

Chapter XXIV

Purchasing and Stock Keeping

ACCOUNTING AND BUDGETING INVOLVED. Both accounting and budgeting methods are applicable to the problem of purchasing the supplies and the equipment for a social agency. The data for the accounts of expenditures are derived from two main sources—salaries and purchases. Purchasing procedures must produce accurate and up-to-date records of expenditure. The budget also is involved in this problem, for the amount of purchases determines very largely whether the organization is keeping within its budgetary allowances for supplies and equipment. Purchasing therefore is one of the products of budgeting as well as one of the reasons for good accounting.

IMPORTANT TO ADMINISTRATION. Effective purchasing methods are basic to good administration. Careful purchasing will mean economy for the organization. In it may lie all the difference between good and bad food for the inmates of an institution, between equipment which gives satisfaction over a long period and that which is unsatisfactory and quickly wears out, or between supplies consumed in the work of the organization and those which are not adapted to the work and have to be thrown away eventually or sold at a loss. For example, a careful purchaser will order just enough printed matter for a given use. A careless purchaser may order either too much—with the result that the surplus has to be disposed of at a loss—or too little, with the result that more has to be ordered at increased cost. Effective purchasing is without doubt one of the cardinal factors in the economical and efficient management of a social agency.

CENTRALIZATION OF PURCHASING VITAL. One of the first principles of effective purchasing is that all buying, whether the agency is large or small, shall be in the hands of one competent individual. It may be the executive, his secretary, the office manager, or a special purchasing agent. In some cases it may be advisable to provide that purchases under \$25 or even under \$10 in value may be authorized by

a sub-executive, and those over this sum by the executive. Who is to be made responsible for purchasing, and the amount of time he is to give to it, will depend on the size of the agency and the complexity of the purchasing problem; but the fact remains that all orders for supplies should come from one responsible and well-informed person. Only in this way can confusion be avoided, duplication of purchases eliminated, unnecessary buying prevented, and supplies and equipment utilized to their full value.

This principle of centralized purchasing in the agency cannot be overemphasized. If an employee insists on buying without authorization, with consequent wastage of funds, he may be restrained by being made to pay for unauthorized purchases. One lesson of this nature will usually result in his making purchases through the proper agent.

The purchasing agent should have the right to question any proposed purchase, to suggest the sharing of equipment rather than the purchase of duplicate equipment, to propose the purchase of second-hand rather than new equipment, and to take any other measures necessary to insure the purchase, at the lowest possible cost, of only those articles which are necessary. He should know thoroughly the whole organization, its equipment, and its commodities. In an elaborately organized social agency he may well be a valuable and well-paid executive. Through judicious and painstaking buying he will save his salary many times over.

COMMITTEE ON PURCHASING. If the agency's purchases are large in amount and diversified in type, it may be helpful to have a committee on purchasing, made up of persons qualified in the various areas of buying. Its chairman should be a member of the board, and its secretary will be the purchasing agent.

STANDARDS IN PURCHASING. A prerequisite of much of an agency's purchasing should be the setting of standards for articles to be purchased. Buying should not be done merely by brand, by trademark, or at the whim of a purchaser who happens to know some affable salesman. A sensible procedure is to make a purchase analysis similar to a job analysis, to determine the use of the proposed purchase and the requirements essential for it to fulfill that use, and to buy on the basis of those specifications. For example, many institutions do, and practically all should, buy their canned fruits on the basis of standards of quality, such as syrup content and the like. Printed matter should be ordered only after a study of the weight of paper nec-

essary to obtain a given result, the quality and color of the paper, the color of ink, the size of the type, the size of the page, and so on has been made, and the size of a booklet or form should be determined according to the size of the paper stock from which it can be cut most economically.

Tests should be made, if necessary, to determine the least expensive article which will fill a given purpose. For instance, record cards are of various qualities. Cards made of linen rag are long-lived but expensive, and this high quality may be unnecessary for pledge cards which are to be used for only a short time in a financial campaign. Printing and paper salesmen may be able to give sound advice on the most economical ways in which to prepare printed matter. Salesmen for various commodities or equipment can often make helpful suggestions as to the kinds which in their opinion will be necessary to meet certain needs. Sometimes standards of performance can be set by trying out different kinds of equipment—such as typewriters and adding machines—as to speed of operation, durability, and so forth before the purchase is made. By study, experimentation, and demonstration the social agency can determine the least expensive commodity or equipment which will meet a given need and then purchase on that basis. Once this standard is set, the organization should continue its purchasing in accordance with it until further experimentation and demonstration produce a more satisfactory standard.

