After a policy has been formulated to guide departmental action towards a basic company objective, detailed operating procedures must be developed to implement the policy. A procedure outlines in detail the specific action to be taken by designated personnel to accomplish a desired task. It is a precise guide to action. In short, a procedure establishes the way of doing things.
A procurement executive should develop his departments' procedures in accordance with four fundamental concepts. First, he must bear in mind that procedures are not ends in themselves. They are means to an end. The objective is to develop a series of procedures that facilitate accomplishment of a given task with minimum effort and "red tape". This means that procedures should be as simple and as clearly defined as possible and should be placed in writing to ensure accurate communication.

Second, procedures must be designed to facilitate communication and co-ordination of the efforts of one work group with another. In developing a procedure, it is essential that an executive look beyond the procedure itself. He must consider its relationship to existing procedures, particularly to ensure efficient integration with the other parts of the total system.

Third, since the total procurement system is made up of many procedures, effective operation requires that responsibility be clearly designated for the accomplishment of each step of each procedure. Failure to do so results in the overlapping of effort and in
troublesome conflicts between operating personnel*.

Finally, procedures permit "management by exception". A procedure should establish at the lowest possible organizational level the best method for conducting a routine activity. If clearly and completely formulated, a procedure enables an employee to handle the activity with a minimum of direct supervision. Consultation with a manager is required only when conditions arise that are not covered by the procedure.

**General Procurement Procedures for Routine Re-purchases**

A Purchasing Department buys many different types of materials and services, and the procedures used in completing a total transaction normally vary among the different types of purchases. However, the general cycle of activities in purchasing for most production materials is fairly standardized. The following steps constitute the typical purchasing cycle (this excludes buying of capital equipment, new purchases and changing from a Regular to New Supplier).

*The problems resulting from procedures that cut across departmental lines have led many firms to create a small corporate staff of systems analysts. This approach ensures that procedures and systems are developed in the best interests of the total operation.
However stages 6 to 10 may remain unchanged.

1. The ascertainment of the need.
2. An accurate statement of the character and amount of the article or commodity desired.
3. The transmission of the purchase requisition.
4. Negotiation for the possible sources of supply.
5. The analysis of the proposals, the selection of the vendor, and the placing of the order.
6. The follow-up on the order.
7. The receipt and inspection of the goods.
8. Rejections.
9. The checking of the invoice and payment of the supplier.
10. Scrap and waste disposal.

The precise form the documents take varies widely from one company to another. The important point of note, however, is that properly controlled purchase requires extensive communication with numerous work groups. Procurement procedures constitute the framework within which this task is accomplished.
Ascertaining the Need

It is, of course, obvious that any purchase originates with the recognition of a definite need by someone in the organization. It is one of the duties of the person responsible for a particular activity to know what the individual requirements of the unit are: what and how much and when it is needed. This may result merely in the sending of a material requisition to the Stores Department. Occasionally, such requirements may be met by the transfer of surplus stock from another using department. If the need of the using department is accurately determined the emergency and rush orders could be eliminated.

Emergency and Rush Orders

Emergency and Rush Orders should be kept to a minimum and they should be resorted sparingly on certain justifiable reasons only. Generally faulty inventory control, poor production planning and lack of confidence by the user department in the Purchase Department to get material on time are some of the reasons giving rise to emergency or rush orders.
Small Orders

Small Orders are uneconomical to the producer so also to the buyer from the point of view of administrative cost. Their number should be reduced and whenever possible "group items" should be included in one simple order.

Accurate Description of Commodity Desired

A number of writers strongly advocate a general problem solving approach to this area, advising careful definition by users and procurement and bringing this problem to the attention of suppliers. This approach would solve some of the traditional problems encountered when goods or services are specified without careful attention to the real performance required or the market's capability. This approach sounds sensible enough and will undoubtedly continue to gain popularity. Nevertheless, the bulk of today's requirements are still specified in the traditional manner and the need for accuracy in inputs data is obvious.

The survey of engineering industry of 100 units indicate that quality in these companies is presently
described as follows:

Table 6.1

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand name</td>
<td>- 20</td>
</tr>
<tr>
<td>Commercial standards</td>
<td>- 15</td>
</tr>
<tr>
<td>Specifications</td>
<td>- 50</td>
</tr>
<tr>
<td>Combination</td>
<td>- 5</td>
</tr>
<tr>
<td>All other methods</td>
<td>- 10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

(Figures indicate percentages of total items purchased)

It will be seen that in spite of several methods available to describe the need, often a combination of two or more methods are used.

**Transmission of Purchase Requisition**

Although less than 10 percent of Purchasing Department notify the requisitioner of the receipts of a requisition, it is good practice to make two or three copies of the requisition; one to be retained by the issuer and filed numerically, and the other to be forwarded to the Purchasing Department. Another practice is that of requiring the general Stores Department to keep or make out a list in duplicate of the requisitions sent each day (or at any one time) and
to send one copy of the list to the Purchasing Office.

When items are not covered by contract and therefore carry no price agreement request for quotations will be dictated or sent out on standard inquiry blanks provided for this purpose. In cases where quotations are to be requested, a list of the names of potential vendors will be written on the back of the requisitions.

A quotation sheet will be filled out and attached to the requisition with all essential information, which will show the date, vendor's name to whom the inquiry is sent, the list price, discount, net price, f.o.b. point and cash terms.

