**MNP 2601 Purchasing Management**

**Chapter 3: Purchasing processes and procedures**

**Procedures in the purchasing process**

No standard purchasing procedure is equally suitable for war businesses.

The following general steps are identified:

* Origin of the need
* Specification
* Source identification
* Selection of suppliers
* Bidding and negotiation
* Following up and expediting/contract administration
* Receipt, inspection and distribution
* Inspection of the incoming goods
* Handling faulty consignments and rejections
* Analyzing the invoice
* Closing the order – Payment
* Maintaining files and records
* Measuring supplier performance

**Origin of the need**

The need for specific materials originates with the users of the goods and services.

Need may arise for production, maintenance and cleaning materials, stationery, office or plant equipment etc

It is important the user functions identify the need in good time to avoid urgent orders. It is essential to create specific purchasing procedures.

Mr. Control system of the inventory function should be designed to anticipate the production functions need for production materials and to maintain adequate levels of supplies.

Where a materials requirement planning (MRP) system is used, the system not only provides information on the size and the specific description of the need, but also schedules the purchasing in terms of the master production schedule (MPS).

**Description or specifications**

The materials, components and services needed by the user function is communicated to the purchasing function by means of one of the following documents.

* Purchasing requisitions – Office Equipment, stationery and protective clothing etc
* Travelling requisitions - repeated purchasing of standard inventory requirements
* Materials list – material requirements related to a particular production run or product group
* Kanbans – information cards forming part of the JIT system. Provide a clear description and specification of the firms specific needs.

It is the responsibility of both the buyer and the user to ensure that the description meet the standards.

Is the buyers prerogative to question specifications on purchasing requisitions, travelling requisitions and materials lists. It’s important that buyers do not alter obscure, superficial or incomplete specifications without consulting the user.

Alterations to requisitions must be authorized.

**Supply source identification**

One of the activities of the purchasing process to which IT has contributed is the purchasing function.

IT innovation e.g. eprocurement, electronic data interchange, electronic catalogues are of great value in identifying potential suppliers.

**Selection of suppliers**

When standard products are to be purchased in relatively small quantities the usual procedure is to use the supplier recommended on the requisition.

In the case of travelling requisitions, the names of three or four suppliers are usually required. An open order contract will have often been negotiated with the suppliers. Depending on the terms of the contract the buyer will likely select the supplier with the shortest lead time as prices will have been fixed by the open order agreement.

Purchasing highly specialized equipment – written quotations must be submitted with requisitions

**Bidding and negotiation**

Business is reserve the right to negotiate after the bidding procedure has been completed.

The bidding process does not necessarily identify the actual supplier to whom the contract will be awarded – a frowned upon activity.

**Placing the order/concluding the contract**

Issuing an official order for the supply of goods and services is a legally binding step.

Essential that the authority and responsibility for placing orders are vested in only the purchasing function.

All orders are subject to the terms and conditions printed on the reverse side of an official order, except in exceptional circumstances.

The order form is the source document for a whole series of activities to been performed after the order has been placed. Several copies of the order are made and distributed to the following actions or groups:

* Supply receives the original order.
* Financial function receives a copy for verifying the invoice for payment.
* Receiving function receives a copy notifying it to expect a delivery.
* The inspection function receives a copy with detailed information on the specifications, enabling it to plan the inspection task
* Purchasing function keeps a copy for follow up and expediting as a control measure
* The last copy stays in the order book as a permanent record of the transaction.

Order form issued to confirm a telephone order should clearly state that it is a confirmation.

As purchasing and supply does not have technical knowledge to perform all tasks of contract administration, purchasing, technical, financial and legal experts will be part of the administration team.

IT has largely done away with the tedious method of committing orders to paper.

**Following up and expediting/contract administration**

A specialist group and is usually responsible for following up and expediting orders.

Suppliers often send acknowledgement of orders indicating a fixed delivery date.

Expediting consists of the constant monitoring of the suppliers progress with the order.

Expediting is particularly important in international purchasing.

Follow up comes into operation when orders are not received on the delivery date

**Receipt inspection and distribution**

The receiving function should receive all deliveries.

Only in exceptional cases should a supplier be allowed to deliver directly to the user function.

If the receiving function starts to:

* carry out a superficial inspection on delivery
* ensure packaging has not been damaged
* compare quantities with those on the official order

A receiving note with full details should be completed promptly. Any shortages or deficiencies should be recorded clearly.

Copies of the receiving note should be forwarded to the requisitioner, the purchasing department and the supplier.

The receiving function is responsible for the orderly internal distribution of deliveries to the user functions.

**Handling faulty consignments and rejections**

The purchasing function should be responsible for all negotiations with the supplier over faulty consignments for the following reasons:

* Communication with the supply base is the primary responsibility of the purchasing function.
* The purchasing function is responsible for long term supplier relations
* It is the purchasing functions responsibility to foster and maintain a TQM approach with suppliers

**Analyzing the invoice**

The suppliers invoices analysed by either the purchasing or financial function.

Invoices are analysed and compared with the official order and delivery note. The most important aspect of this task include:

* Comparing invoice prices with those on the order
* Dear fine calculations
* Checking discounts
* Comparing quantities received with those ordered.
* Confirming the details on the invoice are in full agreement with the terms and conditions of the original order.

An important task in analyzing the invoice is to identify cash discounts i.e. 2.5% within 30 days

**Closing the order**

Relevant documents are submitted to the financial function under cover of a request for payment

**Maintaining files and records**

Finance step in the purchasing cycle is to keep a records system for copies of orders

Electronic records eliminate the need for vast paper files of transactions and increased accessibility to information for purchasing personnel

**Measures supplier performance**

Supplier performance evaluation is a critical part of the purchasing cycle.

The management of the supply base is regarded as a strategic responsibility of purchasing.