

CHAPTER

3

Introduction to Purchasing

Learning Objectives

After reading this chapter, you should be able to:

- understand the benefits of saving money in the purchasing department;
- understand the role of the purchasing agent in the purchasing process;
- understand basic concepts of ethics and independence in the purchasing department;
- understand the importance of legal contracts;
- understand why technology is vital in today's purchasing practices.

In Practice

Myla Thomas felt optimistic about her future with the Sea Breeze Hotel after her meeting with Eric Breeze and Chef Robert. The meeting gave her a clear insight into how the food and beverage department worked. Her next stop was a meeting with the purchasing manager, Scott Vincent. She arrived at his office for a 10:00 A.M. meeting with him and chef Robert, who both rose from their chairs to exchange warm greetings with Myla.

"People here always seem to be on time for meetings," she commented.

"That's pretty much true. We expect the same from our vendors, too," responded Scott. "We think it says a lot about how we run our business."

Myla wanted to know more about that very topic: how Scott and Robert ran this side of the business. She asked, "I want to hear your opinions about something. How do our policies and procedures help or hinder our chances to deal with vendors, or to decide not to deal with a vendor?"

As in Myla's previous meeting with Robert, his answer spoke volumes: "Our policy on ethical conduct keeps us out of trouble. And I hope we can leverage our purchasing power to get better pricing and save money."

"What do you mean by 'keeping us out of trouble'?" Myla asked.

Robert responded, "Our code of conduct keeps everything in perspective. We don't accept gifts because it could imply bribery for business favors."

"Thanks, Robert," responded Myla. But Scott was looking at Robert with a puzzled expression, or so it appeared to Myla. She asked him directly, "Scott, do you have anything to add to that?"

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“Oh, no, no, Robert is correct,” Scott replied, rather hastily.

“How about technology in purchasing? Are we up to date?” Myla inquired.

“Not quite” Scott answered. “We have a long way to go. We need new computers.”

INTRODUCTION

“Everything is worth what its purchaser will pay for it.”

—Publilius Syrus, first century BCE

This statement, over 2,000 years old, is as true today as it was when it first was written. It is particularly true for a restaurant’s purchasing agent. Based on our needs, wants, and budget, we all make choices about what to purchase. In doing so, we decide what various goods are worth to us. Just as you learn to make wise choices at home—to maximize your benefits and minimize your costs—so you will learn from this book how to do so for your restaurant or company.

This section on purchasing will lead you through the steps a purchaser takes to make smart choices. You’ll notice that these steps are not very different from the steps you take when you do your own shopping. At the store, your grocery list corresponds to the meals you will cook and serve at home. Based on your menu choices and budget considerations, you select a store, particular brands, and cuts of meat in the quantities you want to have on hand. Then, after transporting your purchases home, you store and monitor them based on your needs. For example, you don’t put food you plan to use that day in your deep freezer, and you don’t leave milk in an unrefrigerated cupboard.

If it seems like these steps are just common sense, you are quite right. And because you’ve learned common sense as you’ve made purchases for yourself, you already have the necessary skills to be a professional purchaser, too.

Purchasing for a small “mom-and-pop” establishment differs in scale, and most likely in level of formality, from purchasing for a whole chain of restaurants, but the principles are much the same. By determining needs and then filling them while maximizing value, a purchaser becomes a vital part of an establishment’s ultimate success. These principles are equally true for the smallest and the largest establishments, and they are true whether the person in charge of purchasing is the chef, the manager, the owner, or someone whose job is just purchasing the needed goods. The only difference is the nature of the agreement between the purchaser and the vendor, which could be a signed contract in a corporate environment; however, the oral or written *request for price quotation* (RFP), which vendors respond to in the form of a price quote or business proposal (also known as a bid), are the same for large and small operations. The ultimate purpose of requesting bids is to compare vendors’ products, profiles, and suitability, in order to gain competitive pricing—the starting point for saving money.