The Travelling Requisition

Many items are repetitive and hence the same information has to be written again and again. In such cases the travelling requisition may be used. Travelling requisitions are record cards and represent the history of the items. Between the stores and purchase they travel to and fro in effecting purchase transactions for the items covered by cash card. The travelling requisitions eliminate cumbersome paperwork and thus help reducing administrative cost.
Under this set up, care is to be exercised that the using department is not allowed to supercede the authority of the purchase department and very small value items can be bought by using a special cash fund system. This will help prevent any possible undesirable result in the system.

**Analysis of Bids: Placing Order**

The analysis of the proposals and the selection of the vendor lead naturally to the placing of an order. Since problems of negotiation, assessment, analysis of bids and the selection of the vendor are matters of judgement, it is necessary only to indicate here that they are steps in purchasing. A form is used by many firms to assist in making an analysis of the proposals, but there is no uniformity of practice. Purchasing orders may at times be placed without securing quotations at all.

A variety of terms and conditions offered in quotations submitted by the vendors complicates the analysis of bids. One instance is that of "Discounts" on quantity and early payment. This needs further elucidation.
Discounts*

The term "discount" has a lot of glamour attached and often it is deceptive. Trade discount, quantity discount (or bulk discount), turnover discount, seasonal discount and cash discount constitute a vital role in the mechanism of industrial pricing. The approximate calculation of discount can be done by an arithmetical formula, known as E.O.Q (Economic Order Quantity), details of which are discussed in Chapter VII.

Knowledge of discounts on purchase, is essential for the buyer. One should not, however, lose sight of the emerging impact of discounts on inventory planning. A judicious calculation of discounts requires purchasing skill and judgements of the highest order.

The Purchase Order**

The birth of the purchase order is a moment of truth in buying.

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** 'Purchase' Magazine, March 1979 "Purchase Order" by Vikram Mehta, page 27.
The purchase order as it goes out of the company may be oral or written. It is significant and contains three important aspects - Legal, Administrative and Creative.

**Form of the Purchase Order**

Purchase Order forms vary widely as to their format and routing through the organization. Several studies have been made of purchase order forms, and one made by Professor W. B. England indicates a variance of two to eleven in the number of copies. The movement to secure a standard purchase order form has not gained much headway. The study has found that:

"It seems reasonable to suppose that, if all purchase order forms had the necessary information in approximately the same position, misunderstanding and clerical errors could be reduced greatly, that shipments would be expedited, that standard sizes would use standard paper stock without waste, that printing costs would be reduced; that the actual handling and filling of the forms would be facilitated; that litigation would be lessened, and that business in general would
gain because of greater simplicity, uniformity, and economy"

It is interesting that one of the first uniform purchase order forms in the world was adopted by the airline industry where the need for such a form was obvious. Probably the real reason that standardization of form has not been more generally accepted is that the purchase order is essentially a legal document. Standardization of the form by no means implies standardization of the conditions stipulated as governing the purchase.

There are certain generally accepted essential details printed on the order copy.

The conditions governing the relations between the buyer and the seller are extremely important, and the question of what should and what should not be included here is a subject for a good deal of discussion. What actually appears on the purchase order form of any individual company is usually the result of experience. The study** indicated that of the 237 purchase order forms examined,

* W. B. England, Purchase Order Forms, NAPA, Pamphlet No. 16.

**I bid.
22 percent were without conditions of any sort; in most instances, this characteristic applied to the forms used by small companies. The fact that most large companies include conditions specifying certain rights of the buyer would indicate that they believe it worthwhile. The character of these conditions, however, varies widely:

43% contain provisions to guard the buyer from damage suits caused by infringement.

36% contain provisions concerning prices, such as "If the price is not stated on this order, material must not be billed at a price higher than last paid without notice to us and our acceptance thereof."

52% contain clauses stating that no charges will be allowed for boxing, crating, or cartage.

37% contain stipulations stating that the acceptance of the materials is contingent upon inspection and quality.

4% require in case of rejection that the seller receive a new order from the buyer before replacement is made.

18% mentioned rejection because of quality without mentioning inspection rights.

33% provide for cancellation of the order if deliveries are not received on the date specified in the order and agreed to by the seller.
contain conditions stating that the buyer refuses to accept drafts drawn against him.
17% are estimated to have some mention of quantity, presumably relating to overshipments or undershipments of the quantities called for. The explanation of this provision is probably to be found in the fact that in certain industries it is hard to control definitely the amount obtained from a production run, and in such instances overruns and underruns are usually accepted within certain limits.

Several of the purchase order forms have special clauses to provide for matters of special interest, governing such matters as arbitration, acceptance of the acknowledgement, change of waiver conditions governing the order, etc.

We surveyed 100 organisations and an attempt was made to ascertain the status of purchase order forms. The result is indicated below:

10% of the organisations did not have any order form. Mostly oral orders were placed by the proprietors of the organisations.

10% of the organisations had order form without any terms and conditions (this group represented small scale companies).
80% of the organizations has some form of purchase order in vogue. They had terms and conditions printed on their purchase order. The nature of the terms and conditions printed on the order forms differed widely.

12% of the purchase orders did not mention the terms of payment.

45% provided for right to cancel the order if goods were not received as per the delivery schedule.

20% indicated that 5% in quantity of supply would be treated as with remain in force till the completion of the order.

3% provided for a price escalation clause.

70% indicated that regarding any dispute with respect to inspection that buyer's company's quality control department decision would be deemed to be final.

**Authority to Purchase**

When we discuss authority, there are two types of authority corresponding to the two groups of people who are involved. The first is the authority of the person who needs the item, to make a requisition for the item.

