



THE ROLE OF PURCHASING IN BUSINESS

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ABSTRACT

Purchasing may be defined as the activities involved in the acquisition of a unit's right inputs in the right quantity, at the right time, from the right source, with the right services, and at the right price. As that function responsible for obtaining by purchase, lease or other legal means, equipment, materials, supplies and services required by an undertaking for use in production. According to Lamar and Dobler, (1983:3) there are two basic types of purchasing in the business world: purchasing for resale and purchasing for consumption or conversion. Purchasing for resale is performed by merchants and speculators. From the beginning of time, purchasing for resale has been the prime responsibility of merchant. The quest for goods to sell was the motivation force that led to the discovery of new time dealing with sales problems, but they devoted by far the largest portion of it to the search for suitable of new and desirable materials. The basic problems of the merchants have not changed. Following the techniques of their predecessors, today merchants ascertain what consumers want, buy it at a price to which they can add profit (mark – up), and sell it to the consumers' satisfaction, as to quality and service. Merchant and procurement officers must decide what their customers want and they must buy what is wanted at a price which will permit resale at a profit. Is it the managing Director, the Board of Directors, the General manager or a group of Persons charged with the day- to-day running of the business. In any progressive business venture there must be a person who in the final analysis should assume responsibility for decision making. In any given Society, authority is necessary to enable the affairs of the society to be run efficiently and effectively. Authority is required to get things done, to make decisions and choose which of the many numerous ways of carrying out a job or an assignment should be adopted. Except in abnormal cases of managerial genius, no single person can perform the job, assume absolute responsibility for making decisions. The need arises, therefore, for team work and pooled judgment. Pooled judgment means, in effect, the combined efforts are reasoning of a group of persons particularly qualified to perform the essential basic functions of a business.

These group of specialists include the chief production Engineer the sales manager, the chief Accountant and the purchasing manager. The purchasing manager is being put in a conspicuous position because it has been acknowledged that a manufacturer cannot make and sell his products in a competitive market unless the production materials from which his products are made, and which represent about two-thirds of his total product cost have been procured efficiently in terms quality, quantity and reduced cost. This is why the purchasing manager himself constitutes the integral part of management. In broad principle, industrial purchasing acquire more specific significance when manufacturing costs are carefully analyzed. In the average of all manufacturing enterprises, more than two- third of income received from sales is used for the purchase or materials, and equipment required to produce the goods. Production reports of various manufacturing industries consistently show that purchases are the largest single factor of industrial costs in many cases are larger than all other factors put together. In view of this, the purchasing activity call for the serious attention of management. In majority of manufacturing enterprises, materials costs can be as high as 60 percent of total product cost. In such cases, purchases may range widely beyond this limit and as high as 82 percent depending on the types of business and the kind of materials used. Most mass production industries come within the latter category. This situation is similarly applicable to assembly operations where product component are purchased in highly fabricated form and have thus acquired advalorum in the previous stages of fabrication before its purchase. On the other hand, where the product is not manufactured from materials purchased but comes from natural deposits such as the case with extractives industries - mining, quarrying and oil wells - the purchase ratio is comparatively low. Manufacturing industries which require highly skilled and a large percentage of labour invariably require smaller quantities of materials which normally show purchases as a relatively smaller percentage of total cost. Also in service industries such as laundry and dry-cleaning where after the basic facilities have been installed, supplies are mere incidental means of implementing services, purchasing will be relatively low as a percentage of operational activity. This is due to mechanization and the growing trend towards specialization in manufacturing. Lamar and Dobler (1983:35) contend that the basic goal of any industrial activity is the development and manufacture of products that can be marketed at a profit. This goal is accomplished by the appropriate blending of what many management authorities call die five Ms: machines, men, materials, money and management. Materials today are the lifeblood of industry, No industrial organization can operate without them. They must be available at the proper time, in the proper quantity, at the proper place, and at the proper price. Failure of any of these responsibilities concerning

materials adds to company costs and decreases company's profit just as surely as do outmoded production methods, inefficient personnel and inefficient sailing.

KEYWORDS: *Materials, Support, Supply, Demand, Company, Services, Quality, Dublication, Objectives, Continuity, Maintain, Price, Simple Records, Order, Programme, Industry, Operation, Basic, Concerned, Competitive, Avoid, Flow, Standard, Meet.*

INTRODUCTION

Objectives of Purchasing

- (i) To Support company operations with an uninterrupted flow of materials and services.
- (ii) To maintain standard of quality in materials, bearing in mind the Stability of such materials.
- (iii) To avoid duplication waste and obsolescence of materials.
- (iv) To maintain continuity of supply so as to maintain manufacturing schedules.
- (v) To keep a minimum of investment in materials inventor consistent with economic advantage and safety.
- (vi) To purchase materials at the lowest competitive cost consistent with quality and services.
- (vii) To conserve the company's profit position as far as materials costs are concerned.
- (viii) To maintain the company's competitive position within the industry.

