

# Purchase Department (Materials and Sales Management)

**Course: Industrial Management and Safety**

**Course Code: 5001**

**Module: II**

# Materials Management

- Materials refer to all the commodities that are used in the production of goods and rendering services.
- It includes raw materials, components, spares, packing materials and finished products.
- Among the materials, raw materials shares the major portion of the materials.
- **Materials Management:**
  - It is defined as “the function responsible for the coordination of planning, sourcing, purchasing, moving, storing and controlling materials in an optimum manner so as to provide a pre-decided service to the customer at a minimum cost. ”

# Objectives of Purchase Department and Buying Techniques

1. To maintain regular flow of materials.
  2. To purchase the right quality products in right quantity and at right time from a right source at a competitive price.
  3. To ensure higher productivity.
  4. To ensure better quality production at a competitive cost.
  5. To act for standardization, variety reduction and value analysis.
  6. To ensure better margin of profit.
- The various methods of purchasing or buying techniques:
    - i. **Purchasing by requirement**
    - ii. **Purchasing for a specific future period**
    - iii. **Market Purchasing**
    - iv. **Speculative Purchasing**
    - v. **Contract Purchasing**
    - vi. **Central Purchase organization**
    - vii. **Through Directorate General of Supplies and Disposal**

# Buying Techniques

- **Purchasing by Requirement:**

- In this method, the required quantity of materials are purchased , when the job is in hand.
- Suitable for industries where the working capital is low.
- Merits:
  - i. Storage space requirement is less.
  - ii. Will not be affected by market fluctuations.
  - iii. Less inventory carrying cost.
- Demerits:
  - i. High selling price of the products.
  - ii. Limited profit since the orders are for small quantities.
  - iii. No bargaining allowed due to small quantities involved.

- **Purchasing for a specific Future Period:**

- In this method, the materials are purchased in bulk for specific future period to maintain the flow of production.
- The items that are regularly used are purchased by this method.
- Merits:
  - i. Production can be started as soon as the order is received.
- Demerits:
  - i. Market fluctuations will affect if not favorable.
  - ii. Storage space is required.

# Buying Techniques

- **Market Purchasing:**

- In this method, the raw materials are purchased in bulk when they are available at low price.
- Market purchasing is performed to take the advantage of price fluctuations.
- This method is suitable for purchasing goods that involve major fluctuations.
  - **Merits:**
    - Low distribution cost.
    - Continuous production.
    - More bargaining power due to bulk purchases.
  - **Demerits:**
    - Large space requirement.
    - More capital requirement.
    - If the market topples, there is big loss.

- **Speculative Purchasing:**

- In this method the purchases are made based on the speculation that there will be a greater demand for the product in the future.
- Purchases are made in excess of actual requirements.
- This is not a scientific method.
- **Merits:**
  - Profits will be more if demand increases.
  - Production will be continuous.
- **Demerits:**
  - More capital requirement.
  - More storage space is required.
  - If speculation goes wrong, then profit on the finished product is reduced.

# Buying Techniques

- **Contract Purchasing:**

- In contract purchasing, contracts are given to suppliers in large amounts of future requirements (say 2, 3 years).
- The contract is subjected to review and cancellation with an appropriate period of notice.
- Usually concerns that use large quantities of raw materials such as pig iron, coke, coal, etc. use contract purchasing.
- **Merits:**
  - It avoids necessity for keeping stocks.
  - It is not affected by market fluctuations.
  - No time is needed to be wasted in calling quotations and finalizing the purchases.
  - No change in prices during contract period.

- **Demerit:**

- The supply may not be regular, as it is out of control of production department.

- **Central Purchase Organization:**

- Large industries may have section wise stores at different places and each section may have a separate store.
- In such industries, in order to avoid margin of middle man and malpractices, a central purchase organization makes direct dealings with the manufacturers and distributes the material to section wise stores.
- **Merits:**
  - Little possibility of malpractice.
  - Can have direct dealings with the manufacturer.
  - Bargaining is possible as the central stores usually makes purchases in large quantities and hence things can be obtained cheaply.
- **Demerit:**
  - There may involve a delay in obtaining materials from the central store to the sectional store.

# Buying Techniques

- **Through Directorate General of Supplies and Disposal:**

- The Directorate General of Supplies and Disposal provides supply of different products at relatively cheaper rates for different government organisations.
- This department enters into contract with various organisations for supply of certain materials to various government organisations during the year at agreed rates.

- These suppliers have to certify that they shall not supply to other purchasers same material at lesser rate during the contract year.
- The various government organisations can place orders with the firms for the supply of requisite materials at contract rates when the requirement arises.

# Purchase Procedure

- The purchase procedure consists of the following stages:
  - i. Receipt and analysis of requirements and processing of requisitions.
  - ii. Choice and location of potential suppliers.
  - iii. Request, receipt and analysis of quotations.
  - iv. Placing of orders.
  - v. Follow up and expediting the purchase orders.
  - vi. Verification of supplier's invoices for payment after processing discrepancies and rejections.
  - vii. Closing completed orders and maintenance of records.



# 1. Receipt and analysis of requirements and processing of requisitions

- The various departments in an organization communicate their requirements to the purchase department through requisition form.
- Purchase requisition form contains the following data:
  - i. The material required with quality and specifications.
  - ii. Quantity required.
  - iii. Date by which material is required.
  - iv. Place of delivery.
  - v. Name of the suggested supplier.

