4. **Procurement and Finance**

Procurement’s relationship with Finance is different from its relationships with Production, Engineering and Sales. The difference stems from the fact that cost determinations cannot be hidden in the Procurement-Finance relationship as they often can in the other relationships. The importance of good financial planning is highlighted by the fact that poor financial planning is one of the major causes of business failure. Among the basic data needed by an organisation for proper planning of its working capital and cash flow positions are accurate sales forecasts and accurate procurement schedules. It is just as important for Procurement to inform Finance of changes in its schedule, as it is to inform Production and Sales of these changes.

There are many economic factors that periodically bring about favourable and completely unexpected buying opportunities. For example, a supplier may momentarily have excess capacity because of the cancellation of a large order. During the period that this condition exists, the supplier may sell products at prices designed to recover only out-of-pocket costs. This may be done because it is in the long-term interest of the organisation not to reduce its labour force. The potential income from such unexpected buying opportunities must be weighed against the potential income from other alternative uses of the organisation’s capital. Acquiring new equipment, adding to plant facilities, and increasing sales and promotional efforts are some of the alternative uses of capital that an organisation must consider. Usually, the alternative offering the greatest income in the long run should be selected, since no organisation has enough capital to satisfy all requirements.

Regardless of the price advantage obtainable, the right time to buy from the standpoint of business conditions is not always the right time to buy from the standpoint of the organisation’s treasury. If the Procurement function makes commitments to take advantage of unusually low prices without consulting the finance function, the organisation could find itself paying these procurements with funds needed for other purposes. On the other hand, if the Finance function does not strive diligently to make funds available for such favourable buying opportunities, the organisation may have to pay higher prices later for the same material.

Prompt payment to suppliers is a key contributor to good supplier relations. During material shortage periods, an organisation with a preferred customer status has a much better chance of avoiding shortage problems experienced by most others. Hence, a cooperative relationship between Procurement and Finance clearly can impact the development of good supplier relations.

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**Activity 1.2**

What are the relations of the Procurement function with the other departments in an organisation that you are familiar with?