Principles of Business & Finance

**4.02 – Implement purchasing activities to obtain business supplies, equipment, and services**

**Key Terms**

The buying of goods and services for a business is purchasing.

The form that a business fills out to order goods is purchase order.

A series of sequential steps taken by purchasing specialists to buy goods and services for a business is ­­­­­purchasing process.

**Purchasing Objectives**

One way to obtain the best value on a purchase is to set purchasing objectives and carefully follow the purchasing cycle.

Below is a sample list of purchasing objectives:

1. Provide an uninterrupted flow of materials and services for company operations
2. Find reliable alternative sources of supply.
3. Buy at the most economic order quantities.
4. Buy the best value: a combination of right quality at the best price with the best supplier service.
5. Maintain good relations with vendors.

**Purchasing Cycle-Step 1 Determine Needs**

* Before you buy anything, it is necessary to know what you need to buy and how much.
* Research market
* Determining what you need involves not only quantity, but quality as well.

**Purchasing Cycle-Step 2 Contact at Least 3 Suppliers**

* Call, email or visit at least three reputable suppliers of the goods you wish to purchase.
* The more suppliers you contact, the more chance you have of getting the best deal.

**Purchasing Cycle-Step 3 Obtain Written Confirmation from Suppliers**

* Obtain prices to supply goods &/or services using an identical specification, terms and conditions.
* Consider who has the best value in terms of:
* Price
* Service
* Consistent quality
* Obtain written information from suppliers of verbal quote and keep to file with office copy of purchase order.

**Purchasing Cycle-Step 4 Compare all Prices on a “like for like” basis**

* Compare the price of the suppliers that have the best service and most consistent quality.
* At this point you can also negotiate. If two or more suppliers are equal in most all areas, use that as leverage in bargaining.
* Example: Coke and Pepsi both have equal service and quality. You would rather purchase from Coke, so you tell them you are considering purchasing from Pepsi. To avoid losing a potential customer/client, they may be willing to lower their price to get you to commit to them.

**Purchasing Cycle-Step 5 Issue Purchase Order to Supplier**

* Complete purchase order and send to the supplier of your choice.
* Find quotations received (from every supplier) with a hard copy of the purchase order and keep it in the office.
* Remember: Written communication in business is especially important because it can serve as proof to a verbal agreement. Storing the quotes and purchase order together can keep you from forgetting the agreement, and it can hold the supplier accountable to the terms of which you agreed.

**Purchasing Cycle-Step 6 Receive Goods and Pay Invoice**

* After goods are received, check for errors:
* Quantity: Are all the ordered goods here?
* Quality: Are the goods received in perfect condition?
* If all is well, sign delivery note and pay invoice.
* If you find errors, contact the supplier right away.
* File the invoice with the quotes and purchase order.

**Place Orders & Reorders**

**What is a purchase order form?**

* A purchase order is a business form that initiates a purchase between businesses – a buyer and a seller.
* The form is an agreement for a buyer to purchase goods or services from a seller according to prearranged conditions.
* The purchase order may be used later to match up to an invoice to ensure accurate payment.

**Factors to Consider When Placing Orders/Reorders**

* Quantity: How much of the product you need to order.
* Lead time: The time it takes the supplier or the manufacturing process to provide the ordered units. Therefore, you should have at least enough inventory to last during the lead time.
* Reorder point: When to submit your next order.
* Reorder Point = When to submit your next order
* Reorder amount: How much to order when you reorder.

**Components of a Purchase Order**

1. Contact Information: Name and contact info of the buyer.
2. Purchase Order number: A buyer assigns a unique number to this order so it is easily accessible at a later date.
3. Vendor ID: If known, a seller may include a vendor ID number, which may allow the seller to more easily confirm the purchaser and complete the order.
4. To: Address of the seller.
5. Ship/Bill to: Identifies the address for billing and shipping.
6. Date: Date the order was placed.
7. Date Required: When the goods are needed.
8. Ship Via: Preferred method of shipping (ex: USPS, UPS, FedEX).
9. Terms: Timeframe within which payment is due.
10. Item(s) & Description: Details to ensure accurate ordering.
11. Price, Quantity, Totals: List the price and quantity of each item to determine totals.
12. Notes: List of special needs or requests to the seller.