

Management of Inventory Systems
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Lecture - 43
Basics of Purchasing Management (Contd.)

During this 3rd lecture sessions on purchasing management, we are a going to discuss 3 or 4 important issues namely, the basic purchasing process.

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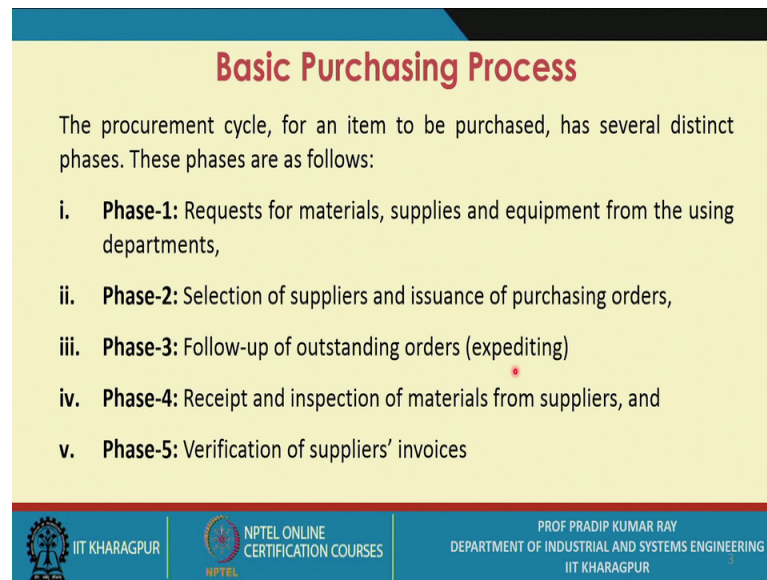


We have already mentioned the importance of purchasing management in a particular company or for any organization.

Now, as a learner as well as an executive of an organization, you need to know the what are the purchasing operations, you need to the carry out. And this is this all these operations you will come to know only when you are aware of the basic purchasing process and when you refer to purchasing process.

We bring in the concept of the purchasing cycle and what are the operations involved in this cycle. Then, there could be different types of purchase so we will refer to the 2 specific aspects one is the buying agreements and the concept of systems subcontracting. And before we discuss that the details of make or buy decisions. So, during this lecture sessions, we also intend to and all introduce the concept of make or buy decisions ok.



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Basic Purchasing Process

The procurement cycle, for an item to be purchased, has several distinct phases. These phases are as follows:

- i. **Phase-1:** Requests for materials, supplies and equipment from the using departments,
- ii. **Phase-2:** Selection of suppliers and issuance of purchasing orders,
- iii. **Phase-3:** Follow-up of outstanding orders (expediting)
- iv. **Phase-4:** Receipt and inspection of materials from suppliers, and
- v. **Phase-5:** Verification of suppliers' invoices

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Now, let us talk about the basic purchasing process. Now, the procurement cycle for an item to be purchased that, is the basic purpose of purchasing has several distinct phases. So, you need to identify all these phases and more or less whatever may be the item to be procured are or whatever maybe the type of organization, more or less these phases are very, very common.

So, what are these phases? There are 5 important phases you come across. In the first phase, you consider the request for materials supplies and equipment from the using departments. So, essentially these purchase items are to be used by the using departments. So, based on the requests you get from the using departments any one of the using departments.

So, you initiate or the purchasing the process so that is the phase 1; that means, you need to analyze the requests and you have to take certain actions. So, we will discuss in detail all the activities involved in phase 1.

Then we move to phase 2; that means, here what you need to do? You need to 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. So, the next phase; that means, phase 2 concerns with the selection of the suppliers and issuance of purchase orders.

Then, once the purchase orders are issued then you move to phase 3; that means, the follow up of the outstanding orders what is known as the expediting? So, what are the different kinds of expediting norms or expediting procedures you need to follow under different conditions? So, you must have a thorough idea about all this.

Then once the follow up is over then, what is expected that is you received? You received the orders and once you receive the orders then, you go for inspection of the materials at the items at your workplace. So, there is receipt and inspection of the materials from the suppliers. So, that is essentially the 4 phase 4 activities and then at the last phase of the phase 5 activities you verify the supplier invoices. And you instruct your finance departments or account departments to make for the payment.

So, essentially making payment is not the responsibility of the purchase departments was based on the purchase departments. I know the recommendations the finance department is responsible for making the payment. So, all these the phases we will discuss in detail.

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Basic Purchasing Process

- These phases are interrelated and many a time, are included in one cycle, called purchasing cycle.
- A purchasing department may deal with hundreds of sources for thousands of items and has a complex administrative job, over and above its responsibility for skillful buying.
- Many companies have now computerized their purchasing operations. For certain items, even computer-to-computer purchasing procedure can be adopted. However, for purchase of new products and systems, a large number of operations in purchasing cycle are to be carried out manually, with direct managerial interventions at different control points for appropriate decision making.

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Now, these phases are interrelated and many a time are included in one cycle called purchasing cycle. So, as you know as an executive or as a manager or as a purchasing say the officers. So, you should be aware of oh the phases in these purchasing cycle.

Now, 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

say maybe few thousands the components. And similarly, we say aircraft manufacturing company may be dealing with thousands of parts components and materials and it is a very common occurrence.

