment partnership |
| USL | Upper stock limit |
| VAS | Value-added services |
| VMI | Vendor-managed inventory |
| WACC | Weighted average cost of capital |
| WC | Working capital |
| WCM | Working capital management |
| WIP | Work in progress |
| XML | eXtensible Markup Language |

INSTITUTIONS AND ASSOCIATIONS¹

| | |
|----------|---|
| ABFA | The Asset-Based Finance Association UK and Ireland. www.abfa.org.uk |
| AEF | Asociacion Española de Factoring Spain. www.factoringasociacion.com |
| AILOG | Associazione Italiana Logistica. www.aiolog.it |
| APBF-BBF | Association Professionnelle Belge des Sociétés de Factoring. www.febelfin.be/fr/node/3012 |
| ASF | Association Française des Sociétés financières France. www.asf-france.com |
| ASSIFACT | Associazione Italiana per il Factoring in Italy. www.assifact.it |
| BCBS | Basel Committee on Banking Supervision. www.bis.org/bcbs |
| BIS | Bank for International Settlements. www.bis.org |
| BOE | Bank of England. http://www.bankofengland.co.uk/Pages/home.aspx |
| CFA | Commercial Finance Association (USA). www.cfa.com |
| CIPS | Chartered Institute of Procurement and Supply. www.cips.org |
| CLFA | Czech Leasing and Finance Association Czech Republic. www.clfa.cz/ |
| DFV | Deutscher Factoring-Verband Germany. www.factoring.de/ |
| DG FISMA | Directorate-General for Financial Stability, Financial Services and Capital Markets Union. ec.europa.eu/info/departments/financial-stability-financial-services-and-capital-markets-union_en |
| EBA | Euro Banking Association (the less likely use of this abbreviation). www.abe-eba.eu |
| EBA | European Banking Authority (the more likely use of this abbreviation). www.eba.europa.eu |
| EBF | European Banking Federation. www.ebf-fbe.eu |

| | |
|----------|--|
| EBRD | European Bank for Reconstruction and Development. www.ebrd.com . |
| ECB | European Central Bank. www.ecb.europa.eu |
| EFRAG | European Financial Reporting Advisory Group. www.efrag.org |
| EPA | Emerging Payments Association. http://emergingpayments.org/ |
| EPC | European Payments Council. http://www.europeanpayments-council.eu/ |
| ESC | Economics and Statistics Committee of the EUF. https://euf.eu.com/what-is-euf/organisation/economics-and-statistics-committee.html |
| ESMA | European Securities and Markets Authority. www.esma.europa.eu/ |
| ESRB | European Systemic Risk Board. www.esrb.europa.eu |
| EUF | European Union Federation for the Factoring and Commercial Finance Industry. www.euf.eu.com |
| ExCom | Executive Committee of the EUF. https://euf.eu.com/what-is-euf/organisation/economics-and-statistics-committee.html |
| FAAN | Factoring & Asset-Based Financing Association Netherlands. www.factoringnederland.nl/over-faan |
| FATF | Financial Action Task Force (on Money Laundering). www.fatf-gafi.org |
| FCA | Financial Conduct Authority. www.fca.org.uk/ |
| FCI | Factors Chain International. www.fci.nl |
| FiREapps | The Leader in Global Fx Management Technology. Available at www.Fireapps.com |
| FLA | Associação Portuguesa de Leasing, Factoring e Renting Portugal. www.alf.pt |
| FoL | Finans og Leasing Denmark. www.finansogleasing.dk |
| FSB | Financial Stability Board. www.fsb.org |
| HFA | The Hellenic Factors Association Greece. www.hellenicfactors.gr |
| ICC | International Chamber of Commerce. iccwbo.org |
| ITFA | International Trade and Forfaiting Association. itfa.org |
| LiquidX | The largest marketplace for liquidity. Available at liquidx.com/marketplace-in-action |
| NACHA | National Automated Clearing House Association. www.nacha.org/ |
| OECD | Organisation for Economic Co-operation and Development. www.oecd.org/about |
| OFV | Österreichischer Factoring Verband Austria. www.factoring.at |
| PSR | Payment Systems Regulator. www.psr.org.uk/ |
| PUK | Payments UK. http://www.paymentsuk.org.uk/ |
| PZF | Polski Związek Faktorów Poland. www.factoring.pl |
| SBA | Swedish Bankers Association Sweden. www.swedishbankers.se |

| | |
|----------|--|
| Swift | The global provider of secure financial messaging services. www.swift.com |
| UCA | UK Cards Association. http://www.theukcardsassociation.org.uk/welcome/ |
| UEAPME | European Association of Craft, Small and Medium-Sized Enterprises. www.ueapme.com |
| UNCITRAL | The United Nations Commission on International Trade Law which may be Foundation F-IRB or Advanced A-IRB. www.uncitral.org/ |

