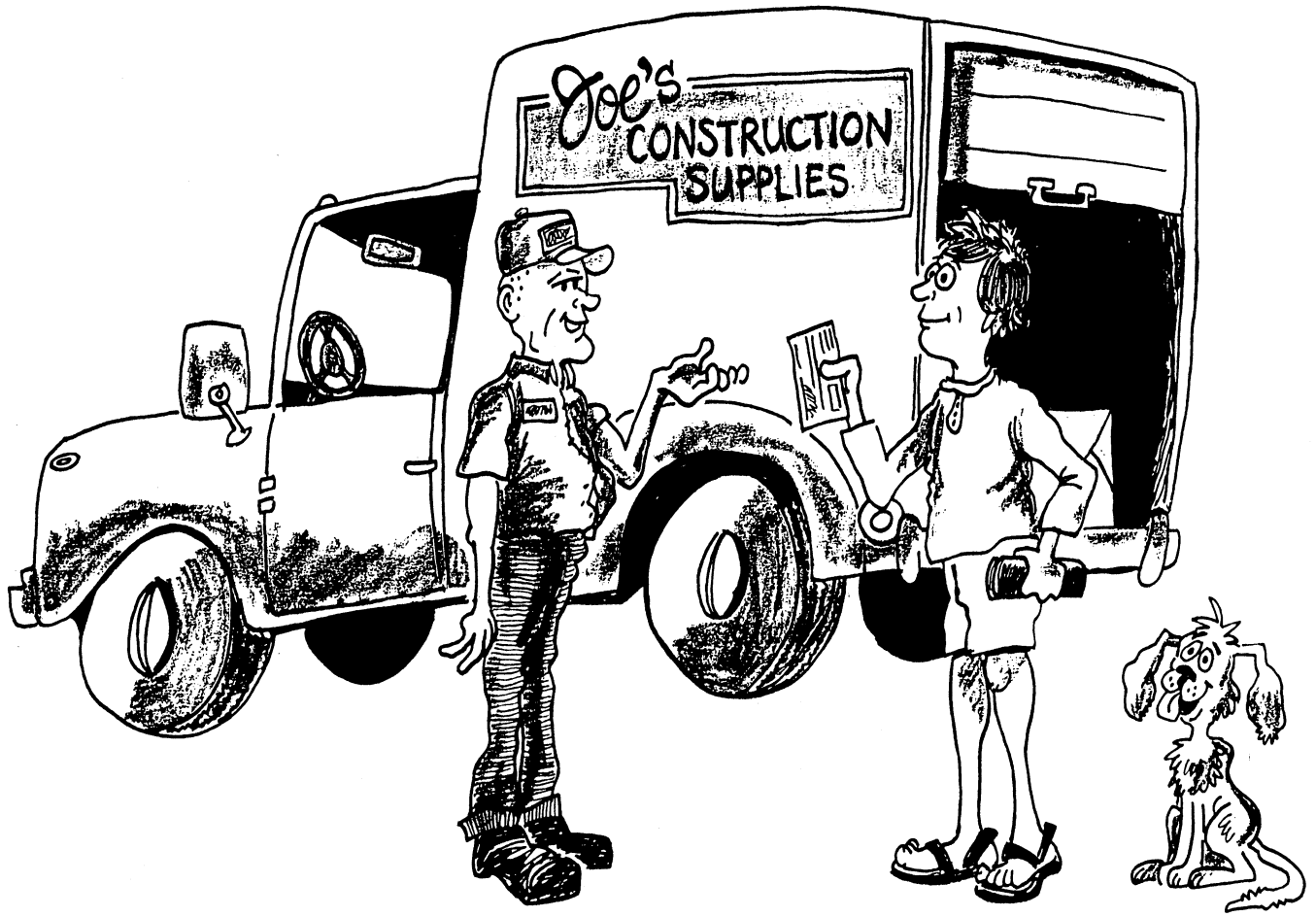


PURCHASING

The commerce of the world is conducted by the strong;
and usually it operates against the weak.

- Henry Ward Beecher



PURCHASING

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As an Owner solicits and coordinates bid proposals from Trade Contractors and Suppliers, there will arise a need to **organize a system for controlling expenditures**. A Purchase Order system controls the costs of your project. The complexity of your Purchase Order system will depend on the complexity of your Drawings and Specifications because a good system requires that **ALL** goods and services have a written Purchase Order.

Standard forms are available; however, it may be more appropriate to first understand the meaning and usefulness of a Purchase Order system before buying standard forms which may become difficult to implement. In other words, create the Purchase Order system around the **specific requirements of your project** and **what suits your personal style**. Just as your Drawings and Specifications reflect the unique circumstances surrounding your style of living, your Purchase Order system will match these same unique qualities.

The rudimentary form of a Purchase Order system first takes shape as the Owner considers the two dimensions of the Design/Build Matrix. Here the process of **progressive approximation** allows one to slowly develop ideas allowing for flexibility in how your forms will be fully developed. Indeed, this is an **artistic** endeavor for creation of one's homestyle, and how the Owner will proceed with the building process. As the Design/Build process unfolds, a Purchase Order form will be created for each hard and soft cost category and eventually include all material purchases.