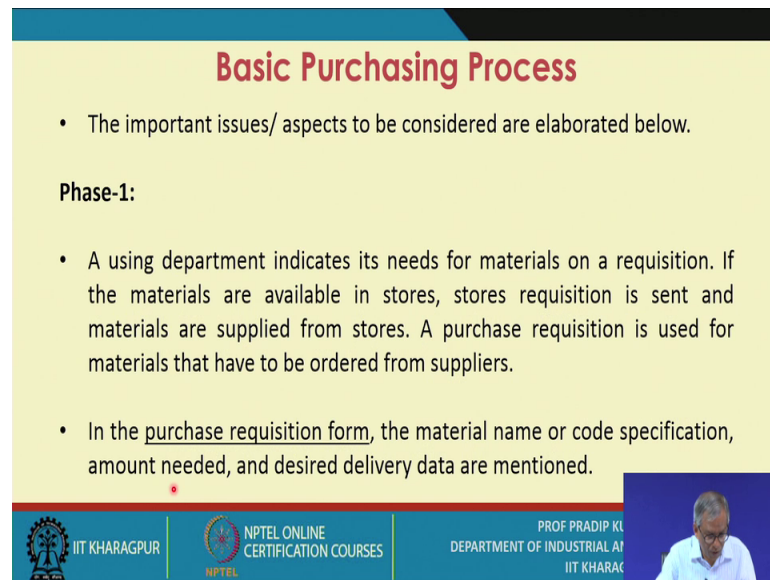
And; obviously, the purchase department has a complex administrative job because you need to interact with the many types of suppliers. And what is expected? That as you know the increased more number of parts in your say the product mix or with the changing or the increasing. You know the product portfolio ah. What is expected is that that the source you know or say entire, but say whatever or say the number of sources or the number of suppliers you have.

So, these number goes on increasing over time and ah. So, it is a complex administrative job over and above it is responsibility for skillful buying. So, just you be aware of the level of complexities involved and you should be also aware of that what are the different kinds of situations. You come across while you deal with or while you negotiate with the suppliers.

Many companies have now computerized their purchasing operations this is a also a very common occurrence. For certain items even computer to computer purchasing procedures can be adopted for standard items why you will you know the opt for a standard procedures and more or less the supplier base remains constant.

So, you may opt for computer to computer purchasing there are many instances; however, for purchase of new products and systems like say system subcontracting a large number of operations in purchasing cycle are to be carried out manually. This is unavoidable with direct managerial interventions at different control points. Later on, when you discuss the purchasing cycle now, the purchasing cycle may be represented with a respect to a number of control points and at these control points appropriate decisions are made.

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Basic Purchasing Process

- The important issues/ aspects to be considered are elaborated below.

Phase-1:

- A using department indicates its needs for materials on a requisition. If the materials are available in stores, stores requisition is sent and materials are supplied from 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 specification, amount needed, and desired delivery data are mentioned.

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So, these are the basic the points you must have keep in mind. While you discuss or while you refer to are the several elements of the purchasing cycle. Now, what are the important issues or the aspects to be considered? So, all these important aspects phase wise you must be able through identify and you must be able to consider them.

So, during phase 1 what are the important issues and aspects? So, let me elaborate like a using department indicates it is needs for materials on a requisition. So, this is referred to as requisition if the materials are available in stores requisition is sent by the using department and materials are supplied from the stores; that means, as soon as you send a store requisition.

It is assumed and it is known that the stock for that particular item is available in the stores. And as soon as the stores department receives the store requisitions the item will be supplied in the required quantity.

A purchase requisition used for materials that have to be ordered from suppliers; that means, you send the you get the information of the stores that the given that the required item is not available. So, what you need to do now? You need to send a purchase requisition to the purchase department ok.

And the then it is the responsibility of the purchase departments to take effective steps for making the purchase orders and sending the purchase orders, are through or the a

particular supplier or group of suppliers depending on the type of the item to be procured and the quantity of the item required.

In the purchase requisition form, the material name or code specifications amount needed and desired delivery date are mentioned. So, this is say purchase requisition forms so the different come the more or less these information is are common a company may have it is own ah. Say the purchase requisition form, for items of a repetitive nature the regularly used.

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Basic Purchasing Process

- For items of a repetitive nature, and for those for which purchases are normally made to replenish stocks, a travelling requisition is used.
- In many computerized operations, computer-generated schedules are mailed to the supplier without a purchase requisition being generated. In these cases, purchasing has already negotiated price and terms, usually for one-year period.
- Sometimes, purchasing is based directly on a bill of materials, that lists every item in a company's end product.
- A more automated and sophisticated buying from a bill of materials is done in Material Requirements Planning (MRP) system.

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And for those for which purchases are normally made to replenish stocks is it ok. Replenishment when you get you send an order for replenishment a traveling requisition may be used so; that means, for the items of the repetitive nature regularly used at a particular the frequency.

So, use a special kind of say requisition form and this is referred to as the travelling requisition form in many computerized operations, computer generated schedules are mailed to the supplier without a purchase requisition being generated. So, these process is also being followed in these cases purchasing has already negotiated price and terms usually for one-year ah. So, the period; that means, the price is already known and what is not known; that means, a given time period what is your requirement.