Purchase Requisition

Requisition No : \_\_\_\_\_ Date : \_\_\_\_\_

Shop : \_\_\_\_\_

Required for

1. (a) Work Order No : \_\_\_\_\_

(b) Department Use : \_\_\_\_\_

(c) To Stock : \_\_\_\_\_

| S.No. | Description | Specification of Material | Quantity | Approximate | Remarks Cost |
|-------|-------------|---------------------------|----------|-------------|--------------|
|       |             |                           |          |             |              |

Delivery required upto \_\_\_\_\_ Signature : \_\_\_\_\_

Address of probable suppliers (Indentor)

1. \_\_\_\_\_

2. \_\_\_\_\_

2. Report of store keeper \_\_\_\_\_

\_\_\_\_\_ Signature \_\_\_\_\_ (Store Keeper)

3. (For the use of purchase section)

Supplier \_\_\_\_\_

Purchase Order No. \_\_\_\_\_

Date of delivery promised \_\_\_\_\_ Signature : \_\_\_\_\_

(Purchase Officer)

## 2. Choice and location of potential suppliers

- The factors to be considered while selecting a vendor or supplier are:
  1. Reliability of supply.
  2. Assurance of timely delivery of goods.
  3. After Sales Service Record.
  4. Attitude towards goods rejected by the purchaser.
  5. Technical assistance during and after the installation.

# 3. Request, receipt and analysis of quotations

Quotation form

From :  
Section head,

To :  
M/s. \_\_\_\_\_

No. \_\_\_\_\_

Dated : \_\_\_\_\_

Dear Sir,

Quotations are invited for the purchase of material as shown below and should reach this office at the latest on (date) at (time). The quotations should be sent with full details and supported by details literature or pamphlets, etc.

(i) Please mention on the top of the envelope.  
Enquiry No. \_\_\_\_\_ Date on which due \_\_\_\_\_

(ii) The quotations should be submitted in duplicate.

(iii) The quotations should be given in same order as are in enquiry letter.

(iv) The quotations should be valid for atleast one month from the date of opening.

(v) The quotations should be sent in sealed covers.

(vi) The rates quoted should be upto destination of purchaser and include all taxes.

(vii) The right is reserved to accept or reject any quotation wholly or partly without assigning any reason.

(viii) The vendor representative may be present at the time of opening of quotations.

| S.No. | Description of material | Quantity required | Unit cost | Total price | Discount | Total net price |
|-------|-------------------------|-------------------|-----------|-------------|----------|-----------------|
|       |                         |                   |           |             |          |                 |
|       |                         |                   |           |             |          |                 |
|       |                         |                   |           |             |          |                 |

Your's Faithfully,  
(Purchase Officer)

- **Quotation:**

- It is an enquiry to know whether the suppliers can supply the desired material by the specified date under specified conditions and if yes at what rate.
- Also known as Tender.

- **Quotation/ Tender Types:**

- **Single Tender:**

- In single tender only a reliable firm will be asked to supply, with whom they are already in business with and the rates are fixed by mutual acceptance.
- It is used when the material is of extreme importance.

- **Close Tender:**

- In this system, the tenders are invited only from limited firms.
- Also known as **Limited Tender System**.

- **Open Tender:**

- It is adopted when the quantity required is large.
- The tender notice is published in newspapers and all the interested firms can apply for it.

- **Earnest Money Deposit:**

- It is the amount demanded from the supplier who quotes tender so that later on the supplier does not back out from the rates he quoted for supplying the materials or goods.

# Comparative Statement

- After receiving quotations from various firms, a comparative statement is prepared for comparing the rates and other terms and conditions mentioned in the request for quotations.
- Comparative statement serves a good guide in selecting the right vendor.

[illegible]

## 4. Placing of orders

- After selecting the right vendor, a purchase order is sent to him.
- The purchase order is a legal document.
- It serves as a supplier authority for the delivery of material according to the terms and conditions of purchase order.

**PURCHASE ORDER**

Purchase Order No : \_\_\_\_\_

Date : \_\_\_\_\_

To \_\_\_\_\_ From \_\_\_\_\_  
M/s. \_\_\_\_\_ M/s. \_\_\_\_\_

Reference : Your tender/Quotation No. \_\_\_\_\_ Date : \_\_\_\_\_  
Please supply the following materials in accordance with the terms and conditions mentioned as under :

| S. No. | Description of Material | Quantity | Price/Unit | Amount | Delivery Date Promised |
|--------|-------------------------|----------|------------|--------|------------------------|
|        |                         |          |            |        |                        |
|        |                         |          |            |        |                        |
|        |                         |          |            |        |                        |

Terms & Conditions :  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signature  
(Purchase Officer)

## 5. Follow up and expediting the purchase orders

- After placing the order, it is the duty of the purchase department to maintain contact with supplier in order to:
  - Get information about progress of order.
  - To remind the supplier before the expiry of the delivery period.
  - Take corrective actions so that material may be received in time as planned.



## 6. Verification of supplier's invoices for payment after processing discrepancies and rejections

- The received materials are compared with purchase order to find out discrepancies in quality, quantity, specifications, etc.
- The rejected materials, if any, may be returned to the supplier for replacement.
- Invoices are checked to ensure that the material has been received as per purchase order specifications and agreed price.
- Finally the payment is made to the vendor for the material received.

## 7. Closing completed orders and maintenance of records

- The last step of the purchase procedure is to fill the records of transactions and maintain the records.