

Beware of “backdoor buying,” involving verbal agreements without the official—and necessary—supporting documentation. The following scenarios illustrate the potential dilemmas.

Consider the following scenario: A manufacturing engineer has been working on a new project, bids have been received, evaluated, negotiated, and the supplier tentatively selected by the engineer and purchasing. In order to kick off the project the engineer calls the selected supplier and verbally authorizes the supplier to begin work. A few days pass, and then senior management orders the project to be cancelled. The engineer contacts the supplier and cancels the project, and the supplier invoices the company for work performed on the project. The engineer’s company now has a problem. It is being invoiced for work that was verbally authorized by the engineer, but not formally in writing, either by means of a letter of intent, a notice of award, a purchase order, or some other authorized document. The invoice is not paid, the supplier repeatedly follows up over the phone, in writing, and then threatens to go to court to be paid for services that were verbally authorized by the engineer.

Another scenario with a similar result involves a machine or piece of equipment that needs to be repaired. The supplier of the machine or equipment cannot send personnel to do the repair for two weeks. A different company is called, and due to the urgency of the situation sends a repairman immediately, the repairs are completed, and the machine is back in operation. The company that did the repair sends an invoice but never gets paid because a purchase order was never issued. The supplier takes the customer to court to

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recover the cost of the repairs, and wins.

A third scenario: A senior manager authorizes a freelance photographer to take photos of a particular part of the plant or building for an upcoming marketing project. The photographer appears on the scene as directed and meets with the manager. They discuss the project, and then the photographer goes about his or her work. Photos are taken and then sent to the manager along with an invoice, which includes a fee for the photographic work performed, the mileage driven, an administrative assistant, and for the rental of special equipment used in taking the pictures. The manager then leaves the company, and the invoice from the photographer lies unattended for weeks.

In the meantime the photographer begins calling, providing copies of the invoice, time sheets for his assistant, and rental receipts from the equipment rental company. No action is taken on the invoice, and the photographer seeks legal counsel.

These scenarios are not far fetched, as they can and do occur in many places. What they have in common is a verbal, informal, and possibly unauthorized commitment made by a well-meaning employee.

In a day and age when lawsuits abound, it is very important that activities such as awarding new business be handled in a proper manner. This often means issuing a letter of intent, a notice of award, or a purchase order by officially delegated personnel. Most of the time this means a buyer in the purchasing department, but in some companies it can involve an officer of the company or the person in charge of operations.

No matter the situation or the size of the organization, communication with vendors about commercial issues and awarding business should be limited. This can vary from company to company, but in many cases it means an authorized buyer or manager who is permitted to perform these activities. Informal and unauthorized commitments should be forbidden, and these would include telephone conversations, e-mails, letters, or face-to-face meetings. Expediency, or jumpstarting a project by means of a verbal or informal commitment, can be very costly by having to pay for unauthorized or additional services that were not specified as the result of a phone call or an e-mail. 

ABOUT THE AUTHOR:

Chris Chlon, CPM, is a certified purchasing manager with more than 30 years of experience. He can be reached at (260) 456-8624.