So, price is negotiated price is settled and then what you do you send a detail that the schedule to the supplier and in the detail schedule. So, if the month wise your requirements are specified. So, and there will be you know the variations in the month wise requirements. So, as per say the month wise requirements the supplier is supposed to supply the items.

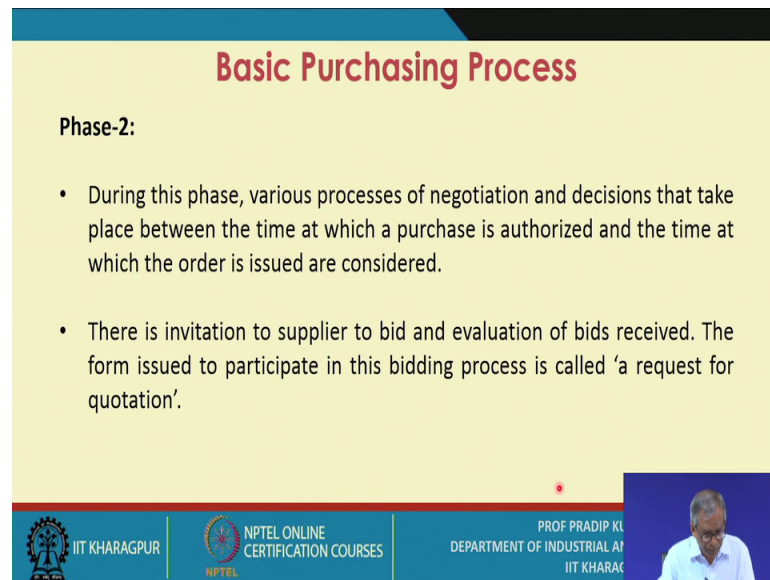
Sometimes, purchasing is based directly on a bill of materials we have already we already know, what is the bill of material? That means, to produce or to manufacture one unit of output or one unit of the end product, how many different types of say different types of items component parts and materials you require?

So, this the document you prepare and this is basically the main output of the design department ah. So, this is referred to as the bill of materials. So, when we will be discussed we say the MRP systems ah. So, we refer to our the concept of bill of materials. So, that lists every item in a company's end product. So, what you what you do? That means, in a given bill of materials, you know that what are the items to be procured from on the outside source.

So, so far as specific set of items given in the bill of material and with the required quantities or what the quiet months or the time periods, you just send these bill of materials to the supplier. And the supplier as per the or the requirements specified in the bill of materials they start supplying these items as per say I know the delivery due dates.

A more automated and sophisticated buying from a bill of materials is done in material requirements planning systems. Already we have discussed the MRP systems. So, the purchase department plays a very important role while you while you install an MRP system and you start working with an MRP systems in your organization.

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The slide is titled "Basic Purchasing Process" in red text. Below the title, it says "Phase-2:". There are two bullet points: the first describes the negotiation and decision-making period between purchase authorization and order issuance; the second describes the invitation to suppliers to bid and the evaluation of bids, mentioning that the form for this is called a "request for quotation". The slide footer includes the IIT Kharagpur logo, NPTEL Online Certification Courses logo, and the name and department of Prof. Pradip K. Mishra.

Basic Purchasing Process

Phase-2:

- During this phase, various processes of negotiation and decisions that take place between the time at which a purchase is authorized and the time at which the order is issued are considered.
- There is invitation to supplier to bid and evaluation of bids received. The form issued to participate in this bidding process is called 'a request for quotation'.

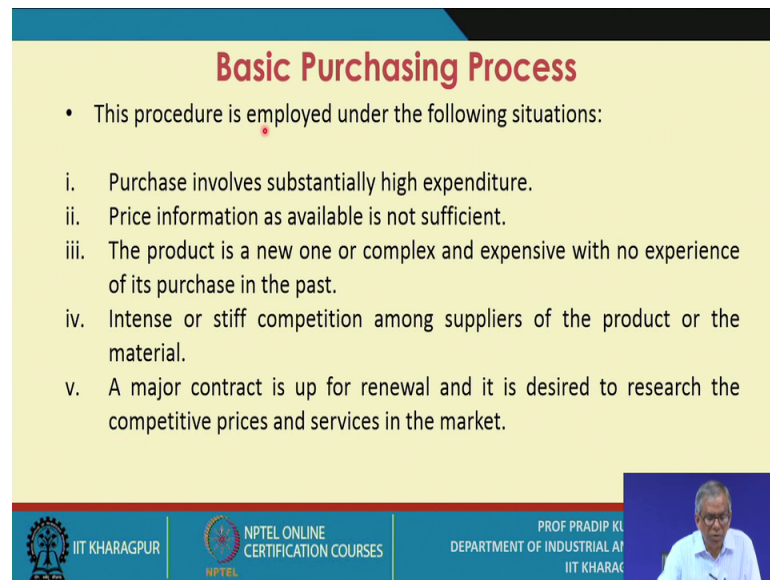
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In phase 2, during what you do that has various processes of negotiation and decisions the take place between the time at which a purchase is authorized. And the time at which the order is issued are considered; that means, now the requests are made to the purchase department.

