

**A Presentation  
on**

**INDUSTRIAL PURCHASING**

**AT**

**T.Y.B.B.A. (SEMESTER – V)  
BJVM COMMERCE COLLEGE**

**PRESENTED BY**

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# PURCHASING

- Purchasing is the first phase of Materials Management.
- Purchasing means procurement of goods and services from some external agencies.
- The object of purchase department is to arrange the supply of materials, spare parts and services or semi-finished goods, required by the organization to produce the desired product, from some agency or source outside the organization.

# PURCHASING DEFINITION

According to Walters,

Purchasing function means

‘the procurement by purchase of the proper materials, machinery, equipment and supplies for stores used in the manufacture of a product adopted to marketing in the proper quality and quantity at the proper time and at the lowest price, consistent with quality desired.’

# PURCHASING

Thus, purchasing is an operation of market exploration to procure goods and services of desired quality, quantity at lowest price and at the desired time.

Supplier who can provide standard items at the competitive price are selected.

# IMPORTANCE OF PURCHASING

1. Purchasing function provides materials to the factory without which wheels of machines cannot move.
2. A one percent saving in materials cost is equivalent to a 10 percent increase in turnover. Efficient buying can achieve this.
3. Purchasing manager is the custodian of his firm's purse as he spends more than 50 per cent of his company's earnings on purchases.
4. Increasing proportion of one's requirements are now bought instead of being made as was the practice in the earlier days. Buying, therefore, assumes significance.

# IMPORTANCE OF PURCHASING

5. Purchasing can contribute to import substitution and save foreign exchange.
6. Purchasing is the main factor in timely execution of industrial projects.
7. Materials management organizations that exist now have evolved out of purchasing departments.
8. Other factors like:
  - Post-war shortages,
  - Cyclical swings of surpluses and shortages and the fast rising materials costs,
  - heavy competition, a
  - Growing worldwide markets have contributed to the importance of purchasing.

# INDUSTRIAL PURCHASING

Industrial purchasing may be defined as the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.

# IMPORTANCE OF INDUSTRIAL PURCHASING

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3. Purchasing can contribute to import substitution and save foreign exchange.
4. In any manufacturing industry the materials cost ranges from 50 to 80% of the product cost, depending on the nature of the product procurement of goods through purchase accounts for about 50% of the money spent by the average industrial enterprise and ranges from 20 to 90% among different industries. Hence, the financial aspect of purchasing is of great importance. A one percent of savings in cost of materials is achieved mainly through efficient buying.



# IMPORTANCE OF INDUSTRIAL PURCHASING

5. Material management organizations that exist now have evolved out of purchasing departments.
6. Purchasing function has a role in the completion of major projects undertaken by a firm. Any delay in procurement of materials for the project will eventually cause delay in completion of the project.
7. Purchasing is a key function in materials management. Other functions of materials management are built around the purchasing function.

# PRINCIPLES OF RIGHT PURCHASING

1. Right Price: It is the primary concern of any manufacturing organization to get an item at the right price. But right price need not be the lowest price.
2. Right Quality: Right quality implies that quality should be available, measurable and understandable as far as practicable.
3. Right Time: For determining the right time, the purchase manager should have lead time information for all products and analyse its components for reducing the same.
4. Right Source: The source from which the material is procured should be dependable and capable of supplying items of uniform quality.
5. Right Quantity: The right quantity is the most important parameter in buying. Determine the right quantity after considering factors such as price structure, discounts, availability of the item and make or buy consideration.

# PRINCIPLES OF RIGHT PURCHASING

6. Right Attitude: The purchase manager should be innovative and his long-term objective should be to minimize the cost of the ultimate product.
7. Right Contracts: The buyers has to adopt separate policies and procedures for capital and consumer items.
8. Right Material: Right type of material required for the production is an important parameter in purchasing.
9. Right Transportation: Right mode of transportation have to be identified as this forms a critical segment in the cost profile of an item.
10. Right Place Of Delivery: Specifying the right place of delivery, like head office or works, would often minimize the handling and transportation cost.

