Purchasing & Supply Management
Frequently asked questions and answers

from
The Chartered Institute
of Purchasing & Supply
Introduction

As with many other professions in the business world there are questions that are common to all practitioners. The objective of this document is to provide answers to the most frequently asked questions of members of The Chartered Institute of Purchasing & Supply.

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Q1 How reliable are commercially available price guides?

I am responsible for buying polymers, such as polypropylene, and goods manufactured from polymers. How reliable are commercially available price guides, and should I base forward contract prices on them?

Mike Buchanan, managing director of consultancy LPS, writes: In my opinion, too many purchasing staff use these guides as evidence that they are “buying well”. They have, arguably, a value in depicting historical price trends - and for this reason it is best to stick to one guide over a period of time.

But in my experience, the “lowest price” they quote is often higher than that paid by even medium-volume buyers. There are several possible explanations for this.

First, whether fairly or not, the guide writers are often regarded as being more responsive to producers’ views rather than buyers’ views. Hence they reflect the producer’s view on prices more closely.

Second, a high proportion of major polymer markets - more than 60 per cent in some cases - trade on the basis of these indices. For example, at a given company, prices for June will be based on the index price in May plus or minus £x/tonne. This raises the question of whether the index tracks the market or vice versa.

Lastly, the guides appear to feed off each other. They seem reluctant to step outside “the consensus”, in much the same way that some economic forecasters simply reflect the views of other forecasters.

Very small-volume buyers can often achieve the “lowest price” reported in the guides. Does this tally with your experience of how markets generally work? I hope not. My advice, therefore, would be to push for higher discounts from the reported lowest prices, while ensuring that continuity of supply is assured contractually.

Of course, price indices are useful when buying goods manufactured from polymers. The polymer cost element of such goods can move in line with the reported “lowest price”. So if the former is 10p, and the lowest reported price falls by 10 per cent, the delivered cost of the good should fall by 1p.

Q2 I am having a debate with my supplier who has different contract terms than me, who is right?

This type of dispute is often called the ‘battle of the forms’. The answer is that the terms and conditions associated with the last piece of paper exchanged between the parties related to the order determine whose terms and conditions apply. This means that you must be mindful of potentially challenging each piece of paper that comes from a supplier and ascertain whether they have applied their terms and conditions. If necessary, you may wish to challenge this.

Q3 Must EU public procurement rules be followed when buying outside of the EU member states?

Yes, if you exceed the EU thresholds for a product or service then you must apply the rules irrespective of where you buy from. Also, if you buy a physical product (such as machinery) from outside of the EU it must conform to CE regulations.
Q4 Should purchasing remain involved in the process once contract terms have been negotiated?

All too often, misunderstandings arise during the course of the contract that could have been resolved had a contract specialist reminded the parties of the implications of a seemingly innocuous change. The trick, of course, is how to select the contracts to watch and those that can (relatively) safely be left in the hands of others. The only certainty is that whatever you do, you won’t get it right every time.

It’s well worth thinking through how you want these judgments to be made and setting up some kind of procedural framework so that everyone in the company knows the score. If the accepted practice is that the users in department A do contract management themselves, but those in department B want you to chair every progress meeting, it is still important to work out if this is the best way to do things.

Lots of expensive management time rightly goes into setting up contracts, but persuading senior management to allocate adequate support to professional contract management is difficult. It only becomes a frontline issue when something has gone wrong, the knives are out and everyone is seeking cover. Most of us will have been there. If you survive, at least the aftermath is a good time to ask for the extra resources you need to try to stop it reoccurring.

Q5 What EU procurement law assistance can you give me?

I want to know the thresholds for invoking the use of “EU procedures”, and do the tenders I administer have to be "open" or "closed"?

The SIMAP project has as its objective the development of the information systems infrastructure needed to support the delivery of an effective public procurement policy in Europe, by providing contracting entities and suppliers with the information they need to manage the procurement process effectively.

An excellent site for queries is SIMAP

Q6 What should appear on the front of a standard purchase order?

It is advisable to include the following details on a purchase order:

- A recognisable order number
- Invoice address and delivery address
- Description of the product required
- Quantity
- Price
- Delivery Schedule
- VAT number (if the company is VAT registered)
- Signature and date signed from the authoriser
- Any exceptional (additional) terms and conditions for the order or exceptional requests

Q7 Should I be replacing suppliers who do not trade electronically with those who do?

Trading with someone is about value, not cost. Buying online at a low rate, then having to pay transportation costs, may be no cheaper than placing a phone order and paying a higher unit price but no carriage.