NOTE

1. All sites accessed 10 February 2018.

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Introduction to Procurement Finance

CONCEPT OF PROCUREMENT FINANCE

The financial crisis of 2008 brought strong competitive pressures on the organizations. Large organizations are challenged by small ones that are more specialized. On the other side, the small and medium-sized enterprises (SMEs) have difficulties in accessing to the credit.

The aim of this book is to demonstrate how it is possible and useful to exploit the digital transformation to support and innovate the procurement organizations and the financial institutions. The aim is to demonstrate that all the actors involved in the procurement ecosystem can benefit from the digital transformation.

To reach this objective, it is important to consider an integrated approach, including¹:

- trade finance;
- supply chain finance;
- payments management.

This integrated vision is called procurement finance. It is represented by the dashed lines in Fig. 1.1. Procurement finance goes beyond the trade finance, supply chain finance, and payments management. It encompasses the entire extended procurement processes. To clarify this statement, it is useful to consider what has been defined as the ultimate supply chain.²

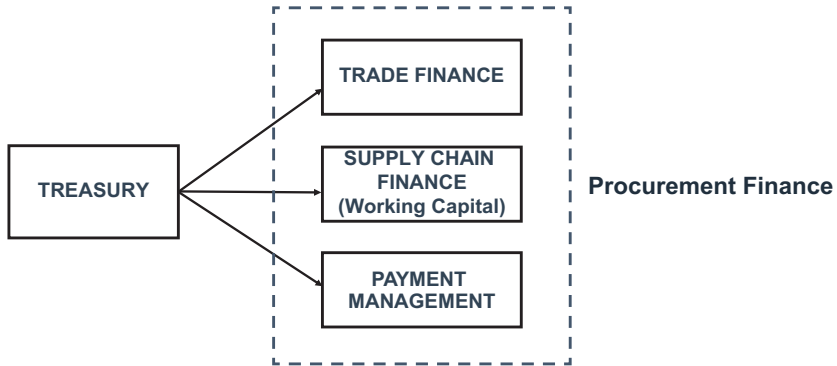


Fig. 1.1 Procurement finance

More and more of the operations of an organization are network shaped rather than single flow shaped. Besides, the real objective of the process is to add value to the organization: the supply should involve co-design, co-development, cooperations, and co-marketing and sales. For all these reasons, this book considers procurement finance as an optimization of the value network processes rather than only of the supply chain.³

There are several pillars to consider in procurement finance (Table 1.1).⁴

All three components of procurement finance are challenging. In approaching procurement finance, it is necessary to consider the current global scenario. Globalization creates a complex combination among outsourcing, global supply, and distribution networks. This leads to an increase in the number of actors and of their relationships. Globalization of processes and relationships is commonly referred to as one of the underlying factors of the ever-increasing vulnerability of procurement for the organizations.⁵ In this new situation, multinational organizations, followed more and more by SMEs, need to take new approaches to better support the increasing global trade and at the same time to act on the new challenges and remediate to the risks.

Organizations are adapting to the new competitive scenarios by managing complexity, disintermediation, innovation, networking, and flexibility. This is the base to rethink, restructure, and innovate all processes and relationships along the value network, starting with the procurement. It is important to take into account that an innovative solution brings benefits but can bring also several risks and uncertainty regarding the desired results with the actual ones. This aspect is one of the main barriers to inno-

Table 1.1 Pillars in procurement finance

| <i>Financing</i> | <i>Risk management</i> | <i>Payment</i> | <i>Information</i> |
|---|--|---|---|
| Available to all parties (buyer/vendor/logistical operator) | Risk sharing | Secure | Shipment and storing status |
| Available at several steps in the transaction | Country, financial institutions, and transaction risks | Timely and prompt | Quality of products shipped and services delivered |
| | Logistics risks | Global | Total cost of products shipped and services delivered |
| | Export credit | Taking into account currency fluctuations | |
| | Insurance | | |

Adapted by the author based on Malaket, A. (2014). *Financing Trade and International Supply Chain*. Gower Publish, Farnham, UK

vate. It is essential to manage it. This book considers the ways to cope with these risks, by managing them and understanding the main key factors within procurement finance.