This person may be the actual user (e.g. the plant foreman), or it may be the stores officer in charge of the stores where the item is stocked. The second case is the authority vested in officers of the Purchase Department for making purchases of the items required.
In the first case, a company usually lays down a policy empowering certain individuals to sign requisitions for purchase. For example, a plant foreman may be authorized to requisition the spare parts or tools he needs, or the office manager to requisition office equipment or furniture, and so on. Such powers are usually graded in various order of magnitude depending on the status of the officer in a department.

No one, however, enjoys unlimited power. For example, a works manager will not be at liberty to make a requisition for capital equipment costing beyond a certain limit, and further he would be required to restrict it to the budgeted amount. Even the Managing Director would usually have powers to approve the purchase of capital goods only with the prior approval of the Board of Directors.

An interesting feature came to light during the course of this Survey regarding the authority to buy and the number of persons signing the purchase order. The details are noted in the Table 6.2.
Table 6.2

<table>
<thead>
<tr>
<th>Value in Rupees</th>
<th>Board</th>
<th>Manager</th>
<th>Chief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above Rs. 5 lacs</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than Rs. 5 lacs</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Less than Rs. 1 lakh</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Less than Rs. 50,000</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Less than Rs. 25,000</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Less than Rs. 5,000</td>
<td></td>
<td></td>
<td>*</td>
</tr>
</tbody>
</table>

* Indicates Author
x Indicates No Author
The number of persons signing the Purchase Order varied. On an average two persons signed the order. In a small percentage of companies there were either four persons or only one person signing the order. The variation depended on the structure of the Purchase Department and its status in the organization. No convincing explanation was available with regard to the variance in practice.

**Blanket Orders**

Blanket or open-end orders may be used to cover the purchase or almost every kind of requirement, including maintenance and repair items as well as production line requirements used in volume and purchased repetitively over a period of months. The using departments, which release the orders directly to suppliers, send a copy of the release form to Purchasing. It may or may not be backed up by a formal contract.

Blanket orders are often used where buying is decentralized and an item is used by more than one manufacturing unit. The Purchasing Department places the blanket order to cover the acquisition of the item by all of the plants in the designated period. The plants are advised of the item's availability by means of a buying information sheet or bulletin which is prepared
by the centralized buyer and sent to the purchase units at the plants. This gives the local officer all of the necessary data of the preparation of a release order to be sent to the manufacturer as notice to ship to the using plant.

**Systems Contracting**

Systems contracting provides the advantages of blanket order/release orders while reducing the paperwork problems. In systems contracting, the object is to avoid carrying inventories of repetitive MRO items and to relieve the buyer of the job of ordering. He enters a contract or purchase agreement with a distributor covering a large group of standard materials or supplies generally bought from such a source. The supplier agrees to carry sufficient stocks of each of the items.

In selecting vendors, the buyer must keep in mind the fact that the agreement will cover a considerable period of time, that the service will be exacting, that product acceptance will rest with those at the using plants, and that continuance of the arrangements will depend on compliance.
Cash Purchase Order or Blank Cheque Buying*

The cost of small orders can be reduced by combining a blank cheque or regular draft with the purchase order. Printed on the face of each cheque which accompanies a purchase order is an authorized rupee limitation, say Rs. 1,000/- and an authorized time limit from the date of the cheque is made payable to the vendor and signed by the purchasing manager, or in large companies by a buyer to whom authority has been delegated. Such cheques are drawn against a separate bank account for this purpose. When the vendor ships the order, he fills in the invoice section of the cheque with the costs, any cash discount, and the net amount, which he also enters on the cheque for deposit to his account. Blank cheque buying eliminates both the need for the vendor to prepare and send a separate invoice to cover each order and for the buyer's accounting department to send a cheque for each invoice.

The risk of his misusing the money is minimal because the arrangements are made only with responsible established suppliers and the amount of any single cheque is limited to the authorized rupee maximum.

* For details refer Chapter - VII.
Delivery Schedules

Inability to meet delivery schedules is probably the most frequent supplier failures encountered by many purchasing personnel in Indian Industries today.

In most of the orders delivery is the essence of the contract. The fact that delivery is the essence of contract should be as far as possible made clear in the purchase order.

Anticipating the likely failure of delivery schedules not being met on time by the vendor, the purchase manager has to take recourse to other vendors or to 'making the item'. If the shortage is anticipated the purchase manager should inflate the inventory level temporarily.

In attaining the utopia of 'on time deliveries' at all times, the stock-out cost on the on hand and the premium price for timely availability of supplies and inventory carrying cost on the other hand, should be judiciously balanced.

Follow-up And Expediting*

The need for follow-up procedure is appreciated only when there are stock outs.

Follow-up is a process or function of checking up with the vendor to ensure his fulfilment of the promised

delivery. While the term 'expediting' is frequently used or interchanged with the term 'follow-up' it is more accurate to define expediting as 'efforts to improve and maintain a scheduled delivery'.

Expediting involves action for avoiding as well as reducing delays to the minimum, both internal and external.

Expediting, however, is a disease that breeds in epidemic fashion. Most manufacturing companies have tried the red tag approach and soon find they have red tags on everything, and then they have to put green tags on the really hot jobs. Other companies have tried the colour-of-the-month approach.

Problems arise because of misunderstanding, communication gaps, honest mistakes, quality failures, inferior scheduling or a host of other factors. Expediting is a vital arm of the Materials Management system, a role which requires special skills and thoughtful organization.
Receiving and Incoming Inspection

Receiving is often directly or indirectly responsible to Purchase. Except where plants are geographically decentralized, receiving should be centralized.

