



## CHAPTER 5

# PURCHASING

### LEARNING OBJECTIVES

After completing this chapter learners would be able to:

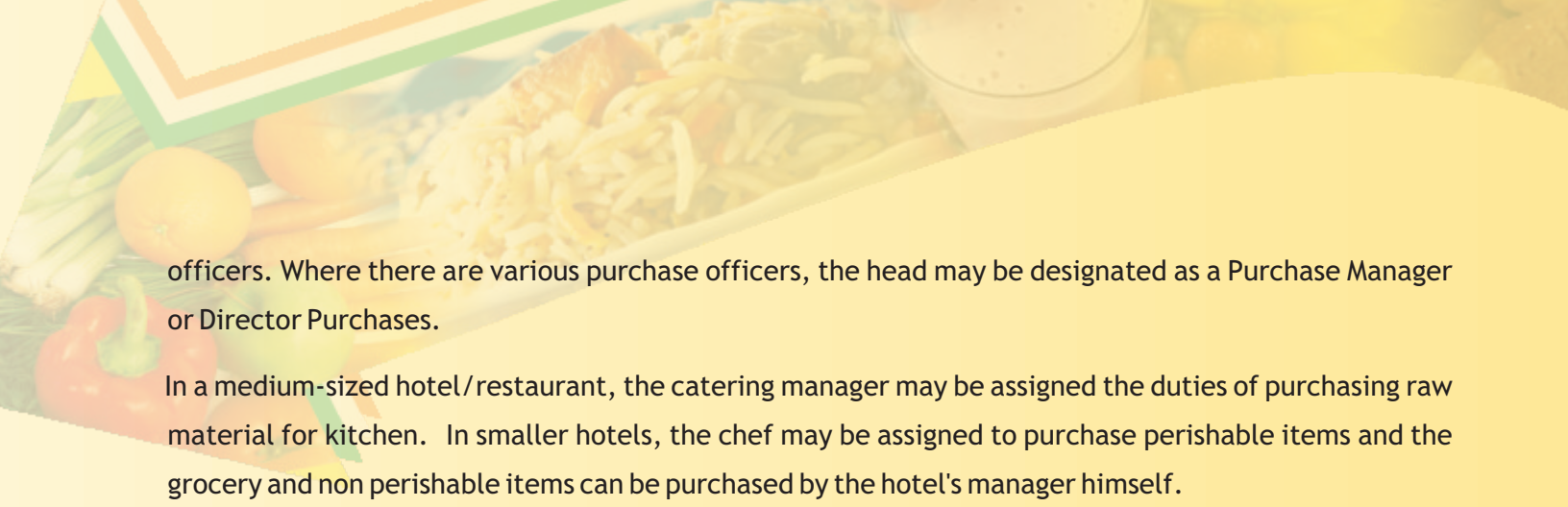
- (i) Importance of purchase officer
- (ii) Definition of Purchasing
- (iii) The qualifications of Purchase officer
- (iv) Aims of purchase officer.
- (v) The procedure for purchasing.
- (vi) Purchase requisition and purchase order specification.
- (vii) How to select supplier.
- (viii) Methods of purchasing.
- (ix) Standard Purchase Specification (SPS)

### GUIDE TO BETTER LEARNING:

1. Purchase officer and his/her importance.
2. Qualification and duties of purchase officer.
3. Purchasing procedure
4. Methods of purchasing
5. Standard purchase specification

#### I. PURCHASE OFFICER AND ITS IMPORTANCE:

The person who heads the staff that is responsible for food purchase of food, is designated as Purchase Officer / Manager. The designation of the head of purchase department may differ depending upon the type and size of establishment. In a large hotel or a chain of hotels there might be specialized purchase officer for purchasing meat, poultry, fish, fruits and vegetables, groceries, alcoholic beverages, soft drinks. In fact for purchasing beer, wine, spirit, liquor, etc. a large hotel may hire different specialized



officers. Where there are various purchase officers, the head may be designated as a Purchase Manager or Director Purchases.