Many savings can be made by following the procedure of one large agency which, we once observed, did not print the names of its officers on letterheads. It could therefore buy at one time a supply sufficient for several years, because, although the official personnel changed, its name and address did not. Most social agencies order letterheads at least once a year. Usually there is considerable waste because of leftover letterheads which have to be thrown away or overprinted, or because additional letterheads have to be bought in small quantities until the annual meeting and election of officers so that there will not be a surplus supply of stationery. The agency cited above saved about 50 per cent on the cost of letterheads by the simple process of standardization. Maybe the agency lost as much, though, through missing the prestige value of prominent names on its letterhead. *Quién sabe?*

Certain small commodities need not be standardized. They are bought so infrequently and cost so little that the development of a

standard costs more in time than is justified by any possible saving. On the other hand, even so inexpensive an item as lead pencils may amount to \$50 or so a year in a moderate-sized social agency. Standardization on the cheapest satisfactory pencil may save half this price. Mechanical pencils may save even more.

By cutting the corners and by standardization the social agency can save money to put into the constructive aspects of its work.

USE OF REQUISITIONS. The foundation of good purchasing, after standards have been set—or perhaps even before this (depending on whether or not the individual who wants the article knows what he really wants)—is the use of a requisition blank. The purchasing agent should never make out an order without a written request from the individual who wishes it. This request should be made out on a standard requisition form. The form may be merely a single sheet—dittoed, mimeographed, or printed. If the organization is more complex, a duplicate form may be used. The original would go to the purchasing agent, and the copy would be held by the department from which the order originates. If standards have been set for the article, they should be stated on the requisition, together with the price if it is known. Written requisitions prevent errors and recriminations between the purchasing agent and the individuals for whom he is buying. These little documents also provide a means for checking on the carelessness or the economy of the various departments of the organization. The requisitioner is on the spot!

Some agencies do not require that a special requisition form be filled out but do stipulate that all requests for purchase shall be in writing. Nevertheless, in whatever form it appears, the written requisition would seem for most agencies to be the only satisfactory basis for effective purchasing.

If the requisition is for a purchase of small cost, it may be sufficient for the agent to issue a purchase order immediately. If, however, the purchase involves a large amount of money (varying in different organizations from \$5 up to perhaps \$50 as the minimum figure) the approval of the executive or his responsible representative should also be necessary to make sure that the purchase is in line with organization policy and within the budget and the funds available.

SECURING BIDS. After the receipt of the requisition, the next activity of the purchasing agent in most social agencies is to get bids from dealers or manufacturers—provided of course that the requisition gives valid specifications.

(a) *Written Specifications.* If specifications have not been established, the "P.A." should set them up in conference with the person who has made the requisition and then get bids. Bids should be submitted on the basis of written statements which cover all the specifications of the commodity or equipment. Specifications must be uniform for all bidders. Do not let a vendor write the specifications; he may phrase them so that only his product or article can meet them!

The agency will usually find it wise to specify that the union label shall appear on all printed matter intended for use with union members.

(b) *Give All Competent Firms a Chance to Bid.* All concerns which the social agency thinks may be able to supply the article should be asked to bid on it. This may be done either by mailing the specifications to dealers or by asking their salesmen to call personally to discuss them. Although articles which do not involve a large sum of money may be bought without bids, all purchases of considerable cost should be bid upon. This is necessary both for the sake of economy in purchasing and also in order to give all the dealers in the community who can supply the commodity and presumably are entitled to equal consideration an opportunity to secure the business.

(c) *Fairness to All Bidders.* Bids must be handled on the basis of absolute equality and justice. No dealer who has made a bid should be told someone else bid lower and that he can have the order if he lowers his price. The dealer who is high has had his chance and should not be given another opportunity. If a lower price is possible, he should have given it in the beginning. Besides, the beating down of bids causes distrust on the part of vendors and probably results in their figuring higher than they expect to sell, in the expectation of lowering their prices later on.