Now, as for the requests made the purchase department is to is to prepare a purchase order. Now, there is invitation to supplier to bid the this is refer to is a bidding process please note this point ah. It is a frequently used term the bidding process in purchase department. So, so the supplier the possible the sources of supply will be invited to bid for the order and evaluation of bids received; that means, it is most likely they will be getting the bids from not only one supplier, but the several suppliers.

So, ultimately you have to select just one supplier so evaluation of to the bids is a must the form issued to, participate in these bidding process is called a request for quotation.

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Basic Purchasing Process

- This procedure is employed under the following situations:
 - i. Purchase involves substantially high expenditure.
 - ii. Price information as available is not sufficient.
 - iii. The product is a new one or complex and expensive with no experience of its purchase in the past.
 - iv. Intense or stiff competition among suppliers of the product or the material.
 - v. A major contract is up for renewal and it is desired to research the competitive prices and services in the market.

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Now, this procedure is employed under the following situations; that means, there could be a questions survive do you go for bidding process. So, the bidding process in many a time it is considered a proof system foolproof system.

Now, a foolproof system when purchase involves substantially high expenditure price information as available is not sufficient. So, 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 is purchase. 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. So, there is intense competition among the suppliers of the product or the material. Now, so; obviously, let everyone or let a specified number of you know the suppliers the bid for that particular order and then we will we will 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 it is an important contract as far as the operations of the plant is concerned or as far as you know the companies the performance is concerned. And it is desired to research the competitive prices and services in the market.

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Basic Purchasing Process

- There may be a two-bid system: technical and financial. Usually, the supplier quoting minimum price after successfully complying with technical requirements as specified is selected.
- The purchase order is the instrument by which goods are procured to fill a requirement. It expresses in specific language the agreement between the buyer and the supplier. Once accepted, it has the legal force of a binding contract.

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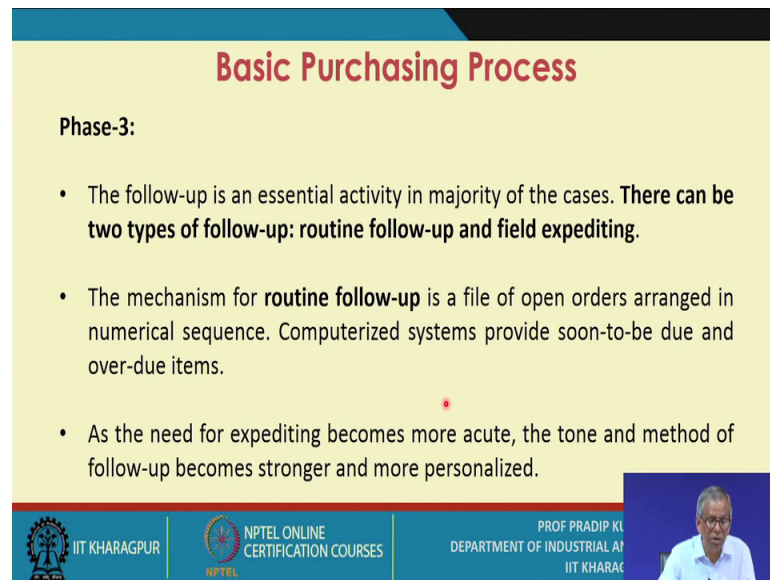
So, under these conditions, you go for or the bidding process that there may be a 2 bid system this is very, very common these days.

So, this so these 2 bids are known as the technical bid and followed by the financial bid. So, first what you need to do? That means, you invite other quotations and from the prospective with the suppliers group of suppliers. And you ask them to go for the technical bid as well as the financial bids.

Usually the supplier quoting minimum price after successfully complying with the technical requirements; that means, first you check that what extent say each bidder is able to fulfil the technical requirements as a order, as per for for the given order. And once say the that the bidder passes this test; that means, it passes through the technical bid then only the financial bid will be checked or the verified.

The purchase order is the instrument in which goods are procured to field a requirement. So, this is this is known. So, in this way we define a purchase order it expressed in specific language they agreement between the buyer and the supplier. So, this is basically the reflects or represents an agreement once accepted it has the legal force of a binding contract. So, I repeat once accepted it has the legal force of a binding contract. So, this is a very, very important document purchase order.

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The slide is titled "Basic Purchasing Process" in red text. Below the title, it says "Phase-3:". There are three bullet points. The first bullet point states: "The follow-up is an essential activity in majority of the cases. **There can be two types of follow-up: routine follow-up and field expediting.**" The second bullet point states: "The mechanism for **routine follow-up** is a file of open orders arranged in numerical sequence. Computerized systems provide soon-to-be due and over-due items." The third bullet point states: "As the need for expediting becomes more acute, the tone and method of follow-up becomes stronger and more personalized." At the bottom of the slide, there is a blue banner with logos for IIT Kharagpur, NPTEL Online Certification Courses, and a photo of Prof. Pradip K. Iyer, Department of Industrial AI, IIT Kharagpur.

Basic Purchasing Process

Phase-3:

- The follow-up is an essential activity in majority of the cases. **There can be two types of follow-up: routine follow-up and field expediting.**
- The mechanism for **routine follow-up** is a file of open orders arranged in numerical sequence. Computerized systems provide soon-to-be due and over-due items.
- As the need for expediting becomes more acute, the tone and method of follow-up becomes stronger and more personalized.