SAVING MONEY

You’re worth what you saved, not the million you made.

—John Boyle O’Reilly, Rules of the Road

Your company can increase its profit in two ways: reducing expenses or selling more product. When you sell a dollar more, the contribution to the bottom line is not a dollar; it is much less. You must take into consideration all the expenses that went into selling that additional

dollar's worth of food—labor, the cost of the product, and so on. However, when you save on expenses by practicing cost control, you increase your bottom-line profit by that entire dollar. Say, for example, that you save \$1,000 by applying effective purchasing techniques—that is, by practicing cost control. That \$1,000 is equal to \$1,000 more in profit. Then let's assume that you make 30 percent profit on your sales. You'd need to sell \$3,333 more in product to bring in \$1,000 more in profit. To take the example a step further, if your average guest spends \$15, you'd need 222 more guests to bring in \$1,000 more in profit. As you can see, competent purchasing and effective cost control give you your best opportunity to increase profits.

Moreover, it is easier to control costs in the purchasing department than anywhere else. Labor costs are often difficult to reduce—you may face a union or minimum-wage laws that keep wages at a set level, or you might experience simple wage competitiveness—if you pay less, you will not maintain a good staff. Overhead costs are often difficult to reduce as well, since the costs of utilities, interest rates, and real-estate or rental prices are not under a company's control. As a purchaser, however, you can control cost efficiency directly, and with impressive and profitable results. In the purchasing section of this book, your tools for maximizing value while making purchasing decisions will be explored and discussed in great detail.

Quiz

If you operate a restaurant with a 5 percent profit margin, saving \$1 in purchasing generates as much profit as increasing sales by

- A. \$5. B. \$10.
C. \$20. D. \$50.

THE RESPONSIBILITIES OF THE PURCHASING AGENT

It is the responsibility of the purchaser to maximize value so that the company gets the most for its money. Purchasing does not consist only of buying the products you need. It is an entire process that includes planning the menu; determining product needs; determining specifications for those needs; selecting vendors; purchasing items; and receiving, storing, and issuing the items. Purchasing even extends into the kitchen, where you will monitor how products are used and served to your customers.

Several competing factors must be evaluated when making purchasing decisions. Overall, the purchaser's job is to evaluate the quality of materials and the services that vendors provide relative to the cost of the products. Cost includes not only the purchase price of the product, but also all the additional costs of putting the resulting food on a customer's plate. These include labor costs, costs from product waste and butchering loss, and costs associated with receiving, storing, distributing, preparing, and serving the food. To sell their products, vendors often provide services beyond just the product. These may include reliability, consistency, and convenient delivery schedules. These factors will need to be considered as well as the specific roles of the purchaser. Below is a detailed description of the purchaser's role.

- *Planning the Menu.* As we discussed in Chapter 2, the menu forms the basis for purchasing goods and services. That is, the choices you make with regards to the establishment's menu, staff, style, ambience, price, customer base, and equipment will determine your purchasing dollars and the restaurant's profitability. It is the responsibility of the purchaser to assist with planning and writing the menu according to your target market.