In a medium-sized hotel/restaurant, the catering manager may be assigned the duties of purchasing raw material for kitchen. In smaller hotels, the chef may be assigned to purchase perishable items and the grocery and non perishable items can be purchased by the hotel's manager himself.

**a) QUALIFICATIONS:**

Keeping in view the importance of purchase for controlling both the cost and quality of production, it is essential for the purchase officer to be properly qualified, trained and experienced. He should be well informed about the mercantile law, economics, accounting, marketing, inspecting the quality. He may also take the help of Chef wherever possible or desired. The integrity of the purchase officer is quite important. He should have a good vision, analytical judgment of values and an ability to co-operate and communicate clearly with one and all.

**b) DEFINITION:**

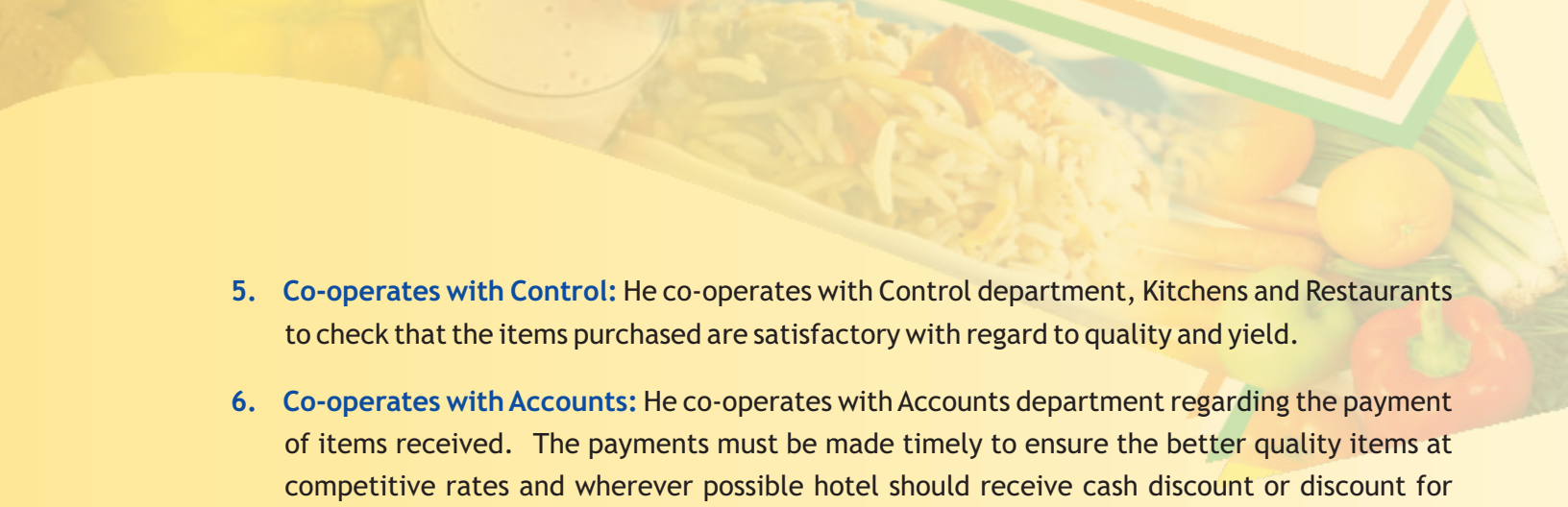
Both cash and credit purchase of goods made for the operation of business (raw material in case of restaurant used for preparing the dishes) is termed as purchases.

**c) AIMS AND OBJECTIVES OF PURCHASING:**

The aims of Purchase Officer will differ from establishment to establishment.

Broadly the following should be his aims / objectives:

- 1. Regular Supply:** It must be ensured by the Purchase Officer that the food and beverages of the right quality and quantity must be supplied to the hotel regularly. The orders should not be cancelled due to non availability of basic raw material.
- 2. Co-ordination:** Purchase Officer should co-ordinate with receiving department, stores, cellars so that the goods ordered are received in right quantity and quality and are stored properly.
- 3. Economical and Better Quality:** The Purchase Officer must always try to find out the new suppliers who can supply better quality and comparatively cheaper items. Every penny saved in purchasing increases profit of the hotel.
- 4. Co-operates with Kitchens:** He co-operates with Kitchens to standardize commodities, so as to keep stock levels as low as is efficiently possible.