Inspection of incoming materials should, when possible, be located in the receiving area to avoid unnecessary costly handling.

Incoming Quality Inspection

The inspection and quality control detailed procedures in all respects to be used by the producer in testing the material under an order should be specified in advance, to the vendor, along with the acceptable quality level or rejection rate. Wherever appropriate, a quality certificate in terms of chemical or physical analysis, test data, or other methods should be prepared by the vendor and accompany each shipment.

Handling Rejections*

The best efforts of a buyer to negotiate price and other terms are wasted if the goods are not suited for the purpose for which they are bought.

* The Economic Times, 'A Treatment to Rejections' February 17, 1977 by Vikram Mehta.
In spite of the best vigilance exercised by the supervisor inside the organization or the utmost care taken by the vendor, rejection is a commonplace occurrence. Excess supply, delayed delivery, premature delivery, shortage or defects in quantities or weight of material supplied, wrong mode of packing, etc. are a few of the many reasons leading to the full or partial return of materials to the vendor.

Rejections should be handled promptly and with good judgement. If adequate care is not taken, the rejection yard for materials in the organization could turn out to be the graveyard. The growth of rejections is cancerous to the growth of the undertaking. The earlier its causes are detected, the better it is for its treatment. The lower quality goods and the delay in timely supplies of acceptable goods are the prime factors which affect the profitability of the company. The smooth handling of the bought-out components and materials and obtaining maximum co-operation in remedying the rejection as well as reducing rejections, is a matter of public relations with the vendor.
The Checking of Invoices and Payment of The Supplier*

Authorizing payment against a supplier's outstandings, as and when the payment is due is a duty to be performed by, both the purchaser as well as the accountant. But when this 'duty' is looked upon as a 'privilege' by either of them, on account of the status, the entire system of business transaction is thrown out of gear and the helpless supplier has to be on his toes to find out who has 'more' say in the matter of payment.

Procedures relating to the invoice passing are not uniform. Infact, there seems to be a debate on the subject whether checking and approval are the functions of the Purchase Department or of the Accounts Department. One thing is certain, invoices must be checked and audited before they are paid by a company.

Most companies covered under survey are of the opinion that since the work of bill passing is basically 'accounting' in character, it should be entrusted to the Accounts Department. In such companies, the approval

for deliveries, qualities and conditions are given by the receiving department, while the terms of price and other conditions are checked by the Accounts Department.

By adopting this strategy, the Purchase Department is relieved of a task not in the purview of the procurement management. In addition, the work in the Accounts Department gets centralized.

A few companies under the Survey consider bill checking as a function of the Purchase Department. The invoice receipt acts as an intimation of despatch—a vital information of the procurement men. Invoice also notifies exactly what has been despatched and the claim the vendor establishes against the buyer. Since, price, discounts, and other terms are negotiated by the buyer, he is in a better position to check the accuracy of the invoice. Regardless of the practice, the essential points in the procedure remain the same.

Scrap & Waste Disposal*

The standard procedure in general, is to invite quotations in suitable units, i.e. kgs., tonnes, dozens etc. and give the material to the highest bidder decided

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on the basis of a comparative statement. In many companies, there is a practice of entering into an annual contract for scrap disposal. In challans or gate passes, the units mentioned should be selected in such a way that the Security Department should not have any difficulty in cross-checking them. The disposal should be authorised by a responsible person, preferably the head of the department concerned.

Although it is agreed that it is advantageous and prudent to entrust 'the disposal of scrap, waste and surplus' material to Purchase or Materials Department, the Survey of Engineering Industry showed that in a few companies whose turnover exceeded Rs. 25 crores, this important function was performed by the Managing Director himself and it was almost a closed and confidential activity.

It could be said that the incidence of waste, scrap, surplus and obsolescence at any stage is inevitable. Such materials have to be disposed of in a manner in which the company realizes optimum revenue and also fulfil its social obligations in doing so. A general guideline for disposal of scrap and surplus items would be, "if you cannot use it in your plant, try to sell it to others or sell it to scrap dealers at a fair price. If nobody is
interested in buying scrap, give it away free and as a
last resort, get it carted away even if it costs the
company some money. Under no circumstances, allow your
shop floor to be converted into graveyards of junks."
In short, in the matter of scrap and surplus disposal
there should be a value analysis approach keeping in
view the social objectives.

New Purchases Or Purchasing For The First
Time Stages Of The Purchasing Process

Constraints in company facilities necessitate
industrial purchases. The decision to buy must be
preceded by a 'make or buy' study to investigate the
technical and economic feasibility of meeting the
requirement from resources inside the company or of buying
the finished article or complete service.

The 'new task' or first time purchases traced in
the current research fall into two broad classifications,
namely those arising from events external to the
purchasing company and those arising from internal events.
Purchases most easily recognised as first time purchases are those arisen by events in the environment in which the company is operating. Some of the reactions to these events are controllable, such as the decision to allocate resources to exploit a market opportunity; others are uncontrollable, perhaps the forced reaction to competition from a new technology or the legal constraints such as the rules under the MRTF Act, Industries Regulation Act, etc.

Recognition of the Need to Purchase

In the many new purchases situations studied, a variety of reasons was given by respondents explaining why the product or service involved was required in the first place and how arrangements were made to start the purchase process. In the new purchase decisions the companies concerned could be seen to be reacting to some external stimulus occasioned by a change in the environment or more simply to an internal stimulus such as the need to replace existing plant and machinery not functioning at maximum efficiency (Refer Figure 6.1).
Inevitably, the Board or General Management will be involved when a company is about to redirect the allocation of resources in response to a change in its market environment. In the new purchase, senior management personnel are involved in the first stages of the process of acquisition. The board of the companies does not play a key role in the subsequent decisions regarding what type of product to be purchased to help implement their policies or indeed which supplier should eventually get the order.