Salesmen should expect and receive absolutely fair treatment. They should be convinced, by courteous reprimand if necessary, that the purchaser is not to be influenced by arguments of friendship, by gifts, by the opportunity to make personal purchases at a discount, or by any other consideration. The fact that a salesman may represent a firm which has contributed to the agency and whose president is a member of the agency's board should not be a valid argument for giving that firm the business.

The purchasing agent is in a position full of temptations. He must avoid the slightest semblance of accepting favors which may

seem to give the salesman an excuse for asking favors in return. The one basis of purchase should be the lowest price, with reasonable assurance of delivery when needed, on standard specifications.

(d) *Bids in Writing, with Samples when Necessary.* Bids should be required in writing. They should be checked carefully with the specifications to make sure that all the requirements have been met. Sometimes a printer will figure on a different basis from the specifications and blandly state that, although the paper he suggests is somewhat different from that specified, it is equivalent. No such subterfuge should be allowed. Standard specifications should be adhered to. Salesmen should be required, when necessary, to give samples of commodities, such as canned goods. The goods when delivered should be checked against these samples.

PURCHASE ORDERS. The purchase order should always be in writing. It should cover all the specifications stated in the bid, including every item of price, quantity, quality, time and method of delivery, and any other item that is necessary. These terms may be stated in a letter to the vendor. A carbon copy is kept by the agency. Still better—and the practice in most social agencies—is the use of a triplicate or quadruplicate order form serially numbered. The serial number is important, since by its use unauthorized persons cannot place personal orders in the name of the agency. Further, each purchase can be properly recorded and listed. All orders should be signed by the purchasing agent. The executive's signature also may be needed on important orders.

The order and the various carbon copies may be of different colors to indicate various uses. One purchasing agent suggests the following differentiation:

A white copy is sent to the vendor. A yellow copy is first forwarded to the receiving clerk, who checks the material as received and notes the condition and any shortage or breakage. It is then returned to the purchasing department for filing by order number. The pink copy is first sent to the disbursing clerk as her authorization for the payment of the bill. Then it is filed with the copy of the voucher, the bid, the requisition, the bill of lading, and other pertinent documents. The blue copy goes to the department originating the requisitions so that it may be advised as to the source, specifications, and cost of the material ordered.

Order forms take various shapes and sizes, from 4 by 6 inches up through other sizes to 9 by 12 inches or larger. It seems good practice, however, to standardize on a form 8½ by 11 inches, which can

be easily filed. Another good size would be that of the voucher check, so that the carbon copy of the purchase order can be filed with the copy of the check in the voucher file.

Written records of all purchases, and enough copies to give the necessary information to all persons concerned, are essential to satisfactory and economical purchasing for any social agency.

PURCHASE RECORDS. More formal records of purchasing than would come merely from the financial accounts of the social agency may be desirable.

A scrapbook may be kept in which are pasted copies of all printed matter produced by the organization, together with the name of the printer, the amount ordered, the date, and the cost for each item.

A record of the business done with each firm with which the agency deals may also be kept in the files, through the use of a folder for that firm. In that folder copies of all the orders are filed, together with samples or photographs of any commodities which can be handled in this way. Comments on the service given by the commodity or equipment may be dictated and filed with the purchase record as a guide to future purchasing.

A card ledger may be kept of all purchases of commodities. Each card would give an item's name, its trade name if there is one, the date of purchase, the grade, the total price paid, and the price for each unit.

By these devices the purchasing agent can study the prices which have been paid; estimate his expenditures for the coming year, and check up on purchases and the bids made on them in the light of past experience. A purchase record thus adapted to the needs of a social agency may be helpful in placing orders with the dealers who can render the most satisfactory service and in setting up specifications which will bring economy and satisfaction in use.

RECEIVING PURCHASES. The receiving of purchases is an important but often neglected function. Just as the agency should have one person responsible for purchasing, so also it should have one responsible for receiving all articles purchased. This person may be the purchasing agent or the office boy, or anyone else who can be held responsible, up to the head of an elaborate receiving department and store room to which all goods are sent when delivered. If no one is responsible for the receipt of purchases, the individual for whom the order was issued may perhaps wait for his material for days after its arrival because no one has thought to tell him of its arrival. Im-

portant purchases may sometimes actually be lost because the delivery boy has not given them to the proper person. Centralized receiving is essential to the proper handling of purchases.