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5. **Co-operates with Control:** He co-operates with Control department, Kitchens and Restaurants to check that the items purchased are satisfactory with regard to quality and yield.
  6. **Co-operates with Accounts:** He co-operates with Accounts department regarding the payment of items received. The payments must be made timely to ensure the better quality items at competitive rates and wherever possible hotel should receive cash discount or discount for early payments.
  7. **Report to Management:** He briefs the management regarding his department's activities and discusses regarding the policy formation for his department.
  8. **Purchasing Research:** The Purchase Officer as far as possible delegate the routine purchasing to his subordinates and he must make research regarding the purchase price of various items, prepare budgets and compare the purchase cost (cost of production) with selling price and ensure that it is as close to the budgeted cost as possible. The quality of item purchased should give the maximum yield to the hotel and there should be negligible loss in storing, cooking and serving. In India the food cost is the major single cost of the food sold in majority of the catering establishments.

## II.

### THE PURCHASING PROCEDURE:

#### PURCHASING PROCEDURE HAS THE FOLLOWING STAGES:

1. Kitchens, Restaurants, Bars, etc send their requisitions to the store and stores intimates purchase department regarding the requirements. The procedure and specimen for making requisition slip can be seen in the chapter 'Storing and Issuing Control'.
2. Purchase officer makes the final list of items to be purchased and decides the department / supplier from whom to purchase and the quantity and quality required.
3. Either he places order on telephone and sends the purchase order later or the order is placed against purchase order. A copy of the purchase order is marked to stores department so that stores can receive the items as per the purchase specifications.
4. The goods are received along with the supply order by the receiving department. The receiving department checks the quality, quantity, weight etc. and check the purchase order and supply order. After ensuring the right quality and quantity the purchase officer (Who?) receives the goods by signing the supply order and returns the copy of supply order to the supplier. A copy of the supply order is also sent to purchase department and accounts department. The supplier sends the bill along with a supply order and purchase order to accounts department for settlement of the bill.

5. The goods are transferred to Stores. The stores receive the goods; enter in the stores and supplies to the respective departments.

### PURCHASE REQUISITION

Number ..... Date .....

Cost Center.....

Required by.....Checked by..... Approved by .....

### ABC HOTEL PURCHASE REQUISITION


Please purchase for .....department.

Required on .....

Item No.	Code No.	Description	Quantity Required	Remarks

Required by ..... Checked by ..... Approved by .....

Issuing Department				Purchase Department		
Item No.	Balance available	Daily / Monthly Consumption	Quantity Required	Purchase Order No.	Supplier	Delivery Date
Store Keeper.....				Purchase Department.....		



## Specimen of Purchase Order

### Purchase Order

Date: 10.02.2007

ABC HOTEL

No. 56765

Ref: No ABC/07/45456 New DelhiPhone: 34543456

To: XYZ

The Connaught Place

New Delhi.

Please enter our reference number on supply order and bill

Quantity	Particulars	Rate		Total	
		₹	P	₹	P
100Kg	Almonds Type '6'	190	-	19,000	-
250Kg	Pistachoo Type '8'	180	-	25,000	-
	Total			44,000	-