Determination of Product Characteristics

Determination of Product Characteristics is often a result of Team Work. For example, the Sales Department gives the sales forecast and what quantity of the product is when required. The decision of the product may be the result of prolonged discussion with the potential suppliers. The design engineers are much involved in the earlier policy decision of product improvement. The Buyers would be involved as to locate the reliable and adequate source to supply the new product.
Figure VI-1

Purchasing A Product New To The Company

EXTERNAL STIMULUS IN COMPANY

RECOGNITION OF PROBLEM

BOARD

Decision taken to solve problem

NEW PRODUCT REQUIRED

'MAKE OR BUY'

TECHNICAL
SOLUTION OF PROBLEM BY PURCHASE

TECHNICAL
TYPE OF PRODUCT REQUIRED

SEARCH FOR SUPPLIERS

PREVIOUS CONTACTS

RECOMMENDATION

PROMOTION

CONTACT WITH POTENTIAL SUPPLIERS

TECHNICAL
SCREENING OF SUPPLIERS

TECHNICAL
RECOMMENDED SUPPLIER(S)

PURCHASING
COMMERCIAL SCREENING

EXTERNAL SOURCES OF INFORMATION ON SUPPLIER PERFORMANCE

TECHNICAL AND PURCHASING
SELECTION OF SUPPLIER

BOARD OR BUDGET APPROVAL

ORDER PLACED

ALL DEPARTMENTS

FEEDBACK ON PERFORMANCE
DIU Members Involved

A number of different personnel are involved in those stages of the purchasing process concerned with planning the type of the new product required and its detailed description. A relationship was found between production and production equipment personnel; between design and development and potential suppliers; between maintenance personnel and the chief engineer, and contributions to decisions were made by value analysis specialists. Titles, job functions and procedures vary in different companies but whatever the industry or type of product concerned and regardless of the organization of individual companies within the industry, the DIU (Decision Making Unit) for the early 'problem solution' stages of a new purchase is restricted to technical personnel of one description or another. Purchasing staff and general management are significantly absent in the decision making process although it does not follow that these non-technical members of the DIU are unable to influence the purchase at some other stage.
Search for Potential Suppliers

The search for the supplier of a product or service not previously purchased goes through a variety of processes.

More important than the relative position of the 'search' stage in the buying process are perhaps the methods employed by manufacturers to effect the search. Greater variations exist in supplier search procedures than in any other facet of the purchasing process. The most sophisticated procedures were found in a multi-plant company where one company's Purchasing Department had the use of a market researcher in the group purchasing headquarters to investigate medium and long term sources of raw material supplies.

At the other end of the search spectrum, companies were found to be basing their decisions on sources of supply on the valued opinions of colleagues in associated or even competitor companies.

Two common factors are present at the search stage regardless of the wide variations in the practices of individual companies. It is noticeable that:

A high degree of preference is given to potential suppliers either known to personnel inside the
purchasing company or to professional colleagues employed in other firms.

The pressure of limited time between the decision to go ahead with the design of a new product and the scheduled production date, contributes to a need to restrict the search to known companies only rather than making extended investigations in the expectation of a better purchase in terms of technical quality or price.

**DMU Members Involved**

It is at the stage when quotations are evaluated that the Buyer begins to share the decision on the final selection of supplier. Upto this point he is generally content to leave the negotiations between his company and outside suppliers to the technical personnel involved and he is prepared, in new product purchases, to accept their recommendation, and usually their preferences for one particular supplier who has been helpful at the early problem solving stages.

Some buyers interviewed saw their role in the new purchase situation as simply purchasing, within budget limitations, the items required by the technical staff. If however, a choice had to be made, for example, between two companies equally acceptable in the technical sense,
the Buyer was found to exert a great deal of influence on final selection through his skills of commercial appraisal, on matters such as price, delivery, backing services and ease of commercial communication.

**Changing From A Regular To A New Supplier**

*Stages Of The Purchase Process*

From time to time, events occur disturbing the routine pattern of a repeat purchase which may ultimately lead to a change from a regular to a new supplier, but the following cases are representative of the change situations. The examples show a change in supplier resulting from:

* irritation caused by a change in the commercial procedures of a supplier
* creative marketing by a potential supplier
* increase in price by an existing supplier
* poor delivery by an existing supplier

Other reasons include those prompted by the changing needs of customers such as complaints regarding the
component in machinery supplied by an original equipment manufacturer, or a change in the product component to suit the needs of a customer.

In contrast to the procedures for buying products new to the company which a number of different members of the DMU interact through various stages of decisions taking, the process by which regular orders are redirected from an established to a new supplier is dominated throughout by only one member of the DMU, namely the Buyer, (Refer, Figure VI-2).
Figure VI-2

Change In Regular Supply

EXTERNAL STIMULUS

POOR DELIVERY

PRICE INCREASE

QUALITY REDUCTION

POOR DELIVERY

Recognition of problem

PURCHASING CONTACTS SUPPLIER

PROBLEM SOLVED

PROBLEM NOT SOLVED

BUYER INFORMS TECHNICAL PERSONNEL OF PROPOSED CHANGE

PURCHASING SEARCH FOR ALTERNATIVE SUPPLIER

PREVIOUS CONTACT

TRADE CONTACTS

BY NEW SUPPLIER

CREATIVE MARKETING

POTENTIAL SUPPLIER

OFFERS PRODUCT OF EQUIVALENT STANDARD

APPROVAL GIVEN BY TECHNICAL PERSONNEL

PURCHASING COMMERCIAL EVALUATION

PURCHASING SELECTION OF SUPPLIER

ORDER PLACED

ALL DEPARTMENTS

FEEDBACK ON PERFORMANCE
Recognition of the Need to Purchase

The impact of the stimulus for the change in supplier is not the Board or General Manager but the buyer.

