Learning Objectives

By the end of this chapter, you should be able to:

• Name at least six ways in which purchasing personnel can add value to their organization.
• Explain the typical responsibilities of efficient members of a purchasing department.
• Describe the two processes involved in taking corrective action.
• Identify the types of costs associated with working with your supplier.

Over the last 15 to 20 years, purchasing has received much attention from both the financial community and scholars, who have recognized and written extensively on the changing nature of purchasing. The purchasing function is currently referred to as "procurement," "sourcing," "supply management," "external resources," and "supply chain management." Most companies now define their purchasing organizations as managing the supply chain from defining specifications based on market needs to the delivery and use of the product or service by the ultimate consumer.

The primary reason for this shift in definition is due to the realization that, to purchase effectively, an organization must garner the efforts of individuals across all functions and to reduce the cycle time of, and improve the quality of, actually producing the product or service. The responsibilities for purchasing extend far beyond placing a purchase order with the supplier and require a significant amount of knowledge and expertise in the areas of finance, engineering, manufacturing, and quality. For example, more and more purchasing agents have engineering, manufacturing, or service backgrounds, which allow them to better understand how the supplier's products or services are integrated into the buyer's product or system.
Financial markets and chief financial officers are also recognizing the importance of purchasing. This is due to the fact that within organizations purchases account for over 60 percent of the organization's costs, and coupled with this is the realization that only a fraction of the organization actually works in the purchasing function. Take, for example, an organization that sells brake systems. The sales representatives work diligently to secure the right level of revenue in order for the company to remain profitable. If their company makes 10 percent profit on costs, and purchasing saves an additional 1 percent on materials, that equates to a 5 percent increase in sales to get the same margin, as shown below:

**Company A (In Millions)**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$100</td>
</tr>
<tr>
<td>Purchases (materials)</td>
<td>$ 54</td>
</tr>
<tr>
<td>Other Costs (including labor)</td>
<td>$ 36</td>
</tr>
<tr>
<td>Profit</td>
<td>$ 10</td>
</tr>
</tbody>
</table>

*If purchasing saves 1 percent of those costs, then:*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$100</td>
</tr>
<tr>
<td>Purchases (with savings)</td>
<td>$ 53.5</td>
</tr>
<tr>
<td>Other Costs (labor)</td>
<td>$ 36</td>
</tr>
<tr>
<td>Profit</td>
<td>$ 10.5</td>
</tr>
</tbody>
</table>

Thus, for every 1 percent in purchasing savings, the company gains a 5 percent profit. To receive a comparable benefit, sales would need to bring in $5 million more in revenue.

**PURCHASING COSTS IDENTIFIED ON THE BALANCE SHEET**

In a typical balance sheet the specific areas relevant to purchasing activities can be easily identified, as illustrated in Exhibit 1-1.

Note that balance sheets only report the balance of key accounts at the end of fiscal reporting periods. In the balance sheet in Exhibit 1-1, you should identify the following:

**Assets**

- Cash
- Accounts Receivable
- Inventories
- Property
- Equipment

**Liabilities**

- Accounts Payable
- Notes Payable
- Long-term Debt
- Retained Earnings

Other than cash, if any of these areas increases at a faster rate than sales, the organization's profitability may be adversely affected, impacting the company's credit rating or attractiveness as a business. For instance, if the trend for the inventory balance indicates increases by 10 to 15 percent, and sales for the organization are not growing at the same rate, an over-inventory situation may occur. This is an indication that the buyer should purchase in smaller increments and/or ask the supplier to hold inventory in advance of purchase.
Another example is a growth in accounts payable. Unreasonable or unexplainable increases in this account may result in the supplier shipping on a cash-on-delivery (COD) basis or withholding shipments altogether.