Similarly, keying an order into a supplier’s web site saves money for them but will you still have to process that order to be able to pay the invoice? This may mean the added cost of double entry for you, the customer.
There is no saving if all you do is move costs back and forth with the supplier. True savings come from removing unnecessary processes. Ask your suppliers if you can self-bill rather than invoice: you pay for what you receive, not what is sent, thereby removing the invoice-matching process entirely.

You will only be able to enter into this kind of agreement with a supplier that you trust and who trusts you in return. It will not grow overnight, so don’t disregard a long-standing supplier just because they cannot trade electronically now. You may be amazed how much you can achieve by just talking through the existing processes and making mutually beneficial changes, rather than just haggling for the lowest price and hoping for some e-magic.

**Q8 How should a purchaser respond to a request from a supplier for an unscheduled price rise?**

The supplier needs to give reasons for the price rise. It may, for example, be due to a natural disaster such as the earthquake in Japan. This caused serious disruption to the manufacture of components for export to Europe, which had a knock-on effect on the final market price of UK products.

First consider if there is a formal contract in place, and if so, what the terms regarding price fluctuation are. If the contract stipulates a fixed price, the purchaser should remind the supplier of this but should also be willing to explore how both parties can reach a win-win situation, thus preserving the supply chain relationship and stability.

If a compromise can’t be reached, the supplier may have to pull out of the deal.

The purchaser should be aware of the risks to the organisation if the contract breaks down - the products being supplied may be vital to the infrastructure of the business, for example. In the case of a manufacturer, any interruption to the supply of a raw material or component could affect the production line and profitability.

Proactive negotiation to maintain the contract relationship is the best course of action. While the organisation may be unable to accept an increase in price, the breakdown of the contract should be viewed as a last resort.

**Q9 Is the cost of raising an order really £50 and what does this fee include?**

I have been asked to justify the claim I made in the business case that the cost of raising an order is £50. This is the figure most often bandied about, but I was wondering whether it is correct and what it comprises. How should I proceed?

The £50 figure is the one most often cited but this is very much an illustration - it could just as easily be £37.50 or £72. This is because the figure contains costs such as staff time which will change according to who is doing the task and across different organisations.

It will also depend on your processes for the authorisation of orders and invoices. These often involve several different people passing papers between one another and sometimes they are even involved twice in the process! This is why there is such an obvious case for examining just what is involved in raising an order and getting an invoice paid so that you can re-engineer the processes to take out unnecessary steps.

Other fixed costs include accommodation, heating, lighting, and so on. The important point to bear in mind is that every bit of the process has to be costed. This could start from when the order is about to be placed to paying the supplier. When people talk about the cost of raising an order, this is actually misleading because it includes payment. Purchasing cards, which are really payment cards, can cut invoice processing costs massively.

All this may seem a bit of a nuisance, but the costing process is quite simple - just walk through the process, from your selected start to supplier payment, and add up the costs of staff time, telephone calls, faxes, stamps, and stationery and so on. It is a good idea to get the
cost verified by your audit staff. That way you will have their support if the question is raised again.

If you want to empower end users with purchasing cards and maybe e-commerce, you could start this process when a need is identified, as then you can also demonstrate the effort that goes into low-value orders. This might include the raising of requisitions, their authorisation, checking stock, looking through catalogues and telephoning suppliers. It may also include more costly activities such as inviting quotes.

With this method, the £50 figure will only apply to low-value orders that require little procurement activity. For higher-value orders, which may include tendering or contract negotiation, the cost of raising an order may run into several hundred pounds. Different purchasing categories are likely to need different tasks, and all of these would have to be costed before you arrive at your “average” figure.

Q10 Are there any objective criteria to evaluate creative work by advertising agencies?
Our marketing department appears to commission advertising agencies on the strength of their creative work. However, there do not appear to be any objective criteria to evaluate this work. Can you suggest any?

The role of a buyer is to minimise subjectivity and assess creativity on its commercial merit. Creativity tends to be split into two parts: creative concept and creative execution.

The thinking behind the creative concept should demonstrate how it would help to achieve the objectives of the campaign and how it would fit into the wider marketing strategy of the company. It is important to understand this strategy in order to assess the commercial and creative value of agencies’ proposals.

Creative execution means “expressing the creative concept in the appropriate medium” through visual or verbal messages. For the advertising to be successful, the execution should be relevant to the offering, have a strong impact and be memorable.