The creation of value by an organization is determined by its ability to generate long-term cash flows through operational management.⁶ Cash flows are an indicator of an organization's sustainable development capacity and the ability to remunerate and repay debt and capital. This is an objective measure of the organization performance.

The digital transformation is introducing deep changes also in treasury tools, systems, and processes.⁷ Treasury needs to be prepared for these changes not only to capture all the potential benefits but also to manage possible challenges and risks.

Treasury is the underlying asset of the correct cash inflows and cash outflows management. It is required to help maintain an efficient structure of working capital, given the increasing competitive environment. To maintain the proper day-to-day management, treasury needs to lean and digitize as much as possible its own processing. It must have secure systems and processes to minimize operational risks by maximizing efficiency in managing working capital and optimize liquidity.

Technological evolution in payment systems is perhaps one of the most obvious aspects for procurement finance since scope, cost, and quality performance are perceptible in day-to-day business management. The main

efforts are focused on shrinking payment execution times, visibility, and traceability of transactions.⁸ In addition, the digital transformation is deeply changing the architectural landscape of payment systems.⁹ It could turn towards distributed solutions that can potentially provide faster and traceable transfers between counterparts. New solutions bring improvements and benefits. They also bring operational risks and potential frauds that must be known, monitored, and mitigated.

Being in an increasingly globalized ecosystem, the international trade transactions are increasing. With the slowdown in the world economic growth, the trade finance industry has also suffered a certain impact. It is still maintaining a relatively optimistic growth. There are several estimations not completely consistent for this potential growth. All of them confirm the growth of the market. Trade finance market size is expected to maintain the average annual growth rate of 10.58 percent from \$25,290 million in 2014 to \$34,200 million in 2017.¹⁰ BisReport analysts believe that in the next few years, trade finance market size will expand. They expect that by 2022 the market size of the trade finance will reach \$54,890 million.¹¹ With increased focus on global trade, the trade finance market is likely to witness a strong growth in the coming years. The global trade finance market is expected to reach USD 71,000 million by the end of 2023, growing at a compound annual growth rate (CAGR) of 3.0 percent between 2017 and 2023.¹²

For this reason, it is necessary to consider an advanced payments management taking into account especially the different currencies in the international transactions. New solutions are important in facilitating the cross-border transactions. In this international ecosystem, the actors require innovative solutions of procurement finance oriented to increasing value added. Innovative procurement finance solutions allow especially SMEs in financing their operations in an effective, efficient, and economical way.

To deal with the changes in the current trade, it is necessary to consider not only the physical flow of procurement but also the financial and information flows with an integrated vision. It is necessary to bridge the gap between the business and financial worlds. An integrated approach is necessary while being useful for taking into account simplification and digitization at the same time.

The development of smart approaches and collaboration in procurement can accelerate the modernization and transformation of the entire organization. The task of the procurement is to be a model of use of new solutions, encouraging its use intelligently to support collaboration.¹³

STRUCTURE OF THIS BOOK

In the light of the analysis of the previous section, this book intends to focus on the management of the financial flows along the full procurement cycle. It shows how innovative solutions are able to play a relevant role in an integrated context supporting the procurement transactions, also international, in terms of agility, rapidity, visibility, flexibility, and compliance.

The objective of this book is to emphasize some innovative areas useful in transforming procurement finance thanks to process optimization and digital transformation especially for SMEs.

This book considers the entire procurement ecosystem, including organizations, financial institutions, and public central and local organizations. In this vision, the role of the financial institutions is more relevant. They should recognize their role as platforms.¹⁴

This book is structured through eight chapters. At their basis, there is the presentation, in a coordinated way, of new solutions.