- *Writing Product Specifications.* **Purchase specifications** are detailed lists of exactly what you will buy and the conditions under which you will buy them. They comprise the company's standards and rules for purchasing goods. These rules are covered in greater detail in Chapter 4. The company's image, menu, prices, and clientele will dictate these standards. Purchase specifications will depend on the market, just as the menu does. For example, while hamburgers are offered on many menus, the quality and size of the burger the operation's purchaser buys will depend upon whether it is for a roadside truck stop or an upscale urban restaurant. For example, the exclusive Pebble Beach Resort offers expensive Angus beef burgers on their menu because their customers expect that level of quality and expect to pay correspondingly high prices. Does your operation have that type of clientele? Your purchasing decisions depend on the market: what are appropriate standards in terms of fat content, price, consistency, shape, and speed of preparation? These standards are referred to as *product identification*.
- *Determining the Outlet's Needs According to the Menu and Business Volume.* Purchasing according to the menu and business volume is essential to customer satisfaction and profitability. Purchasing too little can cause product shortages, which may result in customer dissatisfaction and loss of revenue. On the other hand, purchasing too much is a recipe for spoilage, theft, and cash flow issues, all of which can negatively impact profitability.
- *Providing Input about Necessary Changes.* Purchasers must advise management about cross-utilization of products, seasonal products, and difficult-to-get products so that last-minute changes can be made and the menu can be revised.
- *Assessing Potential Suppliers.* Purchasers look for vendors by consulting catalogs, competitors, the Internet, and associates. They also have to evaluate the quality of the vendors they find.
- *Collecting and Reviewing Vendor Bids.* Prices for most perishable products (such as produce, meat, poultry, seafood, and dairy) change weekly. Prices for staples and dry products often change monthly. It is the responsibility of the purchaser to review vendor bid prices before making appropriate purchasing decisions.
- *Negotiating Prices and Conditions with Vendors.* In addition to pricing, conditions that should be discussed with vendors may include early-payment discounts, volume discounts, delivery schedule, and contract pricing. This topic is covered in Chapters 4 and 5.
- *Issuing a Contract or Purchase Order.* Issuing a contract or purchase order after the supplier is selected is a common practice in larger companies, especially those with formal purchasing processes. A **purchase order** usually resembles a purchase requisition. Documentation of items needed is sent to the vendor and submitted to the receiving department. The important contents of this document include the item description, quantity ordered, price, tax, and shipping charges. A copy of the purchase order is also sent to the accounting department to match the signed delivery record with the approved vendor invoice before payment.
- *Ensuring Proper Delivery.* Proper product delivery is essential for the long-term survival of a vendor-restaurant relationship and for smooth business operations. Proper delivery means using proper equipment to deliver the product on a timely basis. For example, it is often necessary to use refrigerated trucks to deliver perishable products.
- *Receiving, Storing, and Issuing Goods Pragmatically.* Controlling inventory and portion size is critical to the success of any purchasing department. Management should establish **inventory targets** for both the amount to be kept on hand and the **inventory turnover**. An inventory target is the desired level of inventory, while inventory turnover refers to the number of times the inventory of a company is sold and replaced during a given period. The purchaser should highlight slow-moving items, dead stock, and leftover items and bring them to the attention of management. Management should find ways to use these items in the form of employee meals or specials.

purchase specifications

Detailed, precise descriptions of items desired to be purchased and under what conditions.

purchase order (PO)

An order which includes vendors' prices, products, and agreed arrangements for delivery and payment.

inventory target Refers to the desired level of inventory.

inventory turnover A ratio of sales to inventory, which shows how many times the inventory of a company is sold and replaced during an accounting period.

**Discussion
Topic**

What does it mean to maximize value?

Each of the factors listed must be evaluated from the unique perspective of each food service establishment. These concepts are common sense, and are similar to the factors you weigh when you buy food for your household or choose to dine out. What follows is a detailed examination of how to approach, analyze, and balance these factors in an ethical manner.

Independence and Ethics

The purchaser's role is to represent the company's best interests from start to finish during the purchasing process. All dealings with vendors are the purchaser's responsibility, and they should be standardized, transparent, and ethical. As there is a strong potential for unethical practices that damage the company's reputation, a crucial role of the purchaser is establishing and maintaining ethical practices.

To avoid misunderstanding and confusion, contacts with vendors should be handled through the purchaser. It is the purchaser's responsibility to enforce company policies consistently, so it is best that the purchaser be the direct contact person. This also reduces the possibility of unethical practices by others in your company. Correspondingly, the purchasing department must establish a network of trust with his or her company to earn this independence. This trust is established when a purchaser consistently behaves professionally and ethically. The upper management, then, can trust the purchaser to do his or her job independently and can support the purchaser's decisions.

