

Purchase in Bulk- November 2016

SMALL GROUP OUTLINE

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OBJECTIVE

Members

Will:

By:

Members:

Will reduce their costs

By making a plan of how they will purchase in bulk and when they will begin to do it

GROUP WORK

From the Experts

Case Study

Application

CASE STUDY

Read as a group the following case study. Discuss how Raul can overcome the three obstacles to buying in bulk.

When Raul's sausage-making store opened for business in his small neighborhood, he struggled to price his products well. He had purchasing contracts with multiple suppliers, but the suppliers were all charging overly high prices for the meats he bought, for preservatives to keep the meat from going bad, and for packaging wrap. Although Raul's prices weren't the cheapest in the area, he had excellent customer service, so his customers kept coming back.

After being in business for about eight months, Raul decided that he was no longer willing to pay such high prices for his raw materials. He hired an employee to watch the store for a few hours each day, and Raul set out to find suppliers who could give him a lower price on the things he needed most. After he found the suppliers he realized that he had the following obstacles to overcome:

Perishable Goods

If he bought 80 kilos of meat rather than just 35 (which he knew he could sell in a single day), the extra 45 kilos would spoil, leaving him with unusable (albeit less expensive) meat.

Large Upfront Costs

He knows that when he buys in bulk he will get a larger quantity of goods (at a cheaper price per unit) but he will also have to pay a larger amount of money—usually at the time of the purchase. Since he is accustomed to buying small quantities of goods and reselling those quickly, he will have to come up with a lot of money at one time to buy a lot of goods upfront.

Inventory = Unavailable Capital

Raul knows that if he buys in bulk, he turns his capital or cash into inventory. But what if the inventory that does not sell quickly and then he needs capital for other purposes in his business?

Ask members the following questions:

- 1. How can Raul buy in bulk and still avoid spoilage?*
- 2. Where can Raul find the money to make his bulk meat purchases?*
- 3. What can Raul do to increase the sales of his meat?"*

APPLICATION

Each member should write in their journal a plan of how they will buy in bulk and when they will do it.