The person who has this duty should have a copy of each order. He should never sign for delivery until he has checked the material to make sure that it is in accordance with the specifications as to number, quality, and condition. Printers sometimes give their customers short measure. Sometimes a delivery boy breaks an article, and if no check-up is made on delivery he can claim that it was all right when it left his hands.

The stock clerk does not have to count every envelope in delivery of an alleged 25,000. It would probably be sufficient to count the number of packages and multiply that number by the number said to be in each box.

Prompt checking before the delivery boy leaves will correct errors due to the receipt of the wrong article or failure to deliver all of the order.

Some institutions may wish to make more elaborate tests of merchandise delivered. One hospital purchasing agent writes, "In the case of paints, oils, chemicals, soaps, and such materials, spot samples are taken and analyzed in our chemical laboratory." Precautions are necessary to prevent substitution by unscrupulous dealers.

Some institutions make doubly sure of accuracy in receiving goods by requiring duplicate receipts. One is sent to the accounting office to be made a part of the record of the purchase, and the other is kept in the store room for the stock record.

RETURNING PURCHASES. When goods have to be returned because they are unsatisfactory or for some other reason, the transaction should be managed as carefully as a purchase. As Frank E. Chapman says:¹ "Goods returned should be listed in duplicate, as in receiving, in detail; the carbon copy should be returned to the store room, the original sent to the accounting office for follow-up and prompt receipt of credit from the vendor of the commodity." Goods should not be returned for credit until arrangements have been made with the vendor.

STOCK ISSUANCE ON REQUISITION. Supplies and equipment should be watched as carefully as money, because, after all, they are money in another form. Every social agency should have either a stock room or a cabinet that is locked. The key to this compartment should be

¹*Hospital Organization and Operation*. The Macmillan Company, New York, 1924.

kept by the one who is responsible for supplies. No one else should be allowed access to it. Supplies should only be issued (unless the whole purchase has been made for one individual or department) on the basis of written requisition slips, O.K.'d by the proper authority—for example, the office manager.

STRATEGY IN HANDLING SUPPLIES. The stock clerk should not merely be a filler of orders. He should also be a strategist in planning the use of surplus material and in keeping his stock from accumulating. Chapman again suggests: "Those responsible for purchasing should carefully watch to see that existing stocks are issued either for the purpose intended or for some substituted purpose to which they can be applied, and to insure against the necessity for stocks of several articles the character and use of which are identical. To illustrate, there is no justification for a large purchase of canned peaches when there is an oversupply of canned pears in the store room."

STOCK RECORD. A card record should be kept (except in very small agencies) of all goods received in the stock room. This record should give the name of the commodity and the firm from which it was purchased. It should also list the number of articles received. Each time any of the supply is issued, the amount withdrawn should be recorded and the balance still available should be shown. Each card should indicate the danger line below which the stock should not be allowed to drop. Whenever the supply on hand has reached this line, the purchasing agent should be advised so that a new supply can be ordered. One of the greatest causes of inefficiency in any social agency office may be failure to watch the stock carefully. The agency then runs out of letterheads, envelopes, or some other important article, has to put through a rush order without waiting for bids, pays for overtime work, and suffers from delay which may be costly. A careful stock record system will prevent such difficulties.

SHORT CUT IN CONTROL OF STATIONERY AND OFFICE SUPPLIES. A short cut in control of stationery and office supplies is presented in *Work Simplification Ideas*, Bulletin No. 4, published in August, 1946, by the National Office Management Association, as follows:

Common Practice: To maintain inventory records of stationery and supplies, recording deliveries and withdrawals from bulk supplies and reordering when minimum is reached.

Short Cut Idea: Keep no stock record of stationery or office supplies. A predetermined quantity of principal items, representing one-month, three-months, or six-months supply, according to the delivery time, is

segregated and marked "Reserve Stock." When the first delivery is made from the "Reserve Stock," the stock clerk notifies the responsible person and a reorder purchase requisition is written from reference to the requisitioner's copy of the previous purchase order.