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Now, after the purchase order is sent or to or the supplier selection of the supplier is very, very important. So, we will refer to these aspects later on and you will come to know that what is the procedure you should employ for the selection of the supplier? And what are the critical issues to be considered. So, so that the selection process becomes appropriate so after the purchase order is issued to the supplier. Now, the follow up action is a must. So, what is a follow up? And that comes under phase 3.

So, the follow up is an essential activity in majority of the cases there could be you know the few cases where follow up may not be needed; that means, the understanding between the buyer and the supplier is ah. So, strong and the suppose and that the supplier is highly reliable ok. So, the best possible supplier only one those exceptional cases you may avoid say the follow up actions.

But otherwise, in general the follow up action is an essential step or an essential activity. There can be 2 types of follow up routine follow up and second one is refer to as the field expediting for the important orders ok. And a many a time you go for sole sourcing and what happens? That it was very, very important order. And so, as you do not need to take any risk of non supply at specified time so you go for the field expediting.

So so, let me first discuss the routine follow up. Now, the mechanism for routine follow up is very simple. So, essentially you create a file of open orders you if you visit any purchase department definitely this is a very common occurrence. So, it is nothing but a

file of open orders arranged in numerical sequence computerized systems provides soon to be due. So, you define soon to be due; that means, within say the next one week and overdue items; that means, already you know the delivery time is passed and due to some reasons the supplier is unable to supply the item on time.

So, you need to identify those suppliers and you have to take some actions that the actions could be of different types. So, these are referred to as overdue items so at any point, in time you must know when you go for the routine follow up. So, the how many how many items are soon to be due type? And how many items are overdue types overdue items type?

So, as the need for expediting becomes more acute; that means, there could be some critical items which are in the overdue category. So, this is so so; obviously, you know the whole situation may become very, very acute a critical situation you might face. The tone and method of follow up becomes stronger and more personalized is it. So, this is very, very important.

And one of the key features of the key factors with you judge the performance of a supplier is ah; that means, there could be some genuine reasons on genuine reasons because of which certain items may become overdue type overdue category, but how do you respond to these situations; that means, how the suppliers are are genuinely concerned about these items? So, you as a buyer must have must have a clear idea as well as a clear procedures you need to follow.

So, that the such such conditions do not repeat in future. So, some actions are required on your part as a buyer so that in future such occurrences or do not repeat.

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Basic Purchasing Process

- For **field expediting**, 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 for say, heavy construction, professional expeditor may be employed for follow-up of orders.
- As a part of follow-up, or in general condition, it may be necessary to make changes in quantity, scheduling, or specifications, or to make corrections with changes in design and business.

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For field expediting this is an important activity in any purchase department a staff of expeditors in the field is maintained; that means, in a specific area 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 suppliers plant right. So, so this is called as a field expediting particularly. For the important orders or when you go for system subcontracting. When purchasing involves long lead time and complex requirements, what is a heavy construction? Professional expeditor may be employed for follow up of orders is it?

So, this point is to be noted as a part of follow up or in general condition. Now, the normal as a situation it may be necessary to make changes in quantity scheduling or specification. So, this concept is essentially known as the change order and if there is a change order situations. So, but what extent it may affect your follow up actions or the field expediting. So, that point also should be are taken care of.

So, many a times you need to make corrections with changes in design and business the corrections in the purchase order is it ok and what is these implications on the follow up you should be aware of.

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The slide is titled "Basic Purchasing Process" in red text. Below the title, it says "Phase-4:" followed by a bulleted list of three points. The first point states that the receiving section may be part of the stores department or the purchasing department. The second point states that the receiving section acknowledges the receipt of items in a specified quantity and states the condition of goods as damaged or not. The third point states that the inspection or quality control department is responsible for accepting the order, using examination, test, or inspection methods, and that the proportion of accepted units is decided by the inspection or quality control system. At the bottom of the slide, there are logos for IIT Kharagpur, NPTEL Online Certification Courses, and a small video feed of Prof. Pradip K. Saha, Department of Industrial AI, IIT Kharagpur.

Basic Purchasing Process

Phase-4:

- The receiving section may be a part of stores department, not necessarily a part of purchasing department.
- Receiving section acknowledge the receipt of the items in specified quantity. Condition of goods, damaged or not, is stated.
- The inspection or quality control department is responsible for accepting the order for which examination, test, or inspection method is used. Out of the total number of units received, proportion of accepted number of units is decided by inspection or quality control system.

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During phase 4 the receiving section may be a part of stores department not necessarily a parts part of purchasing department so; that means, in the during phase 4, what do you what do you do actually you start receiving the items? So, what you will find in majority of the cases? That the stores department has a receiving section.

So, the purchase department has a close interaction with the stores department particularly the receiving section of the stores. So, the receiving section acknowledge this the receipt of the items in specified quantity. The condition of goods damaged or not is stated ok. So, this is ah; that means, the receiving section means is received items in quantities not while you receive certain items in the stores department it does not necessarily mean that a that the other the items or say the particular lot is accepted.