The first chapter defines procurement finance. This function is increasingly positioned as a strategic function within an organization. Considering the importance of this function and taking into account the dynamic, volatile, and global scenario in which the organizations need to operate, this chapter proposes the necessity of an increased agility in the organizations, especially in the procurement finance sector.¹⁵ The agility can be improved through new solutions. They allow adapting to a changing environment in a flexible and rapid way. New concepts are emerging, such as the ones connected with the fintech approach: the fusion between technology and finance.¹⁶ The fintech organizations often compete with the traditional financial institutions to provide innovative financial services in rapid, easy, direct, and transparent ways. They are able to satisfy the needs of a large number of customers and not only of a specific privileged range of customers of the financial institution. The digital transformation allows easier access to any organization which needs financial services. Some financial institutions have started to collaborate with the fintech ecosystem to create an environment able to satisfy all customer needs.

The second chapter examines in depth the procurement processes. It describes and underlines the three important phases of the function: information/digital flow, physical flow, and financial flow. This distinction is important especially for the following chapters. It underlines the importance of the collaboration within and among organizations along the entire extended value network not only in regard to physical and information flows but also considering the financial flows.

The third chapter describes the useful linkage between procurement, finance, and information and communication technology (ICT). It shows the possibility to get a shared objective and thus obtaining trusted relations among all the actors in the ecosystem. The physical and the financial flows in procurement need an alignment. Such an alignment helps to overcome the gap between the industrial vision and the financial vision under an integrated vision increasingly necessary in this current global scenario. This chapter describes the roadmap from trade finance to supply chain finance (SCF), and to procurement finance. It defines the transition from one to another. It stresses the importance of procurement finance in a market that is evolving globally. This chapter underlines the need for streamlining the processes supporting the information/digital flows and facilitating the access to financial support—trying to mitigate challenges and risks related to procurement, especially if global. Procurement finance is represented as a holistic vision of the procurement and finance considering it an ecosystem of relationships and not only a bilateral transaction. The payment times increase in all the chains, and the optimization of working capital is needed in the organizations. Considering these needs, procurement finance is presented as an innovative approach able to optimize the working capital and the cash flows along the value network through the collaboration among partners. Procurement finance is a new integration concept that includes trade finance, supply chain finance, and payments management. It supports the organizations with an integrated vision related to the linkage between finance and procurement. The final part of the chapter deals with the key performance indicators (KPIs) to monitor and support the implementation and management of the new solutions.

The fourth chapter describes the vision of this book of an agile procurement finance. Agility is essential in the current volatile environments, to be able to adapt and catch all the opportunities which might arise. Agile procurement finance is based on an integrated lean and digitized approach to take into account at the same time the improvements in the processes and their simplification and digitization.¹⁷

The fifth chapter describes in depth the new solutions supporting procurement finance. It reports several examples of concrete applications. The examples are classified based on the following sections: portals, marketplaces, risk management, advance payments, and document management. It shows how the digital transformation can support each of these aspects. It highlights the opportunities offered by the new solutions to

optimize payment times, dematerialize documents, improve transactions' traceability, and mitigate risks. The vision is of an increasing digital future.

The sixth chapter has a longer-term perspective. It provides examples, which should find in the near future many practical applications. These applications move towards an integrated ecosystem which sees a role of platforms for the financial institutions. This chapter focuses on the organizational and technological procurement finance solutions. Fintech organizations are the paradigm of organizational innovations, while some of the relevant innovative solutions are connected with blockchain, cloud computing, and artificial intelligence. The combination of these solutions leads to a procurement finance 4.0 fully embedded and supportive of the Industry 4.0 initiatives. This chapter clarifies how all these innovative solutions can be increasingly exploited to obtain benefits especially in the financial aspects but also from an organization point of view.

The seventh chapter focuses on the role of SMEs in the economy, and the difficulty for them to access to the credit from the financial institutions. This chapter reports an empirical study on the application of procurement finance in large European organizations. This study supports a new vision which is important also for the SMEs. It is a vision of the procurement finance as a collaborative platform which allows the SMEs to get substantial benefits. It is useful to reach an integrated credit rating that considers a procurement perspective and not only partial financial perspectives.

The eighth chapter draws the conclusions of the book. The final part of the book contains an extensive glossary, reference, and website lists.

The book is full of business cases relative to the concrete applications of the concepts described.

CONCLUSIONS

Looking at a single organization may not be enough to provide credit to the organizations for supporting them in times of difficulty while at the same time growing procurement finance as part of the digital transformation. By considering the ecosystem allows organizations to find new and rewarding opportunities. It is only necessary to reap and manage them in the proper way.

