CHAPTER 3

**The purchasing process and procedures**

**Explain the activities involved in a purchasing transaction**

As we know the purchasing cycle is known as the purchasing process and has various procedures. There are 13 general steps that we follow in this chapter.

1. Origin of need - mainly the need arises in the inventory store when it decreases to a certain level. Today we have computer information systems in place to prevent urgent orders being made. MRS = materials requirements planning system is used for info on size, specifics of need and schedules the purchasing for MPS. MPS = master production schedule also prints the order forms. JIT = just in time is also a computer info system that indicates when an order need to be made urgently. PG 48
2. Specification – 3 Types

Purchasing requisition = used for office equip, stationary, protective clothing and repeat routine purchases.

Travelling requisitions = used by stores for repeated purchasing of standard inventory requirements.

Kanbans = these are information cards and are part of the firms internal information systems. PG 48/49

1. Source identification – we use information technology systems. EDI = electronic data interchange is used to assist in finding potential suppliers without too much effort. I.e. using price lists and catalogues of potential suppliers. PG 50
2. Selection of suppliers – the usual procedure is to select suppliers who have been recommended and have a good service record. The buyers will select the supplier with the shortest lead time if the cost price is fixed. PG 50
3. Bidding and negotiating – this is an electronic process which can reduce the time-consuming tendering procedure of using info technology. NB the organisation has the right to negotiate after the bidding procedure is concluded. Therefore the bidding process does not identify the actual supplier the contract will be awarded to. PG 50/52
4. Placing the order/ concluding the contract – issuing the order form is a legal binding step. The supplier receives the original form. The form contains info such as quantities, prices, delivery dates, point of delivery, quality and discounts. PG 52
5. Follow up and expediting/ contract administration – The suppliers often send an acknowledgement of the order to confirm the delivery date. If this is done by using info technology (computer system) the process goes a lot faster. The purpose of this step to make sure the supplier does not fall behind on the delivery date. Follow up comes into play when the order was not received on the delivery date. This is done via telephone, email or letter. You can use the info system to print out standard follow up letters and reports to save time. PG 54
6. Receipt, inspection and distribution – The receiving function should receive delivery only in special cases with the supplier be allowed to deliver the product to the user function. The receiving function should inspect the delivery and produce a receiving note with details of the delivery on. Any faults, shortage or damaged goods must be noted on the receiving note.

Inspection of incoming goods – This is done by the receiving function in the organisation. PG 54/55

1. Handling faulty consignments and rejections – The purchasing function is responsible for this step. There are 3 reasons for this,

1. Communication with the supplier base is the prime function of the purchasing function.

2. The purchasing function is responsible for the long-term supplier relations.

3. The purchasing functions responsibility id foster and maintain TQM approach with the suppliers. This task requires diplomacy and reasonable action from the purchasing function. PG 55

1. Analysing the invoice – Either by purchasing or financial function. Better to be done by purchasing function. The NB aspects to check are: invoice prices vs order form/quotation, Check calculations and discounts, compare quantities received to order form, confirm invoice details agree to T&C of order form. NB check discount date for payment to be made to so the firm does not lose out on any discounts. PG 55
2. Closing the order/ payment – All documentation is sent to the financial function to be paid. This can be done electronically and there details saved for future orders. PG 55
3. Maintaining files and records – Final step is to keep a record system for all copies of orders, receiving notes, inspection orders, part delivery and invoices. Either electronically or manually. Manually will create a lot of bulk files filled with a paper trail whereas electronically you can save the info in a file and keep the soft copy PG 55
4. Measuring supplier performance – Giving feedback to the suppliers for their actual performance is the logical last step and this should also be seen as the final step in the purchasing cycle. PG 55/56

**Align transaction documents and parties involves to activities in the purchasing procedures**

**Origin of need PG 49**

Documents = MPS, purchasing and travelling requisitions, materials lists, kanban, electronic transfer

Parties involved = IT Function

**Specification PG 49**

Parties involved = Ultimate customer

**Identifying the source PG 49**

Documents = Electronic catalogue, bids

Parties involved = Purchasing and supply function and IT Function

**Bidding and negotiating PG 49**

Documents = Tender documents

Parties involved = Purchasing and supply function and Tender function

**Placing order form PG 49**

Documents = order form/contract/specifications

Parties involved = Purchasing and supply function and Legal function

The financial function receives a copy of the placing order form for verifying the invoice for payment, the receiving function receives a copy to be notified for delivery, the inspection function receives a copy with detailed specifications of order, the purchasing function keeps a copy for follow up and for control measures. PG 52/54

**Following up on contract administration PG 49**

Documents = Electronic reminder

Parties involved = Purchasing and supply function

**Receiving note, inspection and distribution PG 49**

Documents = order form/delivery note/inspection report

Parties involved = Purchasing and supply function

The receiving note should be sent to the user function, purchasing department and the supplier. PG 54

**Handling faulty consignments and rejections PG 49**

Documents = All above documents

Parties involved = Purchasing and supply function and External customers

**Analysing the invoice PG 49**

Documents = order form/delivery note/ invoice

Parties involved = Purchasing and supply function

This is either done by purchasing or financial function. Better to be done by purchasing function. PG 55

**Closing the order/ Payment PG 49**

Documents = order form/invoice

Parties involved = Purchasing and supply function, Finance and IT

All documentation is sent to the financial function to be paid. PG 55

**Maintaining files and records PG 49**

Documents = all above documents

Parties involved = Purchasing and supply function and IT function

The purchasing function should maintain copies of all the documentation involved. PG 55

**Measuring supplier’s performance PG 49**

Documents = Performance evaluation forms

Parties involved = Purchasing and supply function and External customers

**Contrast the manual and automated execution of activities in the purchasing procedure**