SUPPLIES AND THE BUDGET. The issuance of supplies may be an important factor in budget control. One hospital purchasing agent writes: "Each department has a budget allotment for its various requirements. Requisitions as received are checked with the disbursing clerk's records which show the amount spent and contracted for during the current fiscal year. This is done before the order is issued. In case there is not sufficient allowance to cover that amount, the purchase of the article is suspended until an additional appropriation is secured."

MAKING STOCK ISSUANCE EASY. The use of a store room and of requisitions need not be a handicap in office procedure. Each week the office manager may make out requisitions for the supplies which will probably be needed during the week ahead, on the basis of an inventory of the supplies in the desks of the clerks and typists. Another possibility is to have a stock cabinet in the office. In the cabinet letterheads, envelopes, carbon paper, and other small essentials are kept. This cabinet is restocked every Saturday or Monday by the office boy or a clerk, on the basis of requisitions. From it typists and stenographers may take supplies as needed. The fundamental point is to have some record of the income and outgo of supplies so that waste can be traced, unusual use checked, budget allowances kept within control, and supplies reordered before they give out.

STOCK INVENTORY. In addition to the perpetual inventory or stock record which the card record system provides for the stock room, the social agency, unless it is very small, will find it worth while to have an annual or semi-annual inventory made to see what stock is on hand and to figure out uses for that stock for which the intended use has not materialized. Careful analysis in inventory will often prevent unnecessary purchases and waste of stock for which a secondary use could be found. At the same time such an analysis will facilitate the clearing out of commodities no longer needed. Thus space will be given for incoming stock, overcrowding of the shelves will be prevented, and demands for further space may be eliminated.

STOCK ROOM. Whether the stock room is a small steel cabinet, a closet with built-in shelves, or a large room or several rooms, the

stock should be arranged in an orderly manner. The room should have an ample supply of shelves, preferably of steel in interchangeable units which can be adjusted as to height and readily put up and taken down. Supplies should be arranged in orderly fashion on the shelves, with similar articles together.

There should be some indication as to the contents of the stock cabinet or room. A typed index or guide may be pasted on the cabinet door. The shelves on which the articles are kept may be numbered and the number written on the stock record cards. Labels may be glued or tacked on the shelves to indicate articles in packages. A sample of contained printed matter may be attached to the outside of each parcel.

No one except the stock clerk should be allowed to return anything to the stock room. In this way he is held responsible for the location of all supplies and should know where everything is. Then all stock may be conveniently found without loss of time and without waste of material that is misplaced and cannot be discovered.

EQUIPMENT RECORD. In addition to a record of supplies, the stock clerk should keep a record of all the equipment which belongs to the agency. Each article should be numbered either with a metal tag which can be tacked onto wooden furniture or with a gummed label which can be pasted on metal equipment and shellacked so that it will not be defaced or rubbed off. The name and number of each piece of equipment should be listed in a card-file equipment record. There the location of each item should be clearly indicated, and notation made of any transfers. Social agencies have sometimes been completely at sea as to how many typewriters they owned, whether they had sent back some of their own to the typewriter company with the machines rented for a financial campaign, or whether certain small pieces of office equipment were personal property or the agency's own. Seasonal equipment, such as electric fans, typewriters needed only in rush seasons, and similar articles should be kept covered in the stock room when not in use and issued only on requisition. The equipment record is just as important as the stock record.

Inventory should be taken at least annually to make sure that all the agency's property is on hand in good shape. A record of this nature will help to discourage thoughtless or unscrupulous employees from taking equipment home for their own use and failing to return it. Some individual should be held responsible and chargeable for each piece of equipment. Only in these ways can loss and theft

be prevented and the agency be given assured possession of its own property.

To cover contingencies, all equipment and furniture should be insured against loss by fire, storm, or theft.

PAYMENT FOR PURCHASES. The final step in purchasing is payment and accounting for the articles purchased. Purchasing systems should make payment easy and accurate and should provide records of the whole transaction readily available for the bookkeeping system.

(a) *Check Bills Carefully.* The authority for each payment should be the documents in the transaction, including the original requisition, a copy of the order and of the delivery slip properly O.K.'d by the receiving clerk, or a copy of the receiving clerk's slip. All this material should be attached to the bill.