LITERATURE REVIEW

The operation of a purchasing departments in order to meet all its responsibilities, involves a number of varied assignments which are both administrative and specialized in nature.

The following are some of the basic assignments of a simple purchasing programme:

The Basic Assignments or A simple Purchasing Programme:

- i) **Basic Information:**
 - Maintaining purchase records;
 - Maintaining price records;
 - Maintaining stock and consumption records;
 - Maintaining Vendors records;
 - Maintaining specification records, and

- Maintaining catalogue folders.

ii) Purchasing

- vi. Checking requisitions;
- vii. Securing quotations and analyzing quotations;
- viii. Deciding on contract or open market purchases;
- ix. Scheduling purchases and deliveries;
- x. Interviewing of salesmen and negotiating contracts;
- xi. Issuance of purchase orders;
- xii. Investigating legal conditions of contracts, following up for
- xiii. Deliveries;
- xiv. Checking receipt of materials;
- xv. Verification of invoice;
- xvi. Correspondence with vendors; and making necessary
- xvii. Adjustments with vendors.

iii) Materials Management

- Maintaining minimum stock;
- Maintaining inventory balance;
- Improvement of inventory turnover;
- Transferring and consolidation of material requirements;
- Prevention of excess stock and obsolescence;
- Standardizing packages and containers;
- Accounting for returnable containers, and making periodical
- Reports of commitment.

iv) Research

- Investigating supply sources;
- Developing supply sources;
- Developing alternate sources and materials exact substitutes;
- Market studies;
- Material Studies;
- Cost analysis, and
- Inspection of suppliers plants.

Essential Nature of Inventory Control

The Importance of adequate Control of Inventories

The determination of the proper quality of materials to be procured is a basic question which procurement should resolve. Another major problem which also concerns procurement is the amount of inventory which should be carried at a time. The importance of adequate control of inventories, (raw materials, partly fabricated items, goods in process and installed goods) has become to be acknowledged in greater degree.

The experience gained from the material shortages of the first World War, the business collapse of the 1920s due to excessive inventories in business the profitable prosperity of the late twenties, the depression of the 1930's and the problems of procurement during the Second World War have contributed immensely to the better understanding of the problems and the importance of sound inventory policy.

Functions of Production Department

The production department is;

- (a) To set the materials usage schedule,
- (b) To determine when certain materials will be used, and
- (c) To specify the rate of consumption.

Steps of Procurement Procedure

- vi. The ascertainment of needs
- vii. An accurate statement of the character and amount of the article or commodity desired.
- viii. The transmission of the purchase requisition.
- ix. Negotiation for possible sources of supply.
- x. The analysis of the proposals, the selection of the vendor, and placing of order.
- xi. The follow up of the order,
- xii. Checking of the invoice,
- xiii. Receipt and inspection of the goods.
- xiv. Completion of the records.

The Fundamental Meaning of Inventory Management

It is necessary therefore that a good business will determine and maintain an adequate inventory commensurate with its volume of production which can yield the highest possible return on the total business asset. This is, in fact the fundamental meaning of inventory management.

Considerations in Planning Inventory Management

Inventory management decisions will be based on the best answers to the following seven questions:

- a) How much should be ordered?

- b) When should an item be ordered?
- C) How much of a speculative risk item to be purchased?
- d) How much should be purchased when there is the possibility of a price increase?
- (e) When should the benefit of a quantity discount or freight allowance be taken by increasing quantity to be purchased?
- (f) What are the non-profit making items?
- (g) At what minimum price must surplus inventory be sold?

CONCLUSION AND RECOMMENDATIONS

Classes of Inventory

Raw Materials and Bought-Out Parts

This is recognized as a class of inventory or stock of raw materials such as steel, containers, coppers, (tyres and tubes etc.) which are purchased components or spare parts waiting further processing or assembly.

Work-in-Progress or Process

This includes parts in progressive stage of completion. It may include materials already issued from stores and conditioned suitable for introduction into the machine, materials in various stage of processing, and parts or assemblies awaiting final acceptance after inspection.

This includes units of manufactured products already inspected and certified fit for its ultimate use or purpose and are awaiting sale or consignment.

Supplies

These includes expendable items such as tools, cleaning materials, gloves; and consumable articles such as lubricants, stationery, etc. they are all commonly referred to as "MRO" (Maintenance, Repairs and Operating supplies) or supplies.

The above classes are not fixed or exhaustive since the broad classifications and constituents of inventory will vary with the particular industry.

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