# **FUNCTIONS OF PURCHASE DEPARTMENT**

- Procurement of stores through indigenous and foreign sources as required in accordance with the rules in force.
- Checking of requisitions/purchase indents.
- Selection of suppliers for issue of enquiries.
- Issuing enquiries/tenders and obtaining quotations.
- Analysing quotations and bids etc., and preparation of comparative statement (quotation charts).
- Consultation with the Indentor for selection and approval of quotations and with Accounts Officer for pre-audit.
- Negotiating contracts.
- Checking legal conditions of contracts. Consulting Administrative Officer or Secretary, of the organization – where necessary.
- Issue of Purchase Orders.

# **FUNCTIONS OF PURCHASE DEPARTMENT**

- Follow-up of purchase orders for delivery in due time.
- Verification and passing of suppliers' bills to see that payments are made promptly.
- Correspondence and dealing with suppliers, carriers etc., regarding shortages, rejections etc., reported by the Stores Department.
- Maintenance of purchase records.
- Maintenance of progressive expenditure statement, sub-head wise.
- Maintenance of vendor performance records/data.
- Arrangement for Insurance Surveys, as and when necessary.
- Clearance of foreign consignments.

# CENTRALIZED PURCHASING

In centralized purchasing, only one purchase department will be there among the companies. Let's say Pepsi companies, they may have lots of companies but will have only one purchase department to buy all the necessary materials for them.

This department is headed by a purchase manager, who is responsible for all purchase procedures. In this all the materials are kept at one central store.

# ADVANTAGES OF CENTRALIZED PURCHASE

- Materials can be purchased at cheap rate when buying in bulk quantities and also will get a good trade discount. Moreover bulk purchase always strengthens the bargaining power of the buyer.
- Since once Purchase Manager who is a specialist in purchasing is buying the materials, quality of the materials can be maintained well.
- Also it will enable the purchase of standardized items through standardized procedure.
- A full fledged store can be maintained under centralized purchase.
- Since all the materials are stored under one store, transport cost can be reduced.
- The receiving of large supply through consolidated orders reduces the transport cost per unit.
- Centralized records are maintained.
- The cost of order processing such as order placing, receiving, inspection, accounts etc are reduced substantially due to few orders of large quantities
- Capital investment in stock is reduced.

# **LIMITATIONS OF CENTRALIZED PURCHASE**

- It involves high initial cost.
- There may be delay in getting the material from the central store to the branches, because many formalities and approvals are to be complied with before issuance of any material.
- It is possible that materials of wrong quality may be issued.
- There is a possibility that the centralized buying staff may not be expert in buying varied types of items.



# DECENTRALIZED PURCHASING

- Decentralized purchasing is exactly reverse to centralized purchasing.
- In decentralized purchasing, separate stores are situated in various departments.
- Individual departments or companies are responsible to make their own purchase according to their requirements.
- In this materials are kept at separate stores.

## ADVANTAGES OF DECENTRALIZED PURCHASE

- Materials can be purchased by each department locally as and when required.
- Materials are purchased in right quantity of right quality for each department easily.
- No heavy investment is required initially.
- Purchase orders can be placed quickly.

## **LIMITATIONS OF DECENTRALIZED PURCHASE**

- Organization losses the benefit of a bulk purchase.
- Specialized knowledge may be lacking in purchasing staff.
- There is a chance of over and under-purchasing of materials.
- Fewer chances of effective control of materials.
- Lack of proper co-operation and co-ordination among various departments

## **BUYING METHODS OR METHODS OF BUYING**

- Different methods are used in buying goods or services.
- Buying may be in big or small quantity.
- Goods or services can be bought from one or many sellers or sources according to convenience.
- Method of buying depends on buyer's need, quantity of goods, seller's comfort, quality of the goods etc.