As one purchasing agent says: "All delivery slips are checked with invoices, and the invoices are O.K.'d by the purchasing agent or, in case of unusual purchases, by the general secretary or his assistant before they are sent to the cashier's department for payment."

One executive counsels: "It is sound practice to require, except in very large organizations, that the executives should O.K. all bills before they are paid. If not the 'chief,' then the head of the department for which the goods were purchased should do this."

The utmost precaution should be taken to make sure that payments are made only for commodities that have been purchased with proper authorization, have been received in good condition, and are in accordance with all the specifications of the order.

(b) *Pay Promptly and in Full.* Courtesy and good public relations require that bills be paid promptly. Economy suggests payment in time to take advantage of special rates of discount, such as two per cent for cash on delivery, within ten days after delivery, or within ten days after the first of the month. The agency which takes advantage of discount terms, unless the terms of the contract specify otherwise, can save a considerable amount of money during the year. The advantages of prompt payment are so great that it may even be wise for the agency to borrow the money for this purpose and to buy from those concerns whose prices it finds best, rather than to be bound by chains of unpaid bills to vendors who purposely raise their prices to cover the loss expected through slow payment. Of course a member agency of a community chest could usually receive from the chest, on proper request, enough money to pay all bills promptly. That is good public relations both for the agency and for the chest!

Sometimes agencies are beguiled into purchasing fairly expensive equipment on the installment plan. Pay cash when possible. For example, one vendor suggested that a social agency purchase an automatic stoker for \$1,200 on the installment plan, with payments to run over a year and with the assurance that the machine would pay for itself out of savings in fuel. The agency was able to cut \$75 off the price by paying cash from the money on hand in its current checking account. It would have been ahead of the game even if it had had to borrow the money at 4 per cent in order to pay on a cash basis. The year's interest on \$1,200 would be \$48, as against the \$75 saved in the purchase price, or a difference of \$27. Even \$27 is worth saving if only for the sake of convincing the vendor, who may also be a contributor, that the agency is trying to make the money he gives go as far as possible at the lowest possible cost.

(c) *Do Not Ask for Special Discounts.* Do not ask for special discounts because your agency is a charity and hard up. You may get the discount but lose many times its amount in a contribution which should have been given by the vendor. Of course, if he offers the discount because he is really interested, that is something else! Better keep your purchasing and your contribution getting as separate as possible.

(d) *Voucher Check for Payment.* Payment should be made by means of a duplicate or voucher check, divided into two parts, as already suggested. The lower half should carry the record of the transaction and a statement of the exact items for which payment is made. This voucher (the lower half) is torn off from the check itself (the upper half) before the check is cashed. Cashing of the check constitutes acceptance of the payment as covering the terms of the transaction listed and helps to absolve the purchaser from further responsibility. The carbon copy of the voucher is attached to the other documents and filed as part of the permanent record. If two carbons are made, as is sometimes done, one may be filed chronologically, the other alphabetically.

Payment thus is the final step in a long chain of transactions which mean the competent handling of the purchases of the organization. Businesslike procedure will save money, give full value for the money spent, prevent waste, and build up in the community a worth-while reputation for sound management. This reputation will have an advantageous effect on the co-operation given to the agency by the public and on the contributions which it receives, directly or through the community chest.

QUESTIONS

1. In a typical social agency with which you are familiar, is the purchasing centralized? If so, in whom?
2. How is centralized purchasing enforced?
3. Are purchasing standards established for various commodities? If so, how?
4. Are requisition blanks used before purchase? If so, how?
5. Are bids secured on all or part of the purchases? On what part? How?
6. What use is made of samples?
7. Are purchase orders used? What kind? How?
8. What purchase record has the agency? What use is made of it?
9. How is receipt of purchases handled?
10. What is done about "returns"?
11. Is stock issued on requisition? If so, what kind, and how?
12. Is a stock record used? What kind, and how?
13. Is the stock inventoried? How often, and what use is made of the information thus secured?
14. Has the agency a stock room or stock cabinets, and how are they arranged?
15. Does the agency keep an equipment record? What kind, and how is it handled?
16. What principles are followed in the payment for purchases?
17. How might this agency improve its practice in any of these respects?