The professional purchaser must also bring new ideas to the company. When a vendor offers something new or valuable, the purchaser should first introduce the idea to the appropriate staff member, and then arrange a meeting for the vendor and that staff member. Clearly, the purchaser must exercise independent judgment in such matters, and this judgment must be free of any question involving unethical practices.

It is a mistake to deal with vendors who are known to have questionable ethics. If you associate with such a company, you and your company may become "known by the company you keep," meaning you may earn yourself a similar reputation. Such a reputation, whether justified or not, can drive away valuable, reliable, competitive business sources.

In addition, the purchaser can place the company at legal and financial risk. Unethical suppliers might reveal proprietary information to competitors or use it themselves. They might offer a low bid to get your business, only to raise prices at a crucial point in the business season. This is a type of blackmail, as it might be too difficult to change vendors during the high season. Some vendors might also promise a delivery that they know they can't make just to get your order. Or perhaps they may claim to be able to provide a product, but instead "shop" the order to a different company. This could compromise your quality standards or prevent you from getting the products you need. Unscrupulous vendors may even resort to commercial bribery to get your business, even if they haven't earned it. Bribery may take the form of "cash refunds," "gifts," or "samples" to the purchaser. Some vendors have been known to submit or offer blank, incomplete, erroneous, or padded invoices.

Though there may appear to be short-term advantages to special "deals" with unethical vendors, it is poor policy to succumb to the temptation, as your long-term objectives would be jeopardized. In fact, even short-term advantages seldom actually materialize. It is prudent for every company and purchaser to conform to the credo of ethics of the National Association of Purchasing Managers, which requests the following:

The company should take these points into consideration when creating and addressing policy questions in the purchasing department. The purchaser has a leading role in this matter since it involves cost-control responsibilities and possible legal matters. Moreover,

***Loyalty to this company
Justice to those with whom he [or she] deals
Faith in his [or her] profession***

The following principles form the basis of the National Association of Purchasing Managers Standards of Purchasing Practice:

1. To consider, first, the interests of his [or her] company in all transactions and believe in its established policies.
2. To be receptive to competent counsel from his [or her] colleagues and to be guided by such counsel without impairing the dignity and responsibility of his [or her] office.
3. To buy without prejudice, seeking to obtain the maximum ultimate value for each dollar of expenditure.
4. To strive consistently for knowledge of the materials and processes of manufacture, and to establish practical methods for the conduct of his [or her] office.
5. To subscribe to and work for honesty and truth in buying and selling, and to denounce all forms and manifestations of commercial bribery.
6. To accord a prompt and courteous reception, so far as conditions will permit, to all who call on a legitimate business mission.
7. To respect his [or her] obligations and to require that obligations to him [or her] and to his [or her] concern be respected, consistent with good business practice.
8. To avoid sharp practice. [This term refers to taking advantage of your position for your own personal benefit.]
9. To counsel and assist fellow purchasing managers in the performance of their duties, whenever occasion permits.
10. To cooperate with all organizations and individuals engaged in activities designed to enhance the development and standing of purchasing.

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**⑩ Discussion
Topic**

A kitchen manager was spotted selling disposable cooking grease to a cosmetic manufacturer on an informal basis. Apparently, this practice started two years ago without anybody's knowledge. She used \$2,000 from the \$2,500 proceeds for kitchen employees' quarterly picnic events and the rest for personal use. What arguments are there in favor of a formal salvage program? Do you see any ethical problem with the chef's current practice?

professional handling of these issues establishes a reputation with your company and within the industry. The purchaser's long-term success, and that of the company, depends on following these ethical standards and understanding the legal and contractual consequences described below.

- If an employee cannot be trusted with confidential information relating to product pricing, the manager may be reluctant to share bid pricing with that employee.
- If an employee accepts bribes from suppliers, contracts will tend to go to vendors who pay the highest bribes rather than to the most qualified vendor. Would you like to buy your food from vendors who paid the highest bribe but have a shoddy sanitation record? What could happen to the health and safety of your establishment and customers?