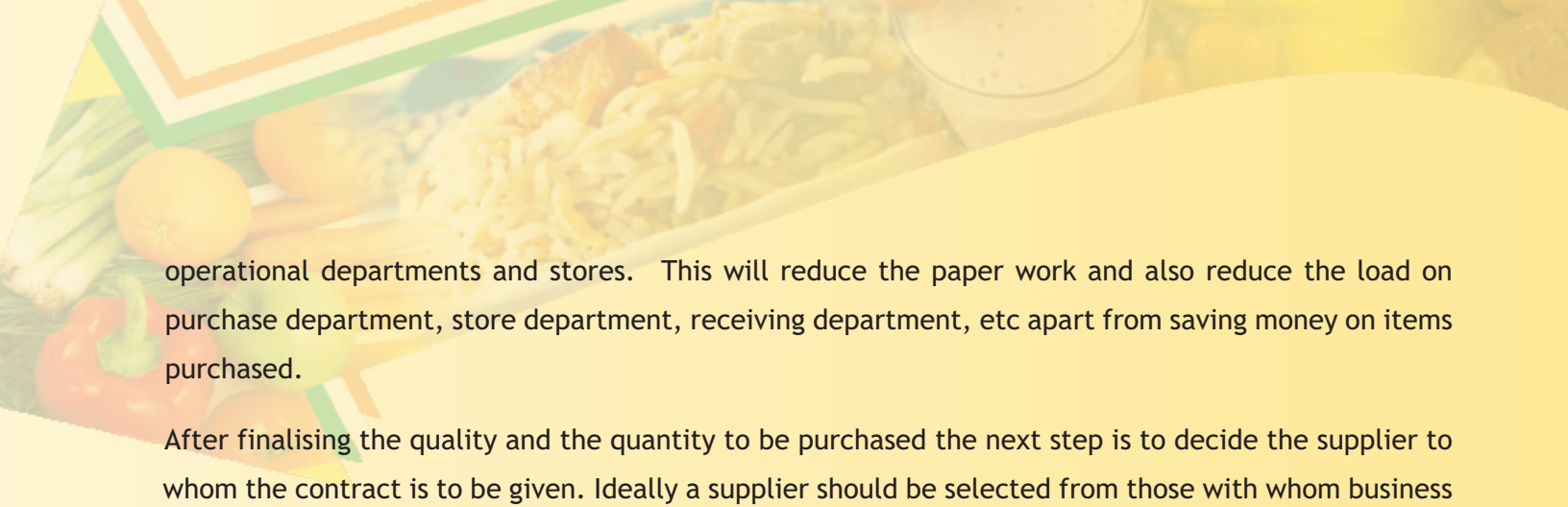
The acceptance of this order is an acceptance of all conditions herein.

Signature  
Purchase Officer  
For ABC Hotel

### III. Selection or Supplier:

After receiving the requisition form from Kitchens, Restaurants, Bars, etc. the Purchase Officer decides the quantity to be purchased after referring to the stock with the help of Bin Card. If the management has a policy to procure non perishable items for the whole month in order to get discount for volume purchasing then the purchase department forecasts the whole month's requirement after consulting the





operational departments and stores. This will reduce the paper work and also reduce the load on purchase department, store department, receiving department, etc apart from saving money on items purchased.

After finalising the quality and the quantity to be purchased the next step is to decide the supplier to whom the contract is to be given. Ideally a supplier should be selected from those with whom business has been done before, as this will ensure the receipt of right quality of goods ordered. Before placing order with the new supplier, it is important to check the credentials of supplier and his ability to supply regularly at competitive price the right quality of products.

**The following information should be taken from a New Supplier:**

**1. Full details of the firm:**

The complete detail of the firm, head office, financial position, banker's name, previous year's balance sheets, details of other customers, etc. should be collected.

**2. Price List:**

The recent price list along with the terms for discount should be collected. This should be compared with other prospective suppliers.

**3. Payments:**

The terms of payments, modes of payment, etc. should be checked and compared with other prospective suppliers. This should also include the terms regarding cash payment and the credit terms and period offered by the supplier.

**4. Visit to the Supplier:**

A visit to new suppliers is also necessary, as the claims of sales men as to the size of supplier, its storage facilities and transport should also be checked, as well as the attitude of the supplier to new customers.

**Number of Suppliers:**

Hotel must have a list of various suppliers for each type of product purchased. The suppliers list should be rated depending upon the their performance. The old suppliers whose goods are rejected or returned due to poor quality or packaging should be black listed. Orders should not be placed with suppliers who delay in the supply. The suppliers should be intimated about the reasons for not placing orders with them as this will ensure the timely supply of goods and that too in good quality.