So, inspection or the quality department quality control department is responsible for accepting the order. So, there is a difference between the receiving and accepting. So, inspection department is responsible for accepting the order for which examination test or inspection method is used out of the total number of units received. Proportion of accepted number of units is decided by inspection of the quality control systems; that means, out of say 1000 units received how many are accepted.

So, this is say 990 are accepted or 900 are accepted this is basically the responsibility of the quality control and inspection department. So, either these inspection department or

quality control department may be stationed at the receiving section of the stores or they may be stationed at the using department.

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The slide is titled "Basic Purchasing Process" in red text. Below the title, it says "Phase-5:". There are two bullet points: "During this phase, the invoice is received, and based on the actual number of accepted units as reported by inspection or quality control department, the payment is made to the supplier." and "Against an order, there is a credit period, say 30 or 45 days. It is desired that payment to the supplier is made within the credit period as stated in the purchase order document." The slide has a yellow background. At the bottom, there is a blue banner with logos for IIT KHARAGPUR, NPTEL ONLINE CERTIFICATION COURSES, and a small video feed of Prof. Pradip K. Saha, Department of Industrial Engineering, IIT KHARAGPUR.

Basic Purchasing Process

Phase-5:

- During this phase, the invoice is received, and based on the actual number of accepted units as reported by inspection or quality control department, the payment is made to the supplier.
- Against an order, there is a credit period, say 30 or 45 days. It is desired that payment to the supplier is made within the credit period as stated in the purchase order document.

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In 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 is it ok.

So, this is basically it deals with the payment against an order there is a credit period, as I already pointed out that when you talk about industrial purchasing we it is essentially a credit purchase. And so, in the transforms and the conditions transform agreement as you reach as a buyer, you reach with the supplier now this credit period is mentioned.

So, in certain cases it could be 30 days in many cases it could be 45 days. So, it is a part of the agreement so it is desired that the payment to the supplier is made within the credit period as stated in the purchase order document. So, this is an important issue.

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Basic Purchasing Process

- We need to study the existing purchasing procedure to find out the problems with the existing system. These problems may be manifold: many high-cost low-value transactions, duplication of effort, unnecessary and time-consuming paperwork, lost shipments, no volume-buying benefits, and no professional approach.
- To simplify and improve purchasing procedure, a condition of minimum number of 'control points' is to be ensured.
- A typical improved purchasing procedure with minimum number of control points is presented.

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And your purchase system should be such that that you are able to you know make the payment within the credit period.

So, that it will have a direct impact on the relationship between the buyer and the supplier and when you talk about the implementing the sole sourcing concept; that means, we say that there must be a long standing relationship between the buyer and the supplier.

And if you if you maintain this the long standing say the reliable relationship with your supplier it may so happen that, many a times suppose for a particular reason. You are unable to say they make the payment within the credit period specified ah. So, the supplier may accept extending your request what extending the credit period.

So, we need to study the existing purchasing procedure to find out the problems with the existing systems. So, you know the no purchasing system can be 100 percent perfect. So, always there is a scow for improving the purchasing or the process. So, what is important is that you need to assess as a system analyst, you must be able to assess the existing the purchasing procedures or the purchasing process.

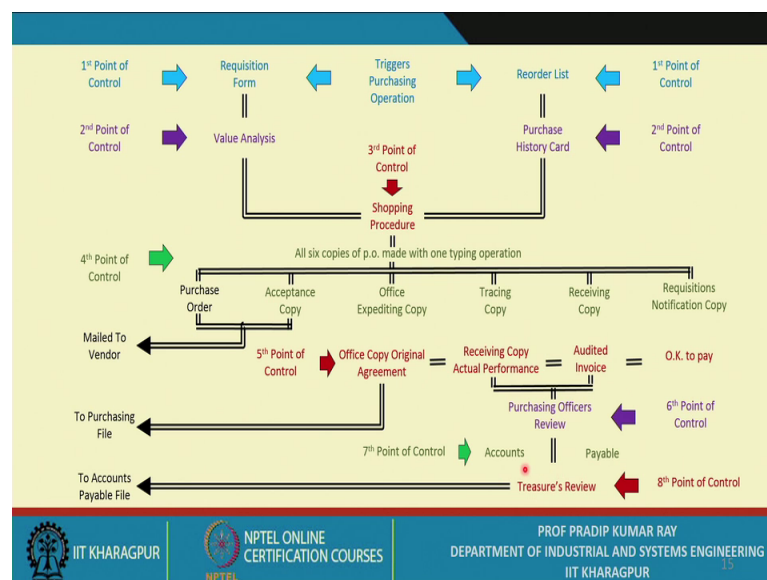
So; obviously, when you start assessing the existing process the problems with the existing system you must be aware of now, these problems may be manifold. There are many types of problems you might phase many high cost low value transactions. So, this

point is to be noted how many transactions are of this type duplication of effort unnecessary and time consuming paperwork.

So, that is why many a time you try to opt for a feasible alternative in the form of a computerized system. And the paperless system sometimes we mention the loose lost shipments. This is an important problem is a very critical problem no volume buying benefits.

So, you strip to the rule, but you may must be able to create a system which is flexible and no professional approach to simplify an improve purchasing procedure a condition of minimum number of control points is to be ensured atypical improved purchasing procedure with minimum number of control points.