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### Exhibit 1-1

#### Balance Sheet

(Dollars in Thousands)

<table>
<thead>
<tr>
<th>Current assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and temporary case investments</td>
<td>$178,997</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>25,624</td>
</tr>
<tr>
<td>Receivables, less allowances of $28,559</td>
<td>257,815</td>
</tr>
<tr>
<td>Inventories</td>
<td>129,783</td>
</tr>
<tr>
<td>Other current assets</td>
<td>24,593</td>
</tr>
<tr>
<td>Total current assets</td>
<td>616,812</td>
</tr>
<tr>
<td>Property, plant, and equipment, net</td>
<td>167,673</td>
</tr>
<tr>
<td>Other assets</td>
<td>75,959</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$860,444</strong></td>
</tr>
</tbody>
</table>

#### LIABILITIES AND STOCKHOLDERS’ EQUITY

<table>
<thead>
<tr>
<th>Current liabilities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable</td>
<td>$1,943</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>121,625</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>242,616</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>366,184</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>149,971</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>15,224</td>
</tr>
<tr>
<td><strong>Stockholders’ equity</strong></td>
<td><strong>329,064</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Stockholders’ Equity</strong></td>
<td><strong>$860,444</strong></td>
</tr>
</tbody>
</table>

---

Let's consider the balance sheet shown in Exhibit 1-1. By reviewing the categories of costs, we can make plans for improvement. For example, specific plans can be made to bring inventories down to acceptable levels.
Another way to evaluate the impact of purchasing from a financial point of view is to review the income statement and analyze how money is spent within the company. For manufacturing companies, over 55 percent of costs are direct materials purchased from outside suppliers. (Note that the word "supplier" is used to denote the seller of products or services. This term is more universal in its use than "vendor," and it has a superior connotation. One purchasing manager's view is that "you buy hot dogs from vendors on the street corner, you buy parts for your products from qualified suppliers!") Exhibit 1-2 shows two pie charts with the breakdown of costs for a typical manufacturing company and service organization. For a service company, the component parts (direct materials) purchase costs may be lower, but the costs of Maintenance, Repair, and Operating (MRO) purchases are much higher.

Companies in the 1970s and 1980s spent most of their time trying to reduce the costs of service labor and manufacturing "touch" or direct labor through total quality management (TQM), reengineering, and reorganization. But only recently have efforts been initiated, particularly in medium to small size organizations, to better manage the purchasing activity and its ancillary costs.

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**Work Assignment**

Together with your manager or financial analyst, develop a pie chart for your company’s expenditures, which comprise the purchased products and services, along with the costs of administering these purchases. If you are a buyer, estimate the portion represented by your commodities and volumes.
Once the costs have been identified, the buyer can develop strategies on how to manage key purchases in each category. In fact, most buyers today have specific targets for cost savings to be achieved. Of course, cost savings is only one way to improve purchasing performance within companies. But because it is the most visible to upper management, cost awareness/management is a key aspect of the buyer's job. In fact, many organizations use Purchase Price Variance (PPV) as the primary measure of purchasing performance. This measure evaluates a current price paid against set standards or last price paid.

Savings in purchased costs and services are meaningless, however, if the associated quality, timeliness, reliability, and documentation received from the supplier is below standard. There is a saying in purchasing: "You can
always get a lower price!" The tough job is to get the lowest price with the best of everything else.

Some organizations are so focused on reducing the cost of supplier's products and services that they forget about the coexistent, latent costs of poor quality, late delivery, and work-arounds caused by ineffective and inefficient suppliers. The purchasing function today extends beyond just managing/reducing purchase costs. It includes managing the other costs associated with working with suppliers. Some of these costs are

- Quality Attained
- Delivery Performance (Early/Late)
- Maintenance Costs
- Training Needed by Users of Supplier Products
- Payment Terms
- Tooling/Other NRE
- Freight/Freight Forwarding
- Packaging
- Duties/Customs
- Insurance
- Warehousing
- Ordering

All of these costs fall within the broad category of "total costs." These costs can add over 25 to 30 percent to the actual costs incurred by the buyer.

**Work Assignment**

Consider a recent purchase of a product or service. Add to these costs a list of other supplier-caused costs such as quality, delivery, installation, and payment terms. Try to determine whether the purchasing decision was made based on proposed purchase costs or whether it included a consideration of these other factors. See the difference between the chosen supplier’s price and the supplier with the next lowest price.

If the results are noteworthy, investigate the process through which suppliers are selected so that these total costs can be factored into the process.