# **I. METHODS OF BUYING BASED ON THE QUANTITY OF GOODS:**

## **1. Conservative Buying:**

- The method of buying goods in small amount only with the purpose of meeting daily necessity so that there remains minimum quantity in stock is called conservative buying.
- This buying is also called 'hand-to-mouth buying' or 'current need buying', 'economical buying', or 'small order buying'.
- The main reason of this buying method is to avoid loss that may be caused by the decline in price of the goods in stock.
- Housewives buy goods in the same method to meet daily needs.
- Wholesalers use this method if there is possibility of decline in the price of goods to avoid loss.

## **2. Speculative Buying:**

- In speculative buying method, buyers buy more quantity than needed.
- The purpose of this method is to earn maximum profit from selling the goods at higher price.
- Wholesalers or dealers buy goods in this method.
- They buy goods in bulk quantity expecting that the price of goods will increase in near future and more profit can be earned by selling at high price.
- This method of buying is also called 'buying long' or 'forward buying'.

# **I. METHODS OF BUYING BASED ON THE QUANTITY OF GOODS:**

## **3. Buying By Tender**

- Big producers may call tender for supply of raw materials.
- From this the producer gets raw materials regularly at certain price.
- In this method of buying the producers have not to bother about searching suppliers.
- Govt. offices and other big companies buy goods by this method.

## **4. Contract Buying**

- Buyers may sign written contract with capable and reputed suppliers for buying huge amount of goods.
- In such contract, terms and conditions to be followed by both parties are mentioned.
- Buyers get regular supply of goods at certain price for fixed duration as mentioned in the contract. In this method, buyers need not spend time nor have to bother about searching for supply source.
- The supplier himself provides necessary goods at the buyer's doors.

## II. METHODS OF BUYING BASED ON NUMBER OF SUPPLIERS

- **i. Concentrated Buying:**

- Buyers can buy necessary goods from one or few sellers of a certain area.
- In this buying, regular contact is established with sellers.
- The buyers can get facilities like quality goods at cheap price and prompt delivery. In this way, if the buyers are provided with the quality, quantity and price of the goods, they feel psychologically satisfied.
- But depending on only one or few sellers for supply of goods, there remains risk of market. That means the buyers may not get the necessary amount of goods at the time when they need.

- **ii. Diversified Or Scattered Buying:**

- The method of buying necessary goods from scattered sellers is called diversified buying.
- Goods are brought from the sources or sellers who provide facilities like reasonable price, quality of goods, transportation and facility of credit payment etc.
- This diversifies buying. If goods are bought in this method, the buyers need not have to depend on any seller for supply.
- They need not have to suffer from terms and conditions of limited suppliers. Selection facility can be fully used.

- **iii. Reciprocal Buying:** Exchanging goods to meet mutual needs of both parties is called reciprocal buying. This is also called 'mutual buying and selling'. For this, both concerned parties should make such a mutual contract that one side become ready to buy goods of other side. This means when A is ready to buy goods of B, then B also becomes ready to buy goods of A. In this method if buying and selling, selection facility remains limited.

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### **III. METHODS OF BUYING BASED ON QUALITY OF GOODS:**

#### **1. Buying By Inspection**

- The easy method of buying is to buy goods by inspection.
- In this method, buyer inspects goods and gives order for supply only if it can meet the need.
- In this method, seller organizes fair or exhibition so that buyers can get chance to inspect the goods.
- Buyers can also visit sellers' store or collection centers or production place to inspect goods.
- If the goods are found satisfactory, then the buyers give order for supply of the goods.

#### **2. Buying By Sample**

- If there is no possibility of buying by inspecting goods, buyer can give order for goods by looking sample.
- After inspecting goods of different grades, buyer selects a sample for supply. Then the seller supplies the goods accordingly.

#### **3. Buying By Description**

- In this method, buyer gives purchase order on the basis of the description given by the seller.
- The sellers sends the goods as ordered for.
- Description of goods can be found in advertisement, signboards, hoarding boards or other business publications.