Where a change in supplier rather than a change in technical requirement is contemplated, the Buyer concerned does little more than keep the technical personnel involved informed as to what he is about to do.

Search for Potential Suppliers

Where new suppliers are required the Buyer is the main initiator of the search. The search may be extensive or routine. Those alternative or competitor suppliers who have maintained contact are most likely to be called in.

Key Members Of The Decision Making Unit

Table 6.3 presents the type purchase, various purchasing stages and the Key Members of the DMU.

Attention was drawn to the involvement of DMU members at each stage of the purchase of products new to the Company. These key members of the Decision Making Unit, and their contribution to purchasing decisions, as
Table 6.3

DMU Members Involved By Type Of Purchase

<table>
<thead>
<tr>
<th>Purchasing Stages</th>
<th>New Purchase</th>
<th>Change in Supplier</th>
<th>Repeat Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition of need to Purchase</td>
<td>Board, General Management</td>
<td>Buyer</td>
<td>Stock Control System</td>
</tr>
<tr>
<td>Determination of Product characteristics</td>
<td>Technical Personnel</td>
<td>As specified when new purchase</td>
<td>As specified</td>
</tr>
<tr>
<td>Description of Product characteristics</td>
<td>Technical Personnel</td>
<td>As specified</td>
<td>As specified</td>
</tr>
<tr>
<td>Search for Suppliers</td>
<td>Technical Personnel</td>
<td>Buyer</td>
<td>Approved suppliers</td>
</tr>
<tr>
<td>Assessing Qualifications of suppliers</td>
<td>Technical Personnel</td>
<td>Technical Personnel and Buyer</td>
<td>Approved Suppliers</td>
</tr>
<tr>
<td>Acquisition of Proposals</td>
<td>Buyer and Technical Personnel</td>
<td>Buyer</td>
<td>Purchasing Staff</td>
</tr>
</tbody>
</table>
Table 6.3 (contd)

<table>
<thead>
<tr>
<th>Purchasing Stages</th>
<th>New Purchase</th>
<th>Change in Supplier</th>
<th>Repeat Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of Proposals</td>
<td>Technical Personnel</td>
<td>Buyer</td>
<td>Purchasing Staff</td>
</tr>
<tr>
<td>Selection of Supplier</td>
<td>Technical Personnel</td>
<td>Buyer</td>
<td>Purchasing Staff</td>
</tr>
<tr>
<td></td>
<td>General Management, Buyer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selection of Order Routine</td>
<td>Buyer</td>
<td>Buyer</td>
<td>Purchasing Staff</td>
</tr>
<tr>
<td>Performance of Feedback and</td>
<td>Technical Personnel and</td>
<td>Buyer</td>
<td>Buyer</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Buyer (informal)</td>
<td>System</td>
<td>System (informal)</td>
</tr>
<tr>
<td></td>
<td>(informal)</td>
<td>(formal)</td>
<td>(formal)</td>
</tr>
</tbody>
</table>
individuals or rather as individual job functions, are now examined in depth.

The Board and General Management

The Board or General Management are necessarily involved in those new purchase situations which follow policy decisions changing the direction of a new company's activities. The emphasis at this level is on the longer term decision taken to guide the company so that the maximum return on investment will be obtained from available resources.

Once the policy decision has been made, for example, to diversify into a new market, the detailed preparations for the purchase of the equipment, raw materials or components required to put the decision into effect are delegated. In the new purchase situation the General Management is responsible for recognising the problem, indirectly starting off the purchase process from the top to downwards.

Technical Personnel

Technical personnel have the most influence on a first time purchase but is evident from the many situations studied that, at the early stages, they themselves can be
highly influenced by sources of technical information external to the company.

In some cases the technical personnel know where the obtain assistance; in others they have first to seek out the possible suppliers before they can proceed with formulating their recommendations. Advice and information is sometimes sought from colleagues in associated companies or non-commercial sources. Suppliers, once located, are asked to send technical sales representatives and requests are made to visit the factories of potential suppliers to gain additional information and the assurance that the manufacturing capability promised by the sales representatives does in fact exist. Obviously the level of demand for information varies according to the sophistication of the product in question and the degree to which potential suppliers are known from any previous contact. It is clear that key technical personnel involved in the important early stages of a new purchasing decision also have sufficient influence over the final stages to ensure that the supplier who gives them the most assistance with their problem solving is rewarded with the ultimate order, even though his price may be higher at the quotation stage than that of competitors who have been asked to bid. Unless some exceptional commercial conditions prevent it, the professional buyer will be ready to endorse this desire
for good working relations with suppliers who has invested in technical support services, and price quotations received from competitive suppliers are reviewed in the knowledge of the advice made available by them at the problem solving stage.

In the purchasing situation where the existing supplier is being changed for another, technical personnel are used in the 'long stop' position by the Buyer, who although anxious to bring about the change for commercial reasons, nevertheless cannot succeed without the approval of those responsible for the original specification.

