

6 Ways to Improve Your Purchasing Activities

1. Only Authorized Personnel Should Purchase Anything

If you allow anyone who needs anything to purchase whatever they need, even if it is small quantities of office supplies, you have a serious problem. All purchases must be authorized and funneled through one central purchasing group or individual. This is the only way you will be able to control the process and this is the only way you will be able to maximize your purchasing power.

2. Can Buying or Producing in Bulk Result in Significant Savings?

Yes, but only if this is the most effective use of the money and if what you purchase or produce will be called for and used in a reasonable period of time. By buying or producing unrealistic quantities to drive unit costs down, without reasonable expectations of use or sales that demand these quantities, you are losing money.

If you think "who would do this?" let me give you an example. I know one company that prints small folders for sale to banks. They wanted to realize a lower unit cost to make the selling prices more attractive. However, they had no basis to project sales on and so to realize a low per unit cost in production they produced 250,000 folders. This enabled them to offer the product at a low unit cost.

All sound good so far? Well, over the next 5 years, they sold a total of 10,000 folders. The other 240,000 were thrown out. **Quite a savings, don't you think?** They also ran the risk of spoilage and product obsolescence.

They should have found a way to project sales. They should have used that projection to base production and pricing on anticipated sales and then they should have run only a small test quantity until projected sales turned into actual sales. Never forget that unless what you are buying is needed and can be used in a reasonable period, any price you pay is too high!

3. Remember Lead, Don't be Led

If certain conditions of the sale are objectionable to you, don't purchase. If any areas of the contract are unclear, get clarification. If any areas of the contract are objectionable to you don't sign or strike out that section and have the sales rep initial the change along with you. If an addendum is needed to have a written record of things not in the contract then add one.

Just because the rep says something is standard, or that the contract is preprinted, or tells you that is how the company operates, so what? You are the customer, you dictate terms. You must understand the positioning in this relationship. Nothing happens until you say so. The key part of that sentence is until "**you say so**".

4. Analyze All Purchasing Patterns At Least Once a Year

You must ensure that your purchasing patterns are the most effective ones for your buying habits. You should be looking at quality, prices, and delivery. The goal is to get the best of all three. Find out if your purchases are being delivered on time. Is the quality of the items acceptable? Are you buying in the right quantities based on your annual usage?

The right quantities are the quantities that yield the lowest price per unit. In other words, are you buying an item every 3 months when instead you could be ordering it every 6 months and realize a 15% to 25% savings based on the higher volume? Ask the questions. They are the key to your program of total cost control!

5. Don't Fall Prey to Unsolicited Phone Sales Calls

These are the types of scams that cost businesses millions of dollars each year. The calling party will offer overpriced, poor quality products. The sales pressure is very high and can range from pushy and aggressive to very friendly and sneaky. These people could sell a mongoose to a snake. I think many of them must be retired politicians. Before you know it, one of your people has given approval for a product that you do not need or want. Tens of millions of dollars are lost in this manner each year.

Think of this as a predator and prey relationship. Guess which one you are.

Your best defense? Hang up. If anything sounds fishy it probably is. They will offer close-out specials, deals on over buys, canceled orders they are liquidating, and any one of a hundred other scams to make their offers not only sound legit, but like a very good deal.

Demand that any and all offers be submitted to you in writing. Since you do not allow any order to be placed over the phone, and since you require purchase orders to be written and cross checked before any bill is paid, you should be safe from these types of scams. You are utilizing these types of procedures, aren't you?

Even if you needed, or normally bought, such items you can be darn sure the price of these is much too high and the quality is sub-par at best. Often they will also offer a free gift just for the party approving the order and will even send it to their home just so it is between your employee and the scam company.

They do this for two reasons, first, it sweetens the pot in an effort to get the sale and second, it gives the sales company strong leverage if your company tries to void the sale by refusing to pay for the merchandise or trying to return it.

If the person who approved the purchase tries to send it back or refuse payment, the first question they will be asked is how did they like the free gift. They are being reminded that they took something to buy something. They are indirectly being threatened that others will be told and they may get in trouble.

6. Get Everything in Writing

I know that this sounds obvious and is anything but new advice, however, you will be amazed at the number of times your people, and even you, do not abide by this rule. You must know all costs to effectively evaluate your purchase.

You must know the performance expectations. You must know the ongoing consumable cost. You must know maintenance costs. You must know training costs. You must know shipping costs. You must know anything and everything that applies to whatever it is that you are considering purchasing.

You can't afford a misunderstanding over what you are buying, how many you are buying, what you are paying, what the terms are, when delivery is scheduled, or any one of a number of other concerns. You must get this all in writing from the suppliers and you must reference these terms on your purchase order or change any terms that are not satisfactory to you on your purchase order.

The only way to know these things for sure is to get them in writing. What you are told by the sales rep means nothing. Don't assume anything. Get it in writing. Having it in writing gives you recourse if you find something to be different than you were promised.

This edition of The Welch Report has been provided by Derrick Welch the author of **'In Pursuit of Profits: How to at Least Double your Profits Without Increasing Your Sales'. Including 1,000 Cost Control, Expense Reduction, and Income Producing Strategies You Can Start Using Today To Dramatically Increase Your Bottom Line.**

And **'Defy Mediocrity. Choose to be Uncommon. Think of the Alternative'**.

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