

Purchasing procedure

UNIT-2

Basic purchasing process

- The procurement process have five different phases.
1. consider the request for materials supplies and equipment from the using departments.
 2. select the suppliers and once you select a supplier or a group of suppliers for the given item then you need to issue the purchase orders.
 3. the follow up of the outstanding orders what is known as the expediting.
 4. receive the orders and once you receive the orders then, you go for inspection of the materials at your workplace.
 5. verify the supplier invoices and you instruct your finance departments or account departments to make for the payment.

phase 1

- an executive or as a manager or as a purchasing officer, you should be aware of the phases in these purchasing cycle.
- a purchasing department may deal with hundreds of sources; sources means the suppliers for thousands of items like for an automobile company it may be dealing with maybe few thousands the components. -skillful buying
- Many companies have now computerized their purchasing operations, this is also a very common occurrence.

what are the important issues or aspects to be considered?

- A using department indicates its needs for materials on a requisition. if the materials are available in stores, stores requisition is sent by the using department and materials are supplied from the stores.
- A purchase requisition is used for materials that have to be ordered from suppliers.
- In the purchase requisition form, the material name or code specifications, amount needed
- and desired delivery date are mentioned.

- travelling requisition form
- Regular requisition form
- computerized operations, computer generated schedules are mailed to the supplier without a purchase requisition being generated. (negotiated price and terms usually for one-year the period)
- Some time **bill of materials** is required.

phase 2

- various processes of negotiation and decisions take place between the time at which a purchase is authorized And the time at which the order is issued are considered.
- the supplier possible sources of supply will be invited to bid for the order and evaluation of bids received.
- participate in these bidding process is called a request for quotation.

Bidding process under the following situations

- the bidding process in many a time it is considered a foolproof system.
- a foolproof system when **purchase involves substantially high expenditure, price information as available is not sufficient.**
- you need to explore the market intensely, **the product is a new one or complex in design, in manufacture and expensive with no experience of it In the past;** that means, the first time you come across such a product or such an item or such a material to be procured from outside source.

- **Intense or stiff competition among suppliers of the product or the material**; that means, it is already known that for the given material or the item there may be a lot many suppliers.
- let everyone or let a specified number of suppliers bid for that particular order and then we will assist each and every bid and scientifically objectively before, we select one supplier or a group of suppliers.
- **A major contract is up for renewal** a major; that means, it is an important contract as far as the operations of the plant is concerned or as far as the companies the performance is concerned.

- under these conditions, you go for the bidding process that there may be a two bid system this is very common these days.
- these two bids are known as the technical bid and followed by the financial bid.
- Usually the supplier quoting minimum price after successfully complying with the technical requirements.
- The purchase order is an instrument in which goods are procured to fill a requirement.

- in this way we define a purchase order; it expressed in specific language they agreement between the buyer and the supplier.

phase 3

- the follow up is an essential activity in majority of the cases there could be few cases where follow up may not be needed.
- There can be two types of follow up routine follow up and field expediting for the important orders.

routine follow up

- essentially you create a file of open orders, if you visit any purchase department definitely this is a very common occurrence.
- arranged in numerical sequence computerized systems provides soon to be due.
- next one week and overdue items.
- as the need for expediting becomes more acute; that means, there could be some critical items which are in the overdue category.

- the whole situation may become very acute a critical situation you might face.
- some actions are required on your part as a buyer so that in future such occurrences or do not repeat.

field expediting

- this is an important activity in any purchase department a staff of expeditors in the field is maintained.
- such expeditors are usually made responsible, for all orders placed with suppliers in a given territory.
- Sometimes this function is combined with inspection of materials at the supplier's plant.
- When purchasing involves long lead time and complex requirements or heavy construction Professional expeditor may be employed for follow up of orders.

- the normal as a situation it may be necessary to make changes in quantity, scheduling or specifications.
- this concept is essentially known as the change order and if there is a change order situations.

phase 4

- the receiving section may be a part of stores department not necessarily a part of purchasing department.
- the purchase department has a close interaction with the stores department particularly the receiving section of the stores.
- the receiving section acknowledge this receipt of the items in specified quantity.
- The condition of goods damaged or not is stated.

- inspection or the quality department quality control department is responsible for accepting the order.
- Out of the total number of units received Proportion of accepted number of units is decided by inspection of the quality control systems.

phase 5

- the invoice is received and based on the actual number of accepted units, as reported by the inspection or the quality control department the payment is made to the supplier.
- Against an order there is a credit period.
- in certain cases it could be 30 days in many cases it could be 45 days.
- your purchase system should be such that that you are able to make the payment within the credit period.

- we need to study the existing purchasing procedure to find out the problems with the existing systems.
- you must be able to assess the existing purchasing procedures or the purchasing process.
- these problems may be manifold.
- There are many types of problems you might phase many high cost low value transactions, duplication of effort, unnecessary and time consuming paperwork, lost shipment, no volume buying benefits, and no professional approach.