Technical personnel may also suggest a change in supplier to permit a design improvement, but the extent of re-design may classify such a change as a 'new' rather than a 'modified' purchase. Technical personnel play no part in the repeat purchase although they are needed to endorse any unfavourable technical evaluation at the feed-back stage.

**Supplier Marketing Personnel**

The view that 'industrial goods are bought and not sold' is largely true when new purchases are considered, but like all generalisations, it requires further
examination if any message or benefit is to be derived.

Supplier's marketing personnel are rarely present in the preliminary stages of problem recognition but once called in by the purchasing company in a new purchase decision, the supplier's marketing personnel become very active. It is clear that the quality of the work of the supplier's marketing and other personnel at the relatively early stages of problem solving determines the likelihood of selection of that supplier at the final stages of the purchasing process. Commercial hurdles will be met by the sales representative at the later stages but the chances of overcoming these are considerably increased if he can 'get in' on the original problem at an early stage and begin to influence the purchasing situation as soon as possible when meeting urgent requests for technical information.

The most difficult task for the sales representative is to achieve a break-in into an established order routine and to supplant the existing supplier. Here, supplier representation is likely to be called in by the buyer to help him solve some emergency. Instances of creative marketing where a new supplier representative had convinced the buyer of the merits of change were found in the research work but such instances were rare.
Representatives were found to be most frequently present once the product in question had become a repeat purchase with more than one preferred supplier on the re-order instructions.

The Buyer

Apart from some assistance in the search for new suppliers, buyers or their departments are not involved in the early stages of new purchase decisions. The reason for this is that it is generally accepted that the technical problems associated with new purchases must be solved before detailed commercial considerations of a purchase can be made.

Extreme examples of this view can be found in those companies where the Purchasing Department simply performs the order function without influencing the decision to purchase in any way, but a more representative picture of the new purchase process is given in Figure VI-3 which shows that once the early pre-occupation with technical matters is over, the decision process is shared with the buyer. If the product or service being purchased is unique and the General Management approval has been obtained, then the involvement of the Purchasing Department
Figure VI-3

Role Of Buyer In New Product Purchasing

<table>
<thead>
<tr>
<th>TECHNICAL</th>
<th>PURCHASING</th>
<th>PURCHASING</th>
</tr>
</thead>
<tbody>
<tr>
<td>POTENTIAL SUPPLIER(S) RECOMMENDED</td>
<td>INVITUS QUOTATIONS</td>
<td>QUOTATIONS RECEIVED</td>
</tr>
</tbody>
</table>

QUOTATIONS FORWARDED TO TECHNICAL PERSONNEL

BUYER RECOMMENDATION BASED ON KNOWLEDGE OF SUPPLIER PERFORMANCE

TECHNICAL

Technical capability
Assistance in problem solving
After sales service

PURCHASING

Price
Delivery
After sales service
References (external)
Terms of payment
reverts to the simple conventional model of 'getting on with the paper work'. If, however, more than one potential supplier is approved on technical grounds by the engineering, design or maintenance members of the DMU, then the buyer's influence on the eventual outcome is considerable.

Recognition is given to the need to compensate the potential supplier who has increased his costs by providing early technical support, but if the technical DMU personnel are not concerned in this way, a buyer can make a recommendation based on commercial factors such as delivery, price, or reputation for ease of communication, which would decide which supplier gets the order. Even where some technical differentiation is present in the competitive products on offer, a buyer with high status, can hold up the order to a recommended supplier until technical justification is offered, to explain the preference for the more expensive or the less easily obtainable purchase.

Purchasing personnel are conscious of the need to keep good relations with the company's technical decision makers, particularly as the increased influence, for example, of standardisation in
components or centralised buying introduced to make purchasing economies inevitably reduces the scope of designers working in individual departments. Examples were found during the research of purchasing staff located in design departments in order to facilitate communications and to introduce the purchasing approach into the early stages of new designs. Well established Buyers, who have gained the confidence of their design or technical colleagues, can contribute far more than a list of names, if represented in meetings during which the original problem is being discussed.

Senior engineers largely recognised the role of Purchasing as final arbiters where commercial factors were important, but some junior engineers interviewed, particularly on the design side, were not fully aware of their relationship with Purchasing. One dispute noted, where the Buyer considered over-specification was taking place, was soon settled by the chief engineer who supported the Buyer's recommendations and ordered a change in the design specification in favour of the less expensive components.

In the modified re-buy purchase where one supplier
is being changed for another, the Buyer becomes the leading member of the Decision Making Unit, both as initiator of the change and as the final arbiter of the purchase decision.

It is true that the Buyer has great influence on deciding which companies should become preferred regular suppliers where no technical differentiation is present, but where the repeat orders are actually placed, the decision as to which of the listed suppliers gets the order is likely to be made by a junior buyer or clerk in the purchasing department rather than the buyer himself.

Accountant and Financial Controller

Financial personnel contribute an 'influencing' factor to the Industrial Purchasing process as the vast majority of purchases are made within the umbrella of previously agreed budgets.

The repeat purchase of raw materials, for example may be executed by computer but the amounts to be purchased at different intervals will have been agreed with the financial personnel although they will not have entered into the discussions on
specification or even supplier selection unless some reciprocal trading with strong financial implications is involved.

The purchase of capital equipment will similarly require financial or budgetary approval but without participation in the details of the purchasing decision process.