**CROSS-FUNCTIONAL PARTICIPATION**

Buyers or members of the purchasing department can no longer be expected to manage the entire gamut of purchases and range of supplier activities. Typically, only 1 to 3 percent of the total number of personnel is assigned to the purchasing function because the enormity of the job has been overlooked. To ensure that purchasing issues are addressed, individuals in other
functions must also work with suppliers in order to achieve the most benefit. Each of these functions is described below.

1. Design Engineering
2. Manufacturing/Operations
3. Finance (Accounts Payable)
4. Distribution
5. Sales/Marketing
6. Customer Service

Design Engineers develop products and services that meet customer expectations. In completing their designs they interview suppliers, consider new products, review catalogs, or evaluate new technologies. It is often said that 80 percent of a supplier product's cost is "designed in," leaving only 20 percent to be affected by leveraging purchases and similar purchasing activities. Decisions to make or buy aspects of the organization's products and services are made by design engineering and the manufacturing organization. The purchasing department should be regularly involved in new product planning because of their knowledge of supplier capability. Suppliers can and should be consulted at these early stages, but these consultations should be carefully managed in order to ensure competition and access to the best supplier's core competencies.

Manufacturing and Service Operations discuss requirements with suppliers pertaining to capital equipment or temporary labor services. Also, if the supplier's product is received directly in manufacturing operations, manufacturing staff evaluate the supplier's quality and delivery performance.

Finance, or Accounts Payable, ultimately pays the supplier. Finance may also work with the supplier in financing expansion funding and tooling requirements.

Individuals in Distribution and Warehousing are concerned about receiving, storing, and inventorying supplier's products. Distribution personnel work with freight carriers to ensure that transportation services meet the organization's needs.

Sales/Marketing develops and executes the sales plan for the organization. They work with customers in the creation of new products and together with engineering specify supplier-produced products and services. These individuals need excellent travel service support so that they can effectively manage their administrative costs.

Customer Service representatives work directly with customers in the scheduling of manufacturing and service operations. Customer service needs accurate information about supplier shipments so they can provide accurate information.

It is the job of the buyer to solicit participation from all these individuals in accomplishing supply management goals and to manage the overall supply management process within the organization. This may mean that the buyer is the point of contact for suppliers, thus determining the proper level of interface. Working in teams, asking for assistance in source selection, asking suppliers for new product ideas, or asking for assistance in evaluating supplier performance are all examples of these activities.
PERSONNEL IN PURCHASING ADD VALUE
TO THEIR ORGANIZATIONS

We have discussed the new role that purchasing assumes in organizations today. Purchasing personnel are using their know-how in engineering, finance, manufacturing, and systems to provide exceptional results. One way to describe these results is to evaluate the value that effective purchasing can bring to their organizations. The literature and real-life applications abound with examples. Eight ways by which purchasing personnel "add value" to their organizations are as follows:

1. Leveraging purchases
2. Managing the total cost of the supply chain
3. Conducting value analysis
4. Reducing administrative processes
5. Selecting the best suppliers
6. Certifying suppliers
7. Taking corrective action
8. Receiving input and assistance from suppliers

Each of these concepts will be briefly described in turn.

1. Leveraging Purchases

Leveraging Purchases applies to the activities of the buyer in combining volumes of products and/or services purchased so that economies of scale can be realized and the supplier can offer a lower price. The buyer reviews quantities of products purchased, say, over the last twelve months and asks suppliers to quote on the next year's quantities. By offering suppliers an opportunity to provide higher volumes of the same or similar products or services, buyers typically can negotiate lower prices and lead times.

---

**Exercise 1–1  Leveraging**

Jane Sarnoff, a buyer at AJAX Manufacturing Company, has been assigned the responsibility for purchasing packaging material. After researching the database, she found that current packaging was purchased from three companies, who provided eight different types of packaging, as follows:

<table>
<thead>
<tr>
<th></th>
<th>Dollars</th>
<th>Items (Part Numbers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paramax</td>
<td>$150,000</td>
<td>#123, #456, #235, #127, #158</td>
</tr>
<tr>
<td>Danco</td>
<td>$525,000</td>
<td>#123, #235, #127, #250, #456</td>
</tr>
<tr>
<td>PCIT</td>
<td>$360,000</td>
<td>#123, #127, #120, #425</td>
</tr>
</tbody>
</table>

If Jane wants to consolidate the purchases of all eight items of packaging, what four key activities must she accomplish to prepare for this leveraging activity?

