LP Enterprises, Inc.
Hospitality Purchasing Consulting Since 2001

Auditing Your Supplier

Checks and Balances Series

One of the most important aspects of structuring primary supplier relationships is ensuring that appropriate checks and balances are in place. If I am a restaurant operator, and I am willing to commit to a high level of volume in select categories for my purchases with a supply partner, then I would like to be able to agree to the mark-ups or margins that suppliers will be putting in place to cover their overhead and expenses. At a certain point in the relationship, I would also like the ability to ensure that the supplier is in compliance with the terms of our agreement. We do that by including "Audit Privileges" in the supplier contract and periodically (based on the terms of your agreement) requesting that your supplier open their books to validate costs.

Audit privileges determine and define your rights with that supplier, and periodically enable you to have that supplier provide a paper trail back to their manufacturer costs. This way, you can review costs on a certain number of items for a specific period of time. We call that having a "window" into the program. We're able to request that supplier to produce manufacturer invoices and freight documents that lead up to the delivered costs on your restaurant's invoices (including their mark-ups/margins of course). It is a great way to have insight into your program, and it's my belief that the vast majority of medium to large sized restaurant operators have this in place with their supplier(s) of choice.

The majority of errors that I've found have been due to "errors in transposition." This is when an item is incorrectly assigned to a different category or freight has been calculated incorrectly. While audits might not be the most "interesting" part of our work as purchasing agents, the audit is an incredibly important function. This critical check and balance enables us to work through each item included in the audit to make sure that it matches up. Many audits do come out "clean" when each item reconciles correctly. However, when I have found errors in the audit, the supplier is asked to either (1) show me where the error occurred (and credit back the difference), or (2) agree to credit back all purchases for that item for a period of time. I can say that most suppliers have done a pretty good job of correcting things on the second audit so that the same errors aren't occurring. Those can be in the restaurant's favor and the supplier has great incentive for correcting errors so that they aren't continuing to issue credits.

When we do find errors that are in each party's favor, a report is requested detailing the volume of purchases and credit amount for each item affected. The "net" amount (what is the bottom line amount of overcharges for the restaurant and undercharges for the supplier) is what we look at for the final tally. Any credits due on the net amount are then issued to the restaurant. Any net undercharges would be considered a "wash."

Thank you for following my Checks and Balances series. I hope you find my tips to be helpful, and please don't hesitate to reach out to me with any questions

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