#### IV. Methods of Purchasing:

The true cost of an item is different from the printed price of the same item. The true costs incurred will be the invoice price less discounts. Carriage inwards, packaging, insurance, forwarding cost, etc is to be added to this price. In case of purchase of heavy equipments, it would include the installation cost is to be added.

#### The following are the methods of purchasing:

1. Contract Purchasing
2. Purchasing through Quotations
3. Cash Purchases
4. Purchasing through Tenders
5. Centralised Purchase
6. Periodical Purchase

#### 1. Contract Purchasing:


The 'contract' means when the buyer and seller signed a contract to supply the certain quantity of item or to supply approximate quantity of item for a certain period. The Contract Purchasing can be of two types:

##### a) Specific Period Contract:

The contract which covers a specific period is called Specific Period Contract. This can be for a short term, medium term or a long term contract. The short term contract can be for one month to three months, the medium term contract can be for three to six months and long term contract can be for one year. The price of the item will remain same for the contract period irrespective of market price. Usually vegetables, fruits, milk, cream, meat, chicken, fish, etc. are purchased on contract basis. This helps management in fixing the menu price and maintain a certain food cost. The fluctuation of market price does not affect the purchase cost as the price of the items is fixed at the beginning of the period. This also helps purchase officer in saving unnecessary time and labour by having weekly negotiations and additional paper work.

##### b) Specific Quantity Contract:

The contract is signed to supply a certain quantity of item in a specific period. This is very useful when



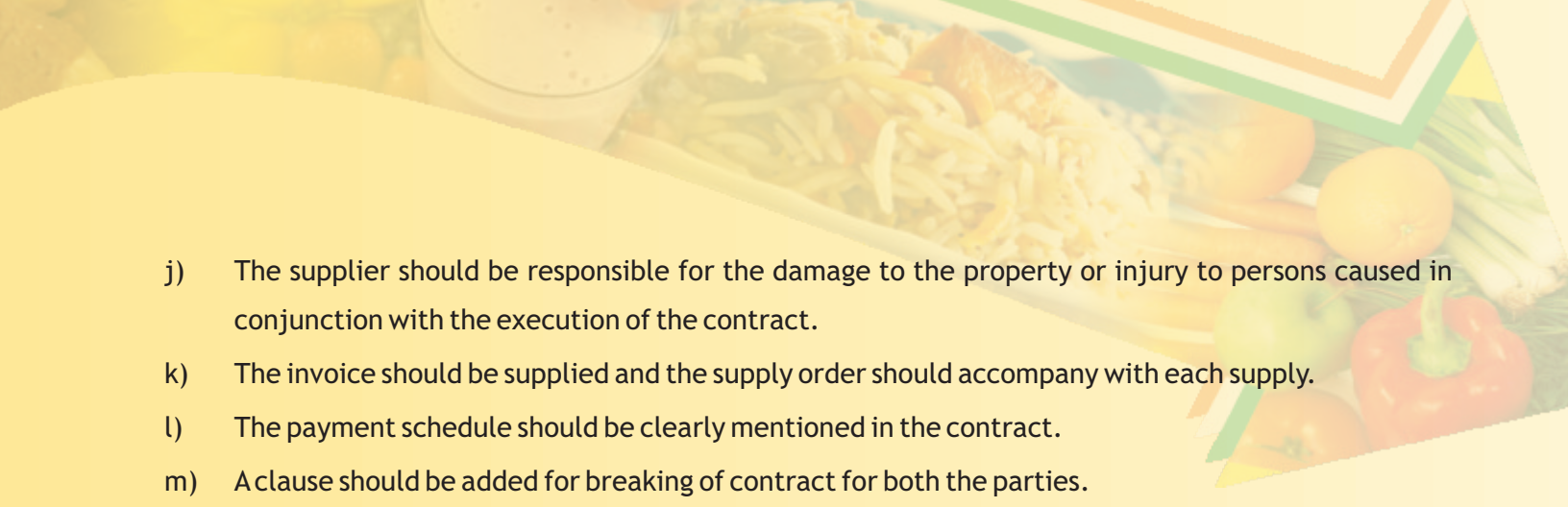
management has signed a contract to supply a certain quantity at a specific price. The management signs the similar type of contract with its supplier. This ensures that the price of the product management has to supply does not run over the cost of production and hence a reasonable percentage of profit is ensured. For example a management signs a contract to make a building and charge certain money per square feet of construction. Management signs a contract with the building material supplier to supply bags of cement, steel, and other material at a specific price and this ensures that the cost of building does not go beyond the contract price. In case of purchase of certain items like frozen sea food, vegetables, fruits, etc. the contract is signed to supply a certain quantity of item, but there is no needs to buy the contracted quantity at one go, this can however be purchased on weekly basis. This ensures the safeguarding of continuity of supply and that a known and stable price has been agreed upon. The hotel would not be required to take delivery of the total contracted quantity at one time but, depending on the need, would take delivery every week.