Suggested answers to this exercise can be found at the end of this chapter.
2. Managing the Total Cost of the Supply Chain

*Supply Chain* means the collection of activities that need to be accomplished in order to deliver products or services to the buyer. A typical supply chain is illustrated in Exhibit 1-3.

You can calculate the total cost by rolling together all the costs, both production and administrative, of a supply chain. Some of these costs are easier than others to calculate, particularly the administrative costs.

3. Conducting Value Analysis

*Value Analysis* is the education by the buyer and seller of those aspects of the product and service that can be reduced from a cost perspective without sacrificing quality or function. Each element of the product's cost is evaluated in an effort to find alternate materials, labor efficiencies, or transport options so that the delivered product or services' costs can be reduced. This concept was initiated during World War II, when part shortages were evident in airplane engine manufacturing. Value analysis can provide a 4:1 return on the efforts deployed to reduce costs.

---

**Exercise 1–2  Value Analysis**

Rodney Duncan, the Senior Buyer for electro-mechanical purchasing at ACT, a maker of computer products, is faced with a difficult challenge. Over the past two years he has bought over 50,000 fans from a single supplier for $60 per fan. Rodney has performed extensive market analysis and sourcing on the part, and found that the current purchase price is fair and reasonable. Knowing this, he asked the supplier to review the design of the fan to determine whether the substitution of materials, or a fundamental
changes of design, could reduce the cost of the product. Currently each fan has the following cost elements:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>$15</td>
</tr>
<tr>
<td>Materials</td>
<td>$25</td>
</tr>
<tr>
<td>Overhead (100 percent of labor, for example)</td>
<td>$15</td>
</tr>
<tr>
<td>Profit</td>
<td>$5</td>
</tr>
<tr>
<td>Total</td>
<td>$60</td>
</tr>
</tbody>
</table>

The supplier reports that by changing the design, labor costs can be reduced by 10 percent and materials can be reduced by 20 percent.

What are the potential savings per part, and based on average yearly volume?

Suggested answers to this exercise can be found at the end of this chapter.

4. Reducing Administrative Processes

As was pointed out previously, administrative costs are normally difficult to determine in organizations. It is fairly easy, however, for individuals to identify unnecessary and costly activities and processes that can be candidates for revision or elimination. Examples would include non-value-added activities such as-

- Processing the Purchase Order
- Generating the Acknowledgment
- Matching Orders, Receipts, and Invoices
- Inspecting Supplier's Products
- Inventorying Supplier's Products
- Dealing with Poor Supplier Quality
- Expediting Supplier's Deliveries

None of these activities add improvements to the supplier's products and services. The use of bar coding, purchase cards, electronic data interchange (EDI), and pay-on-receipt programs are all examples of methods to reduce administrative costs and cycle time.

5. Selecting the Best Suppliers

The key word in this objective is "best." The buyer should ensure that an effective process of selecting the best supplier is in place. This is difficult for the buyer to do when an organization does not have adequate policies and procedures governing the extent of competition, desired requirements for bids, use of negotiation, and the need for selection documentation. When organizations don't demand the best and are willing to accept mediocre or slightly above average supplier performance, the supplier base will not be challenged to improve, thus reducing the overall competitiveness of the organization with its nearest competitors. A typical selection process starts with the development of a complete specification and ends with the best suppliers
being selected to provide the necessary requirements so that the organization receives the value it is paying for. The resultant product or service offered will compete more effectively in the marketplace.

6. Certifying Suppliers

Once suppliers are selected, inevitably they perform services and/or provide products to the organization. The process of certifying begins with the supplier's performance. Once the supplier begins to perform at a high enough level, then the buyer can begin to certify the supplier's competence in making a product or providing a service. This is typically related to achieving exceptionally high standards of quality (e.g., zero defects), and delivery (e.g., greater than 98 percent on-time delivery).