The best way to assess creative work is to invite agencies to present their concepts as well as executions. It is also important to ask them to present their action plan and process to demonstrate how the campaign will be delivered on time and within the given budget.

Q11 Can CIPS help me to source potential suppliers?
Unfortunately we do not provide a sourcing service for members or non-members. We do this for a few reasons:

- We cannot, as an independent Institute, recommend one supplier over another as this would be regarded as unethical as we have to maintain an ‘independent’ status.
- The resource required to provide such a sourcing service globally would, potentially, be massive to properly operate such a service. As we now live in a global era we would also have to maintain an extensive knowledge of specific products and services across many countries, a task that is currently beyond the reach of most large organisations, let alone CIPS.

We recommend that you start your search by looking through the following resources (available on line), then following up leads from there:

Kelly's Directory
Yell.co.uk
The Kompass Directory
CIPS Research Links Pages
Europages
Alternatively, you may wish to try the relevant Institute or Regional Supply Office (if you are in the UK) for that product or service. The Internet is a good way to start looking for such bodies, and the Department for Business Innovation and Skills site contains details of the Regional Supply Offices and other government bodies that may be able to assist you.

Q12 Do we have to keep printed purchase orders?

We are trying to eliminate more paper from our organisation and would like to know whether we have to keep printed purchase orders. Common wisdom says that, as legal documents, they have to be kept for seven years. Can we rely on our computer records only? And what would the situation be if we faxed purchase orders directly from our system with no hard copy ever being printed?

Dick Jennings writes: Length of storage is a tricky issue. Why seven years? It sounds a completely arbitrary choice, but there are sensible reasons. Six years is the limitation period for claims for breach of contract to be litigated, so seven years is safely beyond the point that your purchase orders could be in dispute with suppliers. And six years is also as far back as the Inland Revenue can (other than in cases of fraud) reopen your tax affairs.

Certain records have to be kept in a paper form, mostly where they are affected by legislation that predates the electronic age. The government has wide powers under the Electronic Communications Act 2000 to start updating these laws, but it will be a slow process.

For the rest, records such as purchase orders simply have to be good enough to convince the auditor, the Inland Revenue, and - if the subject of court action - the courts. There is no reason in principle why they should not be in electronic form.

Faxing purchase orders direct from your system, with no hard copy, raises the issue of whether your records are adequate in the first place. Two points here. First, unlike orders sent by mail, you have no “postal rule” to give you the benefit of the doubt as to whether, once sent, they ever reach your supplier. It is therefore essential to keep fax transmission reports.

Second, what happens to your standard terms of purchase? When orders are faxed, purchase terms tend to get lost, either because they’re on the back of the form and aren’t transmitted or because they are illegible. If you fax directly from your computer system, you should ensure that you send legible terms of purchase with every order.

Q13 How can I get senior management to recognise purchasing as a business function in its own right?

There are a number of ways to gain the credibility you seek. The easiest is to demonstrate how much you spend with third parties, of which many senior managers are unaware.

To calculate this figure, strip out all the value-added elements in the accounts (wages and salaries, depreciation, profit, taxes, interest and so on). The residual is what you spend with third parties.

Once this figure is known, it is possible to calculate purchasing’s impact on profit and loss. For example, take an organisation with a gross margin of 20 per cent that spends 65 per cent of turnover on bought-in goods and services. A 3 per cent reduction in its purchase costs would be equivalent to a 9.8 per cent increase in sales revenue.

This should prompt you to ask two questions: are we managing all our expenditure effectively? And if not, how can we extend the reach of high-performance purchasing?

You can answer the second question by getting senior managers to evaluate the general level of purchasing competence using a “road map” that defines how you manage most suppliers/spend.

- Price drift: suppliers’ margins are not managed/their costs are not known.
- Price down: margins are under pressure/ the company assumes what its costs are.
• Cost down: margins are challenged/costs are challenged.
• Cost out: margins are agreed/costs are targeted.

Senior managers are often surprised by the answers and welcome proposals for change.

Your question implies that purchasing as a function must own or manage all areas of spend. This is usually self-defeating. A more effective model is to attempt to become the process owner of what is perceived to be a unique skillset. In this way, “control” is achieved through ownership of the process and the conceptual tools, techniques and thinking used by everyone who “buys”, irrespective of where they reside in the organisation.

Q14 What are the rules regarding late payment of commercial debts?

The main rules in this area are derived from the Late Payment of Commercial Debts (Interest) Act 1998. In basic terms if you can agree with your supplier any period of payment terms (i.e. 30, 60 or 90 days) then you must pay within this period.

