

Chapter 23

Purchasing

- Section 23.1 The Role of the Buyer
- Section 23.2 The Purchasing Function



The Role of the Buyer

Key Terms

organizational buyers

wholesale and retail buyers

six-month merchandise plan

Objectives

- Define the terms used to describe organizational buyers
- Explain how planning purchases differs between an industrial market and a resellers' market

The Role of the Buyer

Key Terms

open-to-buy
(OTB)

centralized
buying

decentralized
buying

- Describe the six-month merchandise plan and explain its calculations
- Explain the concept of chain store buying

The Role of the Buyer

Graphic Organizer

Use a chart to write two or three sentences describing each of the following: industrial market, resellers' market, government market, and institutional market.

Market	Notes
Industrial	
Resellers	
Government	
Institutional	

Planning Purchases

organizational buyers

Buyers who purchase goods for business purposes, usually in much greater quantities than the average consumer buys.

Organizational buyers purchase goods for business purposes, usually in greater quantities than the average consumer. Much of what they buy requires technical knowledge and knowledge of the firm's operations.

Industrial Markets

In manufacturing and service businesses, the people responsible for purchasing may be called:

- Purchasing managers
- Industrial buyers
- Procurement managers

Resellers' Markets

wholesale and retail buyers



Buyers who purchase goods for resale.

The resellers' market is found in wholesaling and retailing operations. **Wholesale and retail buyers** purchase goods for resale; they forecast customers' needs and buy the necessary products.

Six-Month Merchandise Plan

six-month merchandise plan



The budget that estimates planned purchases for a six-month period.

Buyers plan their purchases by preparing a **six-month merchandise plan** ◀, the budget that estimates planned purchases for a six-month period.

Six-Month Merchandise Plan

The first figure calculated on a merchandise plan is the planned sales figure.

The goal for the current year is based on:

- Last year's sales
- Current market and economic conditions
- Analysis of the competition

Six-Month Merchandise Plan

Projection of accurate planned sales figures is important because all other figures on the merchandise plan are computed on the basis of this figure.

Six-Month Merchandise Plan

The beginning-of-the-month (BOM) inventory is the amount of inventory needed to accommodate the sales volume planned. It can be based on the stock-to-sales ratios of previous months, if economic market conditions are similar.

Six-Month Merchandise Plan

When calculating planned sales, retail reductions also need to be taken into account. These reductions can be the result of:

- Reductions in selling price
- Shortages due to mistakes
- Employee pilferage
- Customer shoplifting

Six-Month Merchandise Plan

Planned retail reductions can be calculated in two different ways:

- Calculate reductions as a percentage of planned sales
- Reduce planned reductions from the previous year

Six-Month Merchandise Plan

Planned purchases is the retail-dollar purchase figure a firm needs to achieve its sales and inventory projections for each month.

Six-Month Merchandise Plan

All figures discussed – planned sales (PS), BOM and EOM stock, and reductions (R)– are needed to determine planned purchases (P).

The formula is:

$$(PS + EOM \text{ stock} + R) - BOM \text{ stock} = P$$

Six-Month Merchandise Plan

open-to-buy (OTB)



The amount of money left for buying goods after all purchases received and on order have been considered.

The **open-to-buy (OTB)** is the amount of money left for buying goods after all purchases received and on order have been considered. It is calculated this way:

$$P - (\text{goods received} + \text{goods ordered}) = \text{OTB}$$

Six-Month Merchandise Plan

The result is the retail value of the goods the buyer may purchase.

The formula for determining the OTB at cost has two parts:

100% - markup % = % attributed to cost of the item

% attributed to cost x retail value = OTB at cost

Planning Purchases for a Chain Store Operation

centralized buying



Buying process for all branches in a chain store operation, usually done in a central location, such as company headquarters.

Buying for all branches in a chain store operation is usually done in a central location (company headquarters) and is called **centralized buying** ◀.

Buyers generally purchase all the items for a department or part of a department.

Decentralized Buying

decentralized buying

Local chain store managers or their designated buyers who are authorized to make special purchases for their individual stores.

Decentralized buying ◀ happens when local chain store managers are authorized to make special purchases for their individual stores.

Retailers constantly balance the efficiency gained through centralized buying and the greater sales potential obtained through decentralized buying.

Government Markets

Government units are the federal, state, and local agencies responsible for purchasing goods and services. There are approximately 85,000 government units in the United States, including the Federal Aviation Administration (FAA), public libraries, and local school boards.

Institutions

Institutions and other nonprofit organizations also have a great deal of buying power. They may have unique buying requirements.