Organizations begin this process when they require suppliers to become registered to one of the International Standard Organization's (ISO) quality standards, such as:

- ISO-9001  Designers and Manufacturers/Service Providers
- ISO-9002  Manufacturers/Service Providers
- ISO-9003  Distributors

As was the case with supplier selection, the buyer should have a procedure in place on how to certify a supplier's (1) product or service; (2) product or service facility; or (3) entire company.

Certified suppliers tend to have the best quality and the best delivery. Because of these factors and the resultant lower administrative costs, they tend to have the lowest overall total cost.

Exercise 1–3  Supplier Certification

Sarah Jenkins, a buyer from a capital equipment manufacturer, wants to improve the lead-time of the sheet metal products that she buys. The best supplier of these parts, Big Country Metals, is currently shipping product that meets the company's quality requirements 98.5 percent of the time. She is evaluating the cost savings associated with having Big Country ship directly to the company's manufacturing line, or point of use. The relevant measures calculated by the quality department are as follows:
Assume product will be used immediately upon receipt, which means that it will be held in inventory only 1 day. Up to now, product had been held for one month before use. What are annual cost savings associated with certifying the supplier to meet 100 percent of the quality standards or zero defects?

Suggested answers to this exercise can be found at the end of this chapter.

7. Taking Corrective Action

When a supplier fails to perform in some fashion, the buyer must ensure that effective action takes place so that the proper product or service can be provided, both in the short and long term. This means that the buyer must be able to identify performance measures for the supplier so that both parties can identify when corrective action activities must be completed. There will be two processes involved:

1. Responsibility of the Buyer
   - Identifying the need for corrective action, notifying the supplier, asking for timely response, reviewing response, and tracking commitments made.
2. Responsibility of the Seller
   - Receiving the buyer's corrective action notice, preparing the response, implementing action plan, and providing status to buyer.

When corrective action processes are documented by both the buyer and seller, effective and consistent approaches can be employed and evaluated. Buyers should know how their most important suppliers manage their corrective actions internally and who the decision makers are.

8. Receiving Input and Assistance from Suppliers

This task requires that buyers listen to, encourage, and respond to supplier suggestions. Even the most experienced buyers and the most effective companies in purchasing often ignore their supplier's input, even though the supplier is "the expert" in their area of focus. This is caused by arrogance, poor perception of supplier capabilities, and lack of recognition that suppliers can develop worthwhile ideas.

The buyer should establish an environment where the supplier feels empowered to provide worthwhile ideas. Suppliers should be encouraged to provide ideas to reduce costs, for example, and buyers should respond to the suggestions or ideas adequately and within a prescribed time frame.

Some purchasing organizations reward the supplier for providing cost-saving ideas with additional business or with cash incentives, such as sharing a portion of the cost-savings with the supplier.
Buyers should evaluate the eight ways of providing value so that they can develop plans and approaches to implement a more effective purchasing processes in the organization.

THE ROLE OF PURCHASING

The role of purchasing can be derived from the key ways purchasing can add value to the organization. In all organizations, purchasing performs the following:

1. Managing suppliers in improving the supply chain
2. Evaluating and tracking supplier capabilities
3. Selecting the lowest total cost supplier
4. Reducing purchase costs
5. Leveraging purchases by reducing suppliers and increasing volumes
6. Managing supplier relationships

Buyers must be able to prioritize their responsibilities so that all elements of this role can be accomplished.

ORGANIZATION AND JOB DESCRIPTIONS

In order to fulfill the role of purchasing, organizations develop jobs and job descriptions to ensure proper placement and deployment of personnel. The way purchasing departments are organized may vary from company to company, but there are basic positions common to most. Each such position will be discussed in turn. Exhibit 1-4 depicts an organization chart for a typical purchasing department.

The Purchasing Director or Vice President of Purchasing sets the strategy for the organization and represents the department at the executive level of the organization. He or she also sets purchasing goals for the organization and monitors overall performance.

The Commodity Manager tracks technology development and supplier capabilities. This manager is involved with new product development and includes the supplier in this process. He or she also establishes long-term contracts with suppliers and conducts review meetings between the buyer and the supplier on performance.

The Purchasing Supervisor or Manager manages the day-to-day operations of the department, ensuring that purchasing accomplishes the scheduled goals. This manager hires staff, approves purchases, and ensures that the buying staff has the proper systems and training.