NOTES

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Procurement Processes and Finance

INTRODUCTION

This chapter defines the procurement cycle and describes its various processes. It analyzes the details of the relevant procurement processes. Procurement is considered to include the entire cycle from the moment of an acquisition request up to the payment to a vendor.

The procurement processes are both strategic and operational. In the procurement processes, there are essentially three levels¹ (Fig. 2.1):

- a physical flow of the products and services;
- a financial flow;
- an information/digital flow.

The physical flow encompasses services or products that move between the suppliers and buyers within the supply chain. The financial flow consists of invoices, credit notes, investments, cash, and payments. It flows typically in the opposite direction of the flow of goods and services. The information flow comprises information associated with products and services as well as payment flows through the value network. It includes purchase orders (POs), inventory documents, confirmations, and invoices, among others. The information flow initiates the other two flows. Information handling is more and more done via information and communication technologies. This flow is also indicated as the digital flow.

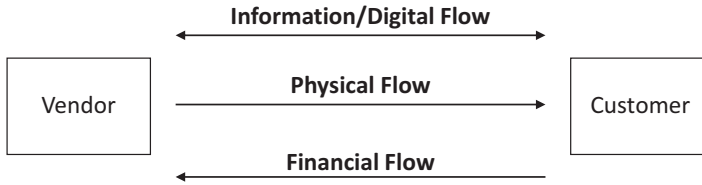


Fig. 2.1 The three flows in procurement

Table 2.1 Flows within procurement finance

| | |
|--------------------------|--|
| Material flow | Products Services |
| =====> | |
| Information/digital flow | Plans/budget/forecasts Demand/orders information Procurement documentation |
| <===== | Alerts Quality Knowledge |
| Financial flow | Costs Funds |
| <===== | Financial resources Human resources |

Adapted from the author from Pfohl, H. C., & Gomm, M. (2009). Supply chain finance: optimizing financial flows in supply chains. *Logistics research*, 1(3–4), 149–161

These flows can be further analyzed (Table 2.1).²

This chapter considers the first two processes. Later chapters examine the financial flow. These three flows are interconnected. Finance providers offer their services in the context of the financial requirements triggered by purchase orders or contracts, invoices, receivables, claims, and related pre-shipment and post-shipment processes along the entire and extended value network. Consequently, the financial flow is largely “event-driven”.³ Each intervention (finance, risk mitigation, or payment) in the financial flow is driven by an event or a trigger in the physical and informational flows.⁴ The development of advanced technologies and procedures to track and control events in the physical/digital flow creates opportunities to digitize the initiation of the financial flow interventions in the value network.

At the beginning of this chapter, the procurement processes are described starting with procurement marketing, acquisition request, and sourcing up to the payment to a vendor. This chapter analyzes also the physical distribution, considering transportation, warehousing, and delivery. Finally, the chapter examines the important vendor rating process.

PROCUREMENT

Procurement includes all processes able to ensure that the products and services are available for the customer according to the agreed schedule.⁵ It can create a win-win situation for both the buyers and the vendors since it impacts on the overall procurement performance.

According to CIPS, the Chartered Institute of Procurement and Supply, procurement is:

The business management function that ensures the identification, sourcing, access, and management of the external resources that an organization needs or may need to fulfill its strategic objectives.⁶

Procurement includes all activities related to the acquiring and managing the material and services required by the organization.

Procurement is present in the public and the private organizations. In both cases, it is important that the procurement operators be effective, efficient, economical, and ethical. The procurement function analyzes the potential opportunities that the supply market offers. It then applies the agreed strategies to obtain the best possible outcome from the market to satisfy the organization and all its stakeholders and customers.⁷ The term procurement does not refer to a single action, but it covers all the processes connected with external resources used by the organization: from the identification of the organization needs up to the disposal or cessation of the necessary products and services that satisfy such needs.

The current economic environment influences the evolution of the concept of procurement also in the literature. This evolution has moved procurement from a transactional and administrative role towards a strategic role.⁸ This last aspect includes strategic partnerships and value network management. Procurement objectives are no longer considered only primarily cost reduction. Procurement is strategic for the creation of value for the organization; as such, it is considered a core competency in many types of organizations.⁹