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SECTION 23.1 REVIEW

SECTION 23.1 REVIEW

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The Purchasing Function

Key Terms

want slips

consignment
buying

memorandum
buying

reverse
auction

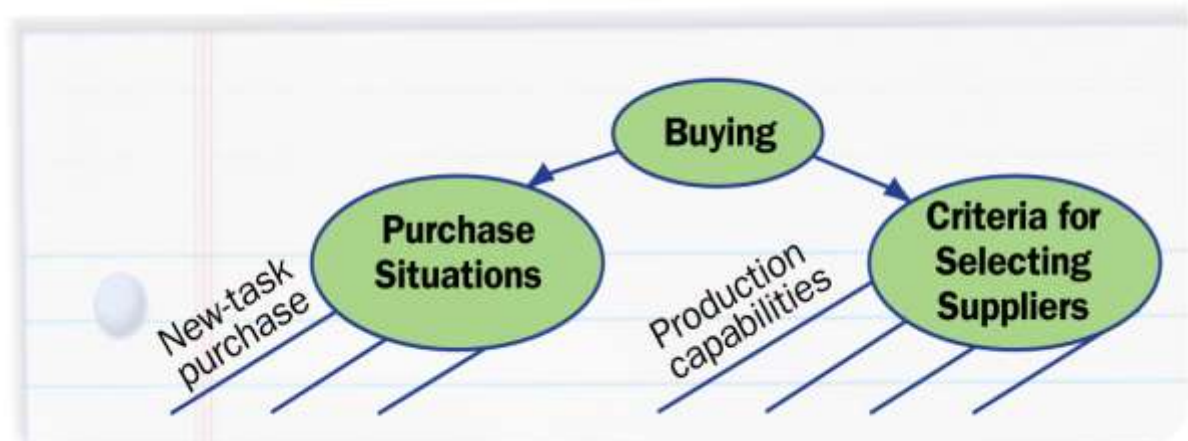
Objectives

- List the three types of purchase situations
- Explain the criteria for selecting suppliers
- Name the factors involved in negotiating terms of a sale
- Describe the various Internet purchasing methods

The Purchasing Function

Graphic Organizer

In a chart like this one, write in three types of purchase situations and four criteria for selecting suppliers.



The Buying Process

There are many types of purchase situations. The way suppliers are selected, how terms are negotiated, and how the Internet is used are changing the entire process.

Types of Purchase Situations

There are three types of purchase situations:

- New-task purchase
- Modified rebuy
- Straight rebuy

Types of Purchase Situations

want slips

Customer requests for items that are not carried in the store.

In a new-task purchase situation, a purchase is made for the first time. In a retail or wholesale operation, new-task purchases are often prompted by **want slips** ◀. These are customer requests for items not carried in the store.

Types of Purchase Situations

In a modified rebuy situation, the buyer has had experience buying the good or service, but some aspect of the purchase changes.

Perhaps the change occurs because of competition, current trade information, or information from resident buying offices.

Types of Purchase Situations

In a straight rebuy situation, the buyer routinely orders the goods and services purchased from the same vendor(s) in the past.

Selecting Suppliers

The criteria for selecting suppliers fall into a few key categories, including:

- Production capabilities
- Past experience
- Special buying arrangements
- Special services

Selecting Suppliers

A buyer may determine the production capabilities of a source by doing the following:

- Requesting specific information
- Visiting the facility
- Soliciting business references



Selecting Suppliers

A buyer may evaluate a supplier based on information gathered during previous experiences with the supplier. Such information may include:

- Product quality
- Delivery performance
- Customer service

Selecting Suppliers

consignment buying



Paying for goods only after the final customer purchases them.


A buyer may also consider the special buying arrangements offered by a vendor, which may include the following:

- **Consignment buying** ◀, in which the supplier owns the goods until the wholesaler or retailer sells them

Selecting Suppliers

memorandum buying

A buying process in which the supplier agrees to take back any unsold goods by a certain pre-established date.

- **Memorandum buying** , in which the buyer pays for all goods but is later reimbursed for unsold goods

Selecting Suppliers

A buyer may consider a supplier's special services, such as the placement of universal product codes (UPCs) on goods. UPCs offer:

- Individual items do not have to be marked with a price.
- Retailers can better keep track of what they have in stock.

Negotiating Terms

Buyers must negotiate:

- Prices
- Dating terms (when a bill must be paid, and any discounts for paying early)
- Delivery arrangements
- Discounts

Internet Purchasing

reverse auction



An auction where companies post what they want to buy and suppliers bid for the contract.

- Many organizational buyers use the Internet for purchases because e-commerce provides timely supplier information. Online auctions are one way for buyers to find what they need. An alternative is a **reverse auction** ◀, in which the buyer posts a need and suppliers bid on the contract.

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SECTION 23.2 REVIEW

SECTION 23.2 REVIEW

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FOCUS on KEY POINTS

Section 23.1

- Organizational buyers in industrial and resellers' (wholesale and retail) markets purchase goods in much greater quantities than average consumers.
- Buyers for government markets make purchases of goods and services for one of the largest single markets in the world.

continued

FOCUS on KEY POINTS

Section 23.2

- The three types of purchase situations are new-task purchase, modified rebuy, and straight rebuy.
- The primary criteria for selecting suppliers are (1) production capabilities, (2) past experience, (3) special buying arrangements, and (4) special services.

FOCUS on KEY POINTS

Section 23.2

- The Internet has revolutionized purchasing in the industrial and resellers markets, and online buying is expected to grow in coming years.



This chapter has helped prepare you to meet the following DECA performance indicators:

- Write purchase orders.
- Determine what to buy.
- Determine quantities to buy.
- Determine when to buy.
- Choose vendors.



CHAPTER 23 REVIEW

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