LEGAL ISSUES AND CONTRACTS

A contract is an agreement between two or more parties that is enforceable by law. More specifically, a contract is a set of promises. The law recognizes the performance of these promises as a duty and punishes anyone who breaks them. While a complete discussion of contracts is beyond the scope of this book, the following comments will help you recognize a binding and enforceable contract.

Almost every action you take as a purchaser has some legal significance, and it is imperative that you have a basic grasp of the consequences of entering into a contract. Knowing a bit about the law and purchase orders helps you understand the consequences of your actions, protect your company's interests, and recognize problems requiring expert legal assistance. A good book to read on this topic is *Hotel Restaurant and Travel Law: A Preventive Approach* by Cournoyer, Marshall, and Morris, published by Delmar Cengage Learning.

The Elements of a Contract

Four elements must be present in any contract, whether it is written or spoken, express or implied, when there are two or more parties. A failure or absence of any one of these elements will prevent the creation of an enforceable contract, no matter what the intent of the parties.

1. *Capable Parties.* This means that all parties must be capable of entering a contract. For example, an insane person is not considered capable. In most cases, a minor is not considered capable, either.
2. *Mutual Assent.* This means the contract is voluntary. Force, coercion, and duress prevent the creation of an enforceable contract.
3. *Lawful Objective.* The contract must be free of criminal, immoral, or otherwise illegal objectives, and must in no way be against public policy.
4. *Sufficient Cause to Contract.* This means there is a reason for the contract. It doesn't have to be for money, products, or services, but these causes are the most common. It merely requires *quid pro quo*, a Latin phrase meaning "something for something"—that is, each party expects to receive something as a result of the contract.

Here is an important note to consider: Contracts do not have to be written. Even a verbal commitment that meets the above criteria can be binding. Make sure you discuss these issues with your company to establish the best ways to act in accordance with your contracts and with the law.

TECHNOLOGY IN THE PURCHASING DEPARTMENT

The growing impact of technology in today's food service operation can be found in the NRA's 2004 report: "More than three out of five restaurant operators reported that their operations are more productive than two years ago" because of technology. 80 percent of operators say that personal computers, the Internet, and e-mail have had an impact on efficiency due to online ordering and vendor payment. Widespread use of the Internet is a fairly new phenomenon, and the impact it will eventually have on business is far from settled.

Quick-service restaurants such as McDonald's are beginning to offer self-serve, customer-activated ordering terminals. This could eliminate the order-taker role, as well as the ability to offer alternative menu items when production depletes popular items. The purchasing agent will have to take notice of how these changes impact production and align their systems to address shortages.

Online Ordering

As it has in many other areas of life, the Internet is becoming the great enabler. It allows many users to place purchase orders online, as it has built-in audit trails and is almost universally user-friendly. As an example, the food-service supplier Sysco has created e-Sysco for this purpose. Restaurants that order products from Sysco receive free systems and access to Sysco product catalogs. Orders are placed and confirmations are received online, which eliminates traditional sales and order-processing jobs. Online ordering differs from offline ordering in several important ways:

- *Online ordering eliminates the distance effect.* On the Internet, distance means nothing. When you access a Web site from your desktop computer, it does not matter whether that site is managed on the East Coast or the West Coast. You can place food and beverage orders from anywhere.
- *Automation and timing are transformed.* Purchasing moves faster online. Let's say you find a set of dining-room china and glassware on eBay that would be perfect for your establishment, and you are willing to pay \$1,000 for it, but the current bid price is only \$150. You could take the long route and sit at your computer, outbidding each new bid until you reach \$1,000, but can you devote that much time to such a project? Instead, you can let the system be your automated proxy and do your bidding for you. For this reason and others, ordering online is faster than calling or faxing in your order. It is also less prone to errors.
- *The Internet can be very cost-effective.* Depending on the cost of connection and computer hardware, the Internet may be a relatively small investment. Once you have these basics, however, there are few (if any) additional costs: You can do all of your work without printing a word, except perhaps to print a purchase order confirmation. This type of ordering also saves money for the vendor by reducing necessary staff, a savings that may be passed on to purchasers.
- *Ordering online gives access to a larger—nearly infinite—product database.* Ordering this way enables and facilitates relationships among a great range of businesses and their customers, suppliers, and communities. Such relationships might be more difficult or even impossible to access offline.
- *Unethical vendors have a new way to reach your company.* For all the benefits of access to online resources and vendors, the obvious concern is that the vendor on the other end may have fraudulent intent. It is as important—or more so—to check vendors' reputations when ordering online as when ordering using traditional methods.
- *There is a growing network effect from Internet connectivity.* Steve Case, former CEO of America Online, once said that AOL is in the business of delivering subscribers to one another. The vast stores of information, reviews, resources, and products online are available to anyone with a computer and a connection, with very fast results.

Electronic Invoicing

Today, about 75 percent of companies receive some invoices electronically. Figure 3-1 illustrates the flow of records and products between the purchasing and the accounting departments. The majority of accounting systems rely on purchase orders and invoices to process payment for products received. The manual procurement-to-payment model in Figure 3-1 is being replaced with an electronic procurement-to-payment model in many companies, such as Delaware North Companies (DNC). The important difference between manual and electronic models is that with an electronic model, the roles of the purchaser and accounts-payable representative are being consolidated into one action to process an invoice for payment. This process, called electronic data interchange (EDI), is discussed below. At DNC, however, this

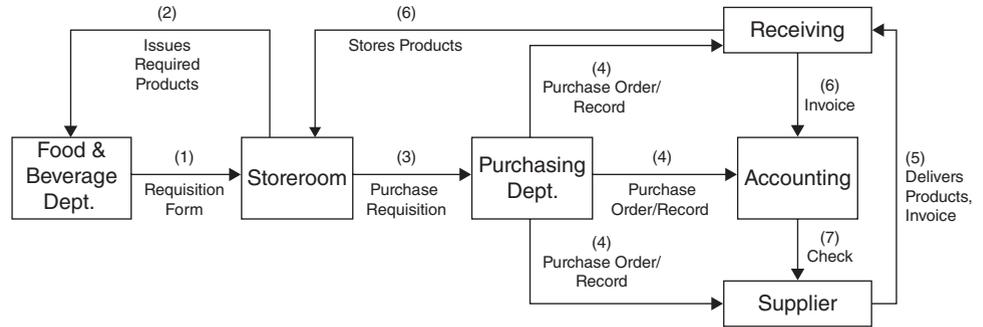


Figure 3-1 Electronic Data Interchange.

Source: William B. Virts, *Purchasing for Hospitality Operations*

reduction of human involvement in processing and filing does not eliminate the need for people altogether. Rather, it shifts their responsibilities from clerical to analytical.

By streamlining the payable and receivable processes in steps 4, 5, 6, and 7 in Figure 3-1, DNC is able to capitalize on fraud detection and prevention and to spend time analyzing and reducing duplicate payments, monitoring legal and regulatory compliance, and updating vendor records.

EDI and XML

The use of electronic invoicing, approval, and payment depend on both EDI and extensible mark-up language (XML). These protocols enable companies to send transactions in the form of a purchase order or invoice via the Internet for electronic review, approval, and payment. Online, people routinely share information that, in the past, would have been considered proprietary and hidden from suppliers. Though keeping this information proprietary has afforded companies leverage over suppliers in the past, today it is possible to use the same information to develop economic ties. This is not to say that proprietary information does not present legitimate implementation costs and security concerns. Most accounts-payable departments are, in fact, understandably leery about transmitting financial information over the Internet. However, encryption technology is becoming increasingly sophisticated and is making security concerns less daunting. In the not-too-distant future online invoicing will be as commonly used as electronic travel and entertainment expense reporting.