The Relative Power of IMU Members in Industrial Buying Decisions

The relationships between personnel in Purchasing and in other departments have been investigated from many different perspectives. Authority, responsibility, line-staff and superior-subordinate concepts have been used to describe the interactions between participants in buying decisions. However, these traditional concepts tend to obscure the actual process rather than give insights. We suggest that relative power (influence) is a more useful concept. Understanding of the power structure and how power is distributed could help purchasing managers develop tactics in their relations with other departments that may enhance the status of Purchasing and reduce the conflict in
joint procurement decisions. If, for example, participants recognize that Purchasing has some influence in setting product specifications, then purchasing managers do not have to pressure others into allowing them to participate in this stage of the buying decision. On the other hand, if purchasing managers are not recognized as being influential in setting product specifications, then they may want to acquire informal power (influence) or formal power (authority). Typical techniques that can be used to gain power are "politicking", persuasion, bargaining and education.

The first hypothesis tested was - there existed no difference in relative power between functions of DIAU Members.

This hypothesis was rejected by the research result. In both the product selection and supplier selection decisions there were significant differences in the power of Purchasing, Production and Engineering. The Engineering had the dominant power in selecting products while Purchasing had the dominant power in selecting suppliers.
The second hypothesis tested for differences in perceptions of power based on the occupation of the respondent. It was seen that respondents tended to see their function having more power than did others. However, they all agreed on the relative ranking of functions; e.g., all saw Engineering having the most power in selecting products and Purchasing having the most power in selecting suppliers.

While the power relationships may change from decision to decision, a participant's general perceptions of power are his approximations to the realities of the interactions. His behaviour is predicated on his perceptions of relative power. For example, Purchasing was seen to have some, although limited, power in selecting products. Thus, the purchasing's power may be legitimate even if it has no designated authority or responsibility in the product selection stage. Purchasing managers wishing to expand their participation in the earlier stages of the procurement process may find that they need not concentrate on convincing others that they should
be participants but should rather concentrate on communicating the benefits they can contribute vis-a-vis their expertise. For example, they could show how the quality of the product selection decision can be improved through Purchasing's role in accumulating new product information or perhaps in market surveillance capabilities.

The third hypothesis tested for differences in power distributions was based on whether the firm produced to customer order or for stock. The differences were significant for the product decision but not for the supplier decision. Purchasing had significantly less power in selecting products in companies that manufacture to customer order. It may be that in customer order firms the engineer and customer work more closely together to develop product specifications while in the manufacturing for stock firms the product specifications are relatively stable, and Purchasing plays a greater role in gathering information.

The findings of the research with reference to the industrial buying decisions and the key
members of the Decision Making Unit (DMU) can be summarised as under:

* Industrial Purchasing decisions are shared decisions subject to a variety of influences.

* Industrial Purchasing is a process of problem solving spread over time.

For industry as a whole, the personnel most concerned with Purchasing were as follows:

For Plant Equipment

- Board
- Operating Management
- Production Engineers

For Materials and Components

- Buying Department
- Design and Development Engineers
- Operating Management

The decision to buy was found to be shared by the above groups of specialists supported in different purchasing situations by other groups such as Sales, Research or Maintenance, who is when acting together, are referred to as a Decision Making Unit or DMU.
Industrial purchasing can be viewed as a process of problem solving which extends from the early recognition of the problem through stages of fluctuating levels of activity until the eventual placing of an order. The composition of the Decision Making Unit and the extent of its involvement in the decision making process varies with a number of conditions and situations relating to the purchase. These include the degree of innovation and change proposed, technical complexity, the essentiality of the product in question, its cost, the status of the buyer, the number of potential suppliers and the market position of the purchasing firm.

Although these many variations can be found, a high degree of uniformity exists in the way personnel in manufacturing industry approach the acquisition of products that have not been purchased before, those purchased as repeat items and those which involve the change from a regular to a new supplier.
The current research has shown that the 'task' approach is applicable across a wide range of manufacturing industries. Looking at purchases, not from the point of view of the manufacturing supplier as types of goods with certain technical characteristics, but from the view of the customer company which has to buy supplies in different situations to continue in business, provides a fresh practical approach with important implications for industrial marketing management and for those responsible for the selling effort in particular.

In the new purchase situation, regardless of whether the product being purchased is plant equipment, materials or components, the key decisions are made in the early stages of the purchase largely by technical personnel.

The origin of the need to purchase may be a policy decision of the Board or of its General Management, but the details of technical
specifications required or the supplier to be selected are promptly delegated.

Those responsible, in the early stages of the purchase for deciding what to buy lack technical information and as industrial purchasing is a process of progressive decision making, decisions taken at the early stages greatly influence the eventual selection of the preferred form suited to the needs of the purchasing groups' problem solving activities has a good opportunity of influencing the final purchasing decision in his favour.

Buyers are also largely absent from the decision making process until a technical solution to the problem has been found, although the influence of the purchasing department on new purchase decisions is expected to grow with the increasing recognition given by senior management to the profit potential of the overall supplies function.
The popular interpretation of the DMU concept, which 'cuts the Buyer down to size', may lead to a misunderstanding of his role when existing suppliers are dropped in favour of new ones. Although the Buyer is only one of many contributing to the new purchase decision, the research findings show that he is likely to be the main instigator and decision taker when one source of repeat purchases is being changed for another, normally improved, source. The Buyer can be seen at his most active during this type of purchase decision.

Overall, the research findings draw attention to the fact that industrial purchasing and industrial selling are simply two sides of the same coin. They represent not a process of confrontation but a close inter-relationship which, to be profitable to both sides, requires from the supplier a close attention to internal and environmental problems faced by customers and from the purchaser, an invitation
to participate early in company problem solving
and the prospect of continuing profitability
from that participation.