## **POINTS TO REMEMBER WHILE PURCHASING**

- Proper specification
- Invite quotations from reputed firms
- Comparison of offers based on basic price, freight & insurance, taxes and levies
- Quantity & payment discounts
- Payment terms
- Delivery period, guarantee
- Vendor reputation (reliability, technical capabilities, Convenience, Availability, after-sales service, sales assistance)
- Short listing for better negotiation terms
- Seek order acknowledgement

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# **GENERAL PURCHASE PROCEDURE IN A COMPANY**

1. Purchase Requisition.
2. Identify the Sources of Supply.
3. Call for Tenders or Quotations.
4. Analysis of Tenders.
5. Selection of Right Supplier.
6. Placing of Purchase Order.
7. Follow Up of Purchase Order.
8. Receiving of Materials.

**(The purchase procedure of the company differ from one to the other).**

# MATERIAL PURCHASE OR PURCHASE PROCEDURE

- When we produce any product, investment in raw material is of 50% to 60% of the total cost of product.
- So, it is very necessary to buy the raw material at low cost.
- If we reduce the 10% cost of buying of raw material, it means, we have increased our 10% profit.
- Purchase department will make full planning of his purchase.
- Everything should be planned. What to buy, when to buy and how to buy?
- By using following material purchase procedure, you can reduce your cost of buying any material.

# **MATERIAL PURCHASE OR PURCHASE PROCEDURE**

## **1. Classification of Material**

In the first step of purchasing procedure, purchase department will classify all the its material according to the nature of material. For example, we can classify our material with following way.

- a) Raw material
- b) Machine and Equipment
- c) Tool
- d) Other Material

## **2. Recognition of Need**

Purchase department studies the purchase requisition which it gets from different department. Purchase requisition is the document which shows the demand of material of any department. It makes the list of important material requirement. Suppose, C material is very limited, purchase department will buy C material first instead of buying other material.

# **MATERIAL PURCHASE OR PURCHASE PROCEDURE**

## **3. Specification of Required Material:**

Every department will make the specification of required material. This will be helpful for purchase department to identify that material. Because some material are of technical configuration, so, its detail should be given to purchase department.

Following things should be included in it.

- i) Date
- ii) Identification
- iii) Originating Department
- iv) Account to be Charged
- v) Complete Description relating to quality and quantity of material desired
- vi) Other Special Information
- vii ) Date on which material is required for use
- viii) Signature of issuing authority of requisition

**We also say purchase requisition as purchase requirement list or purchase indent.**

# MATERIAL PURCHASE OR PURCHASE PROCEDURE

## 4. Inviting Tenders and Quotations

For saving money and placing the order to best vendor, purchase department will invite the quotations and tenders. This work can be done through offline and online advertising. Tender may be open, limited, oral.

- a) Opening of Tenders: Tender is opened at a specific date, time and at specific place.
- b) Preparation of Summary of Quotations: After receiving the tenders from different seller, a comparative statement is made in which prices and conditions are compared. Best vendor will be selected for supply.

## 5. Selection of Source

There is the big source of suppliers. But purchase department has to be limited this on the basis of following point.

- a) **On the basis of financial resource:** Purchase department will see his pocket before selecting the source.
- b) **Service after buying:** Purchase department will choose that supplier which provide the service after buying.
- c) **On the basis of sample:** Purchase department will get the sample for selecting the source of supplier.



# **MATERIAL PURCHASE OR PURCHASE PROCEDURE**

## **6. Placing of Order**

When the tender and source of supplier is selected, purchase department places his purchase order. Purchase order is the written agreement in which purchaser and sellers will bind its terms and condition. Purchaser will be responsible the price of material. Seller is responsible for supplying the material.

## **7. Follow up Service**

After placing the order, purchase officer will send the reminder. He can also get the written promise from vendor for supplying goods at a specific time.

## **8. Receipt and Checking of Invoice**

It is the duty of accountant to receipt and checking of invoice. He will compare it with the original copy of purchase order. If there is any mistake, he will inform the purchase department. Only after confirmation from purchase department, payment will be made by cashier.

## **9. Receipt and Checking of Goods**

After getting goods, purchase department will check the quality and quantity of material which has been mentioned in the purchase order. With this, we see whether everything is OK or not. After this receipt material's report will be made. With this, technical inspection is also necessary.

## **10. Completion of Record**

To record relating to purchase is done by accounts department. If there is VAT and excise obligations, accounts department will complete.