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Now, I will present to you now this is this way you create; that means what is the control point? Control point means that it a point or a situation where the manual intervention is required? That means, certain decisions you have to take and this is a subjective decision.

So, intervention is required so when you study when you assess a particular say the purchasing the process. Now, this purchasing process must be represented with number of control points like for example, when you study a particular purchasing process. You may come across some 15 or 16 control points. So, immediately you may conclude that

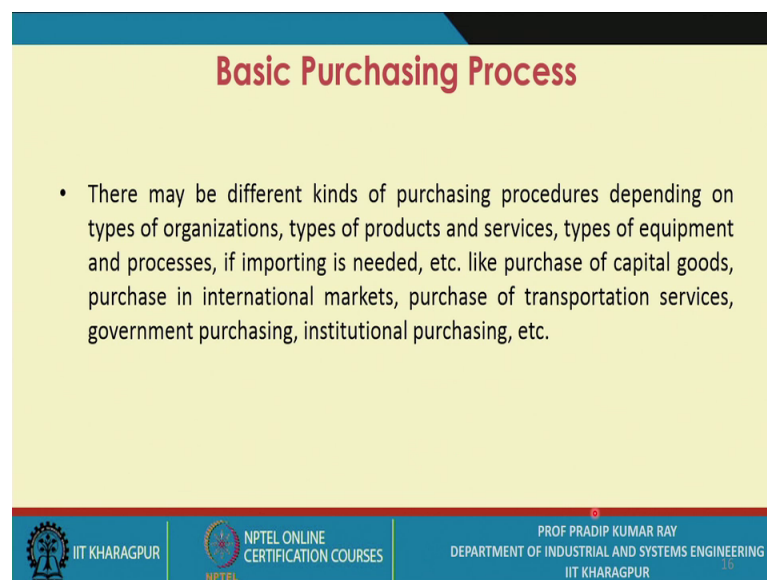
as the number of control points is more; that means, your purchase system is very, very complex.

So, you try to improve the purchase procedures or the purchasing say the process and with improvement you might get such a process or such a procedure. So, here you just a study this particular purchasing process where you have just 8 points of control. So, this is the first point of control we have identified all these points of control.

Second this is the second point of control; that means, the value analysis part. This is the shopping procedures that is the third point of control at the 4th point of control you have you know how many you know the copies of purchase orders you will be sending to the different say the departments or the sections.

Then at the you know the 5th point of control you have ah. So, these here is another the 5th point control at the when you review as a purchasing officer the all the all the copies of the purchase orders and then, here you have the 6-point control this is the second 7th point of control; that means, is the control imposed by the accounts departments at which part is payable. And which part is not and at the 8 points of control the tracers review ok.

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Basic Purchasing Process

- There may be different kinds of purchasing procedures depending on types of organizations, types of products and services, types of equipment and processes, if importing is needed, etc. like purchase of capital goods, purchase in international markets, purchase of transportation services, government purchasing, institutional purchasing, etc.

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So, this way you can represent the entire purchasing process. So, there may be different kinds of purchasing procedures depending on the types of organizations types of products and services types of equipment and processes. If importing is required or

needed import like purchase of capital goods a many a time for many Indian organizations.

For purchase of capital goods you need to go for importing. So, for the import the process say you must know and the impend and import related terms and terminologies like the CIF. The bill of lading etcetera you should be aware of purchase in international markets purchase of transportation services government purchasing institutional purchasing etcetera.

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Basic Purchasing Process

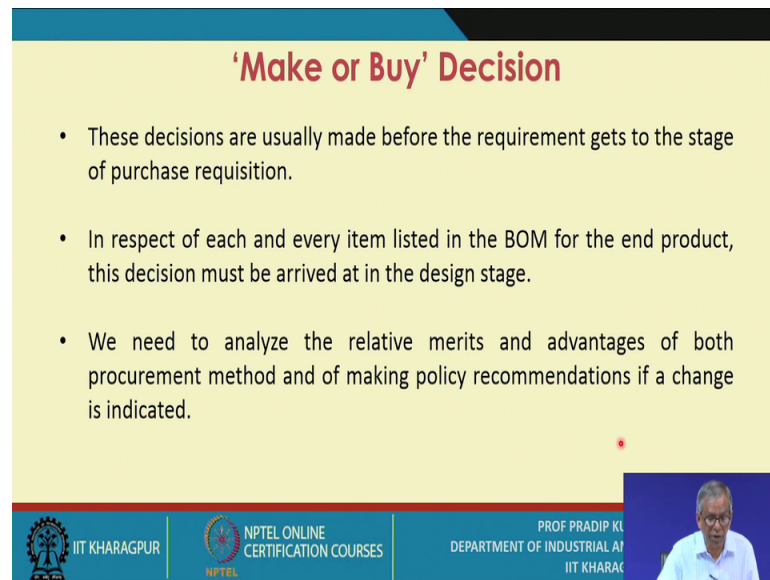
- There may be blanket order (for MRO items), or open-end order and yearly-order system of purchase. A more advanced form of purchasing is known as 'system contracting' where, as an example, the entire workunit or a plant is to be subcontracted as an order to a specific supplier company or an individual supplier to construct the plant at the buyer's workunit as per specifications with raw materials and other resources provided by the buyer or the buyer company.