Any delay in payment will result in the supplier being able to levy a charge for any outstanding time period. As this was intended to be a punitive charge, the Act set this charge at 8% plus the normal bank rate. It is not possible to put terms in a contract to exclude the statutory right of the supplier to ask for a late payment charge.

If there is no set payment term then the Act considers 30 days to be reasonable.

It should be noted that in the event of a failure of your supplier to continue trading and a receiver is appointed, the receiver may be able to count outstanding late payment debts as an asset and this could be pursued for payment through legal action.

A free user guide on late payment legislation (URN 98/823) can be obtained from the Department for Business Innovation and Skills (BIS) [http://www.bis.gov.uk](http://www.bis.gov.uk)

Q15 Is there a way we can get some transparency and accountability in the agency’s costs?

My company has used an advertising agency for five years. It has a very good reputation for creative work and account management. But we’re worried that it is overcharging us. Is there a way we can get some transparency and accountability in the agency’s costs?

There are a number of steps that you can take to ensure transparency and accountability:

• Make sure any time charges or studio costs are as per the menu of charges or hourly rates agreed in the contract.
• Ensure that third-party (supplier or subcontractor) costs or quotations are itemised on production estimates.
• Ensure that any changes to the “briefs” or requirements are similarly priced for you.
• Arrange to conduct a financial audit of the agency to ensure that it is complying with the terms of the agreement.
• A combination of regular price breakdowns/ confirmations and audits should give you adequate transparency of costs and accountability. However, ensure that you hire a company that specialises in auditing advertising agencies.

The obvious benefits are:

• They know the advertising jargon and which areas are the best to investigate.
Because they know how agencies operate, they are more cost-effective and they can finish the audit more rapidly.

They inspire confidence and co-operation from the agencies because of their knowledge of the advertising world.

They can also look beyond the financial audit and detect areas that are operating inefficiently.

**Q16 Can CIPS give me some legal assistance?**

I need some legal advice as a situation has arisen at work which may affect my job/legal status with a supplier/legal status with a customer?

As CIPS does not employ a solicitor at Head Quarters we cannot offer legal advice. If we did, we would need to know a great deal of evidence about the specific case, and then offer advice in the knowledge that our assistance would be used without recourse to be held liable for offering poor advice.

We do offer CIPS members access to legal advice via "Law Express". CIPS members can enjoy unlimited free and professional telephone advice from Law Express for all personal and commercial issues. There is no restriction on the length of calls, and the service extends a member's spouse or partner and any dependent children under 21 years. Please call 0844 209 0752.

ACAS (the Arbitration, Conciliation and Advisory Service) offer excellent employment advice for anyone that wishes to gain specialist assistance with employment-related enquiries. They can be contacted at [www.acas.org.uk](http://www.acas.org.uk)

**Q17 What is the optimal number of buyers in an organisation?**

Well, this question has answers ranging from 1 to 300 purchasers per company. As such, the question must be reformulated to ask "I know the profile of spend at my company, and roughly the workload associated per supplier with the firms I buy from. Where do I recruit the people I need to staff my team?" This is because companies purchase very different things, and it is not appropriate to equate number of suppliers, industry 'averages', or other spurious data with 'optimal' staff numbers. As we know, internal company procedures vary enormously and they impact to a great extent on the time it takes a purchasing executive to expedite their role.

The reformulated question above assumes that you know who you buy from, what you buy and with what frequency. After you have undertaken the exercise to establish this, then you may want to think about the workload that key supplier relationships and new orders take to service. Some issues to consider may be the complexity of contractual arrangements, tendering process arrangements (particularly important for the EU public sector), the number of supplier relationships controlled and the level of sophistication of different initiatives running at the time (e.g. value management/engineering exercises, supplier appraisal programmes, relationship development programmes, logistical synchronisation exercises, purchasing performance measurement exercises and so on).

By now you should be able to estimate the number of purchasing staff you need to adequately deal with the 'inputs' to the business, and how the management of these inputs contributes to the objectives of the company. There are a number of recruitment options to consider, but the recruitment of staff that are members of the CIPS ensures that you are employing someone with a recognised (and verifiable) standard of education in purchasing management. You may wish to contact/use the facilities of the following:

CIPS Recruitment (see [www.cips.org](http://www.cips.org))
Supply Management Job Advertisements ([www.supplymanagement.co.uk](http://www.supplymanagement.co.uk))