EDI and XML work as follows: XML uses codes to tell a Web browser how to display information on the screen. The computer doesn't "know" what the information is; it just displays it. XML provides additional tags that identify the kind of information that is being displayed and exchanged. For example, price data might be coded as <price> \$10 </price>. When the computer reads this data and sees the <price> tags surrounding \$10, the computer will immediately know that this is a price. XML tags can designate many different kinds of information—customer orders, bank statements, product information, and so on—and the tags will indicate to the computer how to display, store, and retrieve the information. Delaware North Companies, Inc., and Office Depot are among early adopters of XML technology, which the companies use to facilitate e-commerce with their major customers.

Before an order is sent out via EDI or in the form of an XML file, the computer draws up a list of electronic purchase orders to vendors. When food products arrive at the company's loading dock, the bar codes that have been applied by the vendor are scanned to update inventory records and to trigger payment for the product. The bar codes are scanned again when the product is requisitioned for use in the kitchen or bar outlet. EDI and XML technology are easy to use. They save labor dollars, provide more accurate data, and save time. The disadvantage is that using them requires computer knowledge to set up and to maintain the systems.

Database Responsibilities

Another enormous technological development in the industry has been the nearly universal use of electronic databases in inventory systems. As a purchaser, you must keep invoicing, requisitioning, and inventory reconciliation up-to-date in such systems. If any information is out-dated, the inventory management and valuation processes are worthless. A complete perpetual or periodic inventory and accurate pricing are necessary in order to conduct analytical reviews, write reports, and offer recommendations to management. The purchaser's record-keeping skills are fundamental to achieving these goals. Precise inventory procedures will be discussed in greater detail in subsequent chapters, but it is important to note here the role of technology in maintaining crucial business information.

CHAPTER QUESTIONS

Critical Thinking Questions

1. What ethical standards should a purchasing manager—or any employee—maintain?
2. Why is controlling purchasing expenses far more critical than increasing sales an equal amount?
3. Saving \$2,000 on purchases in an operation that averages a 4 percent profit margin is equivalent to increasing sales by how much?
4. What are the four elements of a binding contract, and what do they mean?
5. What is the goal of the purchasing department?
6. Why is controlling the cost of purchases so important to the bottom line?
7. What factors are most important in writing purchase specifications?

Objective Questions

1. Communication between the chef and the purchaser should be one-way, with the chef explaining his product needs and the purchaser procuring them. True or False?
2. Legal and ethical issues are rarely relevant in purchasing decisions. True or False?
3. One of the primary objectives of the purchasing department is to procure the best or highest-quality product available. True or False?

Multiple Choice Questions

1. Which of the following elements is NOT required for a contract to be binding?
 - A. capable parties
 - B. sufficient cause to contract
 - C. mutual assent
 - D. fair and equitable exchange

2. What is the *primary* goal of the purchasing department?
 - A. Controlling costs and maximizing value
 - B. Controlling product usage
 - C. Keeping the products locked up and safe from damage
 - D. Maintaining a proper inventory at all times
3. Why is it more important to control purchasing expenses than to increase sales an equal amount?
 - A. Because the purchaser will get bonuses for saving company funds
 - B. Because the budget is increased by whatever amount is successfully controlled
 - C. Because all savings through cost control go directly to increase the company's bottom line
 - D. Controlling purchasing expenses is not really more critical than increasing sales
4. Saving \$2,000 on purchases in an operation that averages a 4 percent profit margin is equivalent to increasing sales by how much?
 - A. \$8,000
 - B. \$10,000
 - C. \$2,000
 - D. \$20,000
5. Purchasing is an entire *process* that includes several steps. Which of the following is *not* one of those steps?
 - A. Planning the menu and determining the items needed for that menu
 - B. Determining the product specifications for those items
 - C. Selecting vendors and purchasing the items
 - D. Advertising the menu to potential customers
6. Vendors often provide services beyond just the product. Which of the following is *not* something you should look for in your vendors?
 - A. Convenient delivery schedules
 - B. Free samples for your family to test
 - C. Reliably sending you're the items you request
 - D. Consistency in the quality of the products
7. Which of the following *is not* one of the four elements of a binding contract?
 - A. Capable parties
 - B. Mutual assent
 - C. Lawful objective
 - D. Fair and equitable exchange
8. Which factors are most important for determining how you will write your purchase specifications?
 - A. Best prices available
 - B. Quality of the goods to be purchased
 - C. The company's image, menu, prices, and clientele
 - D. Finding the most unique items that are still reasonably priced