A Purchase Order system becomes a natural extension of Drawings and Specifications. Just as Trade Contractors refer to these documents to identify the work to be performed and submit a bid proposal, the Owner will want to refer to these documents to create a Purchase Order system. **AFTER** you receive bid proposals from different Trade Contractors and Suppliers, and **BEFORE** you sign Agreement and Condition statements with each firm, you will certainly want a method to track expenditures to guarantee that what you pay is consistent with the price and terms agreed

on for the materials and products to be purchased. This is the purpose of the Purchase Order system.

To be competitive, it is important that the Owner obtain bid proposals from as many Trade Contractors and Suppliers as possible. The information in the bid proposals extrapolates from Drawings and Specifications, to Agreement and Condition statements, and further extends into your Purchase Order system. The Purchase Order system ***turns proposals into firm prices.***

Awarding the contract will normally be placed with the bidder whose price, quality, service, delivery, product installation cost, and other factors, ***taken as a whole,*** will offer the Owner the best possible price for the work to be accomplished. Purchase Orders will be based on Drawings and Specifications and reiterate terms stated in the Agreement and Conditions documents. Purchase Orders will be issued on a form designed to ***owner's requirements*** to provide the seller with the required information.

A PURCHASE ORDER SHOULD INCLUDE:

- * Your name, address, and phone number
- * Site address and phone number
- * Supplier/Contractor's name, address, and phone number
- * A sequential purchase order number
- * Project name or identification number
- * Date of issue
- * Type of delivery
- * Date of delivery
- * Payment terms
- * A cost reference number consistent with reference numbers of your Cost Analysis
- * Quantity
- * Description of Goods or Services
- * Unit Price
- * Total Amount
- * Space for purchase and receipt authorizations

The simplest type of Purchase Order is a two sheet form: the **first** sheet goes to the seller, and the **second** sheet remains with the Owner. The

Purchase Order is sent to the seller immediately after Agreement and Condition statements are signed. When the materials are delivered or the work is completed, the Owner reviews the Purchase Order on site to ensure there are no inconsistencies. When the seller presents an Invoice for payment to the Owner, the Owner re-checks the Invoice to ensure that it matches the Purchase Order.

Standard practice in the construction industry for billing is to submit an Invoice for payment on the 30th of the month in which the work was performed, and payment is expected by the 10th of the following month. Unless other terms are specified, the Owner can expect to follow this practice. If early payment is requested, ask for a special discount; it's not unusual to receive a 1% to 10% discount for immediate payment by check. Cash "*deals*" should be scrutinized! Consult a professional Accountant or Lawyer for advice before making this your standard practice.

One way to be sure Agreement and Conditions statements of contract documents are consistent with those of your Purchase Order system, you may print contract information on the back of your Purchase Order form.

A PURCHASE ORDER TERM'S SHOULD INCLUDE:

- * Warranties (check your State's law)
- * Reiterate payment terms
- * Seller will report discrepancies of Purchase Order within five days of receipt
- * The right to cancel the Purchase Order if seller alters the terms of contract
- * Seller will fix damages which occurs during delivery or installation
- * Delivery will be on a "*will call*" basis unless otherwise noted

No doubt, variances may occur. ***For cost increases***, the questions of "*how*" and "*why*" must be answered prior to the Owner's payment. In some instances, the Owner will be responsible for additional costs; but more often, the differences will be generated by the seller and in the seller's favor. The concern should be for ***accountability***.....the seller must explain the change **AND** the buyer must be willing to pay for the change.

Remember: A Purchase Order system is difficult to implement and requires discipline. The Owner is required to solicit bid proposals, develop Contracts, and issue Purchase Orders before the work begins. Most Trade Contractors and Suppliers are unaccustomed to providing this level of detail to Owners and getting all information ahead of time for residential construction. But the advantage for the Owner is worth the effort because the major benefit is to **control costs** throughout the building process. Other benefits include catching sellers' billing mistakes, controlling the delivery schedule, and **avoiding disputes** as a result of poor communication.

To gain further financial accountability of your project, the Owner will want to maintain a Check Register/Job Cost Journal. One way to approach this concern is to utilize a product provided by NEBS (See "*Information Resources*" section) which incorporates a Check Register and Job Cost Journal into a single system. As each check is written an imprint is made directly in the Register, and then the cost can be extended across the page in the Journal under the appropriate category. This eliminates transcription errors, helps classify expenses, and provides an easy audit trail showing at a glance where you stand on the project.

Assuming a separate checking account is opened for construction purposes, the NEBS system allows the Owner to include a personalized heading, bank name and address, and the bank's magnetic encoding that usually appears on the bottom of a standard, bank-issued check. Bookkeeping is made easier by maintaining construction-related expenses separate from a personal account. For recordkeeping purposes, there's one source in your files if there's ever a need in the future to refer back to construction expenses.

One more time: A Purchase system encourages the Owner to create an Order for all materials on the Cost Analysis based on Drawings and Specifications. Suppliers offer to provide materials and products under specific Conditions, and a Purchase Order will be issued based on your Agreement with them. After the materials/products are provided to the Owner's satisfaction, payment is made from the Check Register, and the expense entered into a Job Cost Journal.