The Senior Buyer typically procures more sophisticated products and services, and develops prequalification processes for those products and services. He or she buys more difficult commodities, and may provide advice or direction to buyers or assistant buyers.
Buyers select and manage suppliers of standard and slightly customized products and services. They process requisitions submitted from various functions, phone orders with suppliers, and are the workhorse of the organization. They resolve day-to-day problems in receiving, accounts payable, and inventory.

The Assistant Buyer is an entry level buying position. Assistant buyers handle MRO items with multiple transactions, and they may also work with Senior Buyers and Buyers to assist them in their daily activities. They may also expedite orders, contract suppliers for quotes, and resolve receiving issues.

Purchasing Clerks or Coordinators maintain purchasing files and supplier records. They may also be responsible for receiving and organizing bids and quotes from suppliers. Some administrators may also accomplish expediting responsibilities.

Work Assignment

Compare the key job descriptions of your department to those presented above. Indicate how each position fits within the purchasing department.
The significance of the role of purchasing in organizations today is based on the size of expenditures for goods and services, as reflected in the organization's balance sheet and cost of manufacturing or service operations. Cost savings plans can be put into place to provide focus and priorities to the buyer. Purchasing manages the entire supply management process for the organization and the way that it organizes its resources and how the department engages the involvement of other functions will greatly determine effectiveness and efficiency.

In order to ensure receiving the best value for the organization, the absolute "best" suppliers must be solicited. These solicitations should be based on the total cost of doing business with the supplier, not just the purchase costs (invoice costs). Overall, the purchasing department adds value to the organization in many value-added ways including reducing operating and administrative costs, improving the quality of its products and services to the marketplace, and enhancing the organization's reputation through the achievement of high supplier quality.
Suggested Answers to Exercise 1-1

(1) Determine future forecast for each part
(2) Evaluate supplier capability to produce the parts
(3) Develop matrix of parts and forecasts for supplier response
(4) Comparison of supplier lead time and past performance

Suggested Answers to Exercise 1-2

<table>
<thead>
<tr>
<th>Savings per part:</th>
<th>Labor</th>
<th>→</th>
<th>13.50</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Materials</td>
<td>→</td>
<td>20.00</td>
</tr>
<tr>
<td></td>
<td>Overhead</td>
<td>→</td>
<td>13.50</td>
</tr>
<tr>
<td></td>
<td>Profit</td>
<td>→</td>
<td>4.23</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>→</td>
<td>$51.23</td>
</tr>
</tbody>
</table>

Savings per part: $8.77

$25,000 (Average Annual Volume) × 8.77 = $219,250 Potential Savings

Suggested Answers to Exercise 1-3

\[
\begin{align*}
\# \text{ Defect/Year} & = 150 \\
\text{Cost per Defect} & = $25 \\
\text{Savings for 0 defects} & = $3,750 \\
\text{Monthly Inventory Cost} & = $5 \text{ part} \times 10,000 = $50,000 \\
\text{Savings:} & \quad 29/30 \times \frac{50,000}{1} = $48,333 \\
\text{Total Savings:} & = $52,083
\end{align*}
\]

Suggested Answers to Exercise 1-4

le, 2c, 3a, 4g, 5f, 6b, 7d
1. The three primary balance sheet areas where purchasing can have an impact on a company's profitability are inventories, accounts payable, and:
   (a) cash.
   (b) plant and equipment.
   (c) current liabilities.
   (d) accounts receivable.

2. Examples of aspects of total costs include purchase costs, quality attained, and:
   (a) direct labor.
   (b) overhead.
   (c) payment terms.
   (d) profit.

3. Representatives of other functions can provide useful information to assist purchasing all but one of the following:
   (a) prioritizing responsibilities.
   (b) contract terms and conditions.
   (c) selecting suppliers.
   (d) make or buy decisions.
4. A buyer's job typically consists of selecting suppliers, resolving supplier problems and discrepancies, and:
   (a) setting purchasing strategy.
   (b) maintaining files.
   (c) placing orders.
   (d) developing commodity plans.

4. (c)

5. The role of purchasing can be best summarized by which of the following?
   (a) Supply management
   (b) Investing management
   (c) Cost management
   (d) Engineering management

5. (a)