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So, there may be blanket order for the MRO items or open end order or yearly order system of purchase a more advanced form of purchasing is known as systems subcontracting. Where as an example, the entire work unit or a plant is to be subcontracted as an order to a specific supplier company or an individual supplier to construct the plant at the buyer's work unit as for the specifications with raw materials and other resources provided by the buyer or the our company.

So, this is also a type of purchase, but this is special type of purchase known as a steps contracting or a steps subcontracting.

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'Make or Buy' Decision

- These decisions are usually made before the requirement gets to the stage of purchase requisition.
- In respect of each and every item listed in the BOM for the end product, this decision must be arrived at in the design stage.
- We need to analyze the relative merits and advantages of both procurement method and of making policy recommendations if a change is indicated.

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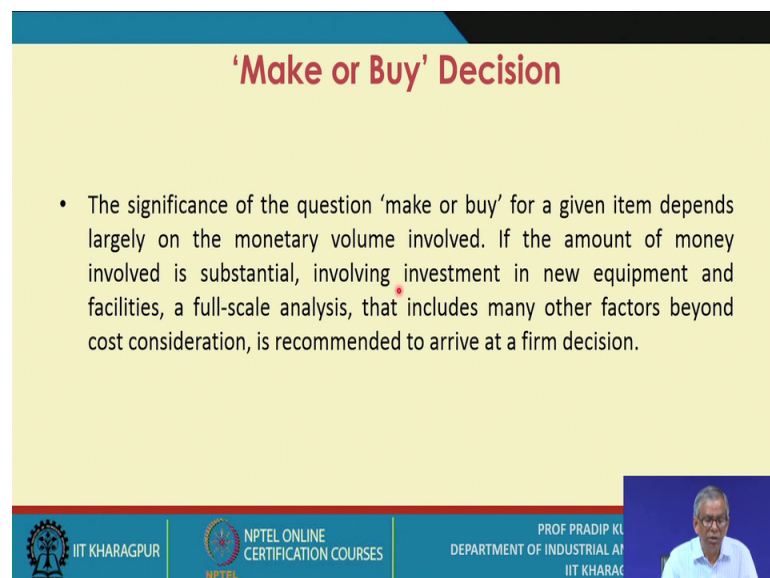
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So, these so now, the before you go for purchase. Now, the make or buy decision is a must; that means, when you go for or say the purchase of an item; that means, that item is included in the bill of materials and you have decided to ah. So, the buy this item you are not making it with your own facilities with own manufacturing systems.

So, so, this is very important decisions and the we will we will explain these make of buy decisions in detail in our lecture. Next lecture sessions so I hope that we are able to identify you know by the several important issues related to purchasing process.

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'Make or Buy' Decision

- The significance of the question 'make or buy' for a given item depends largely on the monetary volume involved. If the amount of money involved is substantial, involving investment in new equipment and facilities, a full-scale analysis, that includes many other factors beyond cost consideration, is recommended to arrive at a firm decision.

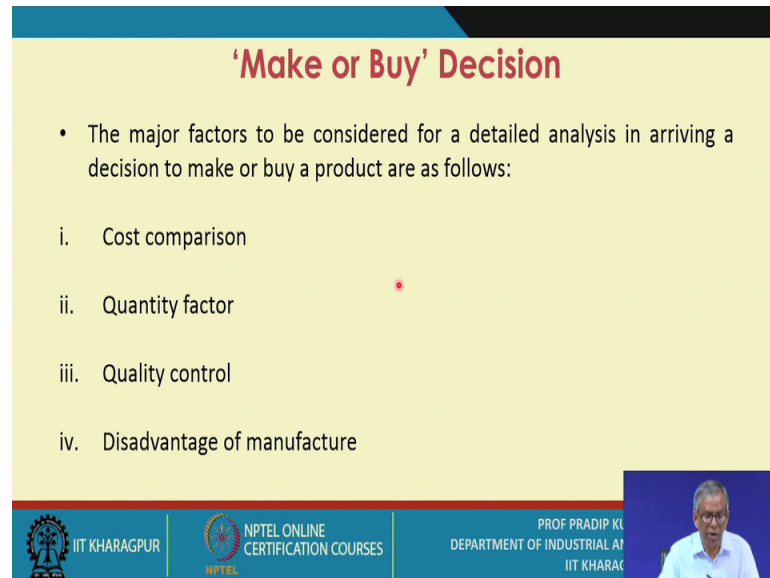
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So, one thing you should be aware of; that means, all the significant operations while you go for purchasing you should be aware of and you should be aware of what are the critical factors determining the efficiency and effectiveness of a purchasing cycle?

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'Make or Buy' Decision

- The major factors to be considered for a detailed analysis in arriving a decision to make or buy a product are as follows:
 - i. Cost comparison
 - ii. Quantity factor
 - iii. Quality control
 - iv. Disadvantage of manufacture

The slide features a yellow background with a blue header and footer. The title is in red. The list is in black. A small red asterisk is next to 'Quantity factor'. The footer contains logos for IIT Kharagpur and NPTEL, and a video inset of Prof. Pradip Kumar.

So, I conclude this session and in the next lecture sessions, during this week I will go for discussing in detail the concept of make or buy decisions.

Thank you.