9. What are the *most important* standards that a purchasing manager should maintain when working with vendors?
- A. All payments should be made to vendors within 14 days of receipt of the items
 - B. All dealings should be standardized, transparent and ethical
 - C. All deals should be signed off on by the company's owner
 - D. Any special bonuses like free items should go to the company's owner
10. Why has technology increased productivity for purchasers?
- A. You have access to an almost infinite database of products
 - B. Online ordering eliminates the distance effect
 - C. Purchasing databases maintain crucial inventory information
 - D. All of the above
11. Receiving and processing invoices electronically does what for a company?
- A. Eliminates the need for employees
 - B. Eliminates the need for paper copies of the paperwork
 - C. Decreases the need for review of the data in the invoice
 - D. Increases the need for technologically-adept staff members

CASE STUDY

Business Ethics

Macrina's Bistro is a publicly owned corporation that owns several restaurants in regions across the country. Matthew Patrick is the president of Macrina's Bistro; Lucille Braun is the purchasing agent; and Kevin Matthew is the executive assistant. All three have been with Macrina's Bistro for about five years. Mary is Macrina's Bistro's controller, and she been with the company for two years.

Matthew: Hi, Mary, come on in. So you say you have a confidential matter to discuss. What's on your mind?

Mary: Matthew, I was reviewing our increased purchases from Sysco last week and wondered why our volume has tripled in the past year. When I discussed this with Lucille, she seemed a bit evasive and tried to dismiss the issue by stating that Sysco can give us one-day delivery on our orders.

Matthew: Well, Lucille is right. You know we have been trying to implement "just-in-time" purchasing and trying to get our inventory assets down.

Mary: We still have to look at the overall cost. Sysco is more of a jobber than a warehouse. After investigating orders placed with them, I found that only 10 percent are delivered from their warehouse and the other 90 percent are drop-shipped from the manufacturers. The average markup by Sysco is 30 percent, which amounted to about \$500,000 on our orders for the past year. If we had ordered directly from the manufacturers when Sysco didn't have the item in stock, we could have saved about \$450,000 ($\$500,000 \times 90$ percent). In addition, some of the orders were late and incomplete.

Matthew: Now look, Mary, we get quick delivery on most items, and who knows how much we are saving by not having to stock this stuff in advance or worry about it becoming obsolete. Is there anything else on your mind?

Mary: Well, Matthew, as a matter of fact, there is. I ordered a Dun & Bradstreet credit report on Sysco and discovered that Bruce Templeton is the principal owner. Isn't he your brother-in-law?

Matthew: Sure he is. But don't worry about Bruce. He has a Harvard MBA, and he understands this just-in-time philosophy. Besides, he's looking out for our interests.

Mary (to herself): This conversation has been enlightening, but it doesn't really respond to my concerns. Can I legally or ethically ignore this apparent conflict of interests?

Your task:

1. Would Mary be justified in ignoring this situation, particularly since she is not the purchasing agent? In preparing your answer, consider the Standards of Purchasing Practice.
2. State the specific steps Mary should follow to resolve this matter.