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# EXAMPLE - 1

## 1. (SPU – 2012)

The following information relating the performance of Two different suppliers are available:

Supplier	Lot Accepted	Lot Rejected	Price Per Unit	Tax	Credit Period	Delivery Period
A	95	15	34	10%	52	5 days
B	90	8	32	15%	48	6 days

The value concern has decided to assign weighted as under:

Quality – 20%      Price – 35%      Credit Period – 35%      Delivery – 10%

Delivery performance is to be discounted by 2% for delay upto 5 days late & 1% more for a delay of each day after that.

Prepare consolidated sheet and also select the best supplier.

# ANSWER - 1

## 1. Quality Rating Sheet

Supplier	Lot Accepted	Lot Rejected	% of Lot Accepted	Weight %	Quality Rating
A	95	15	86.36	20	17.27
B	90	8	91.84	20	18.37

**% of Lot Accepted =**      Lot Accepted / Lot Supplied x 100

**A =** 95/110 x 100 = **86.36 %**

**B =** 90/98 x 100 = **91.84 %**

# ANSWER - 1

## 2. Price Rating Sheet

Supplier	Price per Unit	Tax (10%)	Net Price	Weight %	Price Rating
A	34	3.4	37.4	35	34.44
B	32	4.8	<b>36.8</b>	35	35



**Price Rating = (LNP/RNP) x W.P.**  
(Lowest Net Price/ Related Net Price)

$$A = 36.8 / 37.4 \times 35 = 34.44$$

$$B = 36.8 / 36.8 \times 35 = 35$$

# ANSWER - 1

## 3. Credit Rating Sheet

Supplier	Credit Period	Weight %	Credit Rating
A	52	35	35
B	48	35	32.31



**Credit Rating = (RCP / MCP) x W.P.**  
(Related Credit Period / Maximum Credit Period)

$$A = 52 / 52 \times 35 = 35$$

$$B = 48 / 52 \times 35 = 32.31$$

# ANSWER - 1

## 4. Delivery Rating Sheet



Supplier	Delivery Period	% of successful Delivery	Weight %	Delivery Rating
A	5 days	90 %	10	9
B	6 days	87 %	10	8.7



**Delivery Rating = (% of Delivery Success x W.P)**

$$A = 100 - 10 = 90\% (5 \times 2) - 10$$

$$B = 100 - 13 = 87\% (5 \times 2 + 1 \times 3) - 13$$

# ANSWER - 1

## 5. Consolidated Rating Sheet



Supplier	Quality Rating	Price Rating	Credit Rating	Delivery Rating	Total Rating
A	17.27	34.44	35	9	95.7
B	18.37	35	32.31	8.7	94.38



Vendore/Supplier A is Selected on the basis of Consolidated Rating Sheet



# VENDORE SELECTION EXAMPLE

## 2. (SEMCOM – 2011)

The following information are available for performance supplier who are assigned the weighted as under

(1) Quality – 30%    (2) Delivery – 25%    (3) Price – 40%    (4) Credit Period – 5%

Supplier	Lot Accepted	Lot Rejected	Price Per Unit	Tax	Credit Period	Delivery Period
A	50	10	35	20%	50	7 days
B	59	6	36	18%	46	5 days
C	46	14	38	5%	53	6 days

Delivery performance is to be discounted by 2% for each period failure upto 5 days and by 1% for each failure beyond that. Prepare rating sheet for each supplier variable and select best supplier.

# VENDORE SELECTION EXAMPLE

3. Calculate the vendor rating for the following. The item under consideration is the same from all suppliers:

Supplier Data	A	B	C
Quantity Supplied	90	80	75
Quantity Accepted	78	80	70
Price of Each Item	Rs. 4	Rs. 4.20	Rs. 3.90
Delivery Promised	6 weeks	6 weeks	6 weeks
Actual Delivery Made In	8 weeks	6.2 weeks	7 weeks

**Weighted:** Quality - 70%

Price- 20%

Delivery-10%

**THANK  
YOU**