A contract is a legal document and should be drawn up with care. The help of professionals should be taken, if so desired.

**A contract should include the following clauses:**

- a) The Period of the contract.
- b) The price of the items to be purchased for the contracted period.
- c) The estimated quantity to be purchased. A clause should be added for change in the quantity to be purchased. This will avoid legal hassles in case the quantity desired slightly varies with the contracted quantity.
- d) The specification of the item contracted should be clear and measurable.
- e) In case of inferior quality the supplier must replace at his own cost.
- f) In case of default in supplying the required quantity and quality, the hotel must be empowered to purchase from the open market and should be compensated by the supplier for all costs incurred.
- g) In case of dispute, the dispute should be settled through local court or through independent body.
- h) The bribing, in any form, to any of the employee should not be allowed and in case it comes to light then the contract can be cancelled and any security paid will be forfeited.
- i) The place of delivery, mode of delivery, time taken for supplying should be clearly mentioned in the contract.



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- j) The supplier should be responsible for the damage to the property or injury to persons caused in conjunction with the execution of the contract.
  - k) The invoice should be supplied and the supply order should accompany with each supply.
  - l) The payment schedule should be clearly mentioned in the contract.
  - m) A clause should be added for breaking of contract for both the parties.
  - n) The security to be deposited along with the contract and the security will be refund after the contract is over.

These clauses are often printed on the back, of the contract period and while signing the contract it is written on the face of the contract; that we have read, the clauses of the contract and agree upon them.


#### **V. Purchasing through Quotations:**

This form of purchasing is particularly used for perishable items like fruits, vegetables, milk, eggs, bakery products, etc. The supplier at times does not want to sign a contract to supply a certain item at a fixed price for a certain period then this method of purchasing becomes popular. The quotations from different suppliers for certain items are collected and the quotations are compared and the competitive supplier is placed order either for all the items for which he has offered quotation or a part of the items are ordered to one supplier and remaining items can be ordered to the other supplier.

#### **VI. The following are the different type of quotations:**

##### **a) Daily Quotation:**

The Chef / the Store keeper takes the inventory and decides the quantity of perishable items required for the day and intimates its requirement to the purchase department, either every day in the morning or a day before, in the evening. While preparing the requisition for the day, the house count, day's function list along with menu and the number of expected guests is considered. The purchase officer either checks on the phone the quotations of each item required or he goes to the market and collects the quotations personally. After comparing the rates he places the order. Usually management pre fixes the suppliers list and the purchase officer is required to approach only the listed suppliers for quotations. It is the management policy, whether to purchase all the order from one supplier after bargaining the price or to place the order with different suppliers who quote the minimum price of each item. Some times management wants to place order with various suppliers so that in case of scarcity the supplies are made available to hotel.



b) **Weekly or Fortnightly Quotations:** In this case the weekly or fortnightly requirement is made and the quotations are collected for the entire week or fortnight and the supplier agrees to supply the perishable items on daily basis at the agreed price for the next week or fortnight. This saves a lot of time and paper work for the purchase department and hotel. Usually hotel sends blank quotation sheets with the list of items and quantity desired to various suppliers and after getting the quotation back from them the order is placed with the suppliers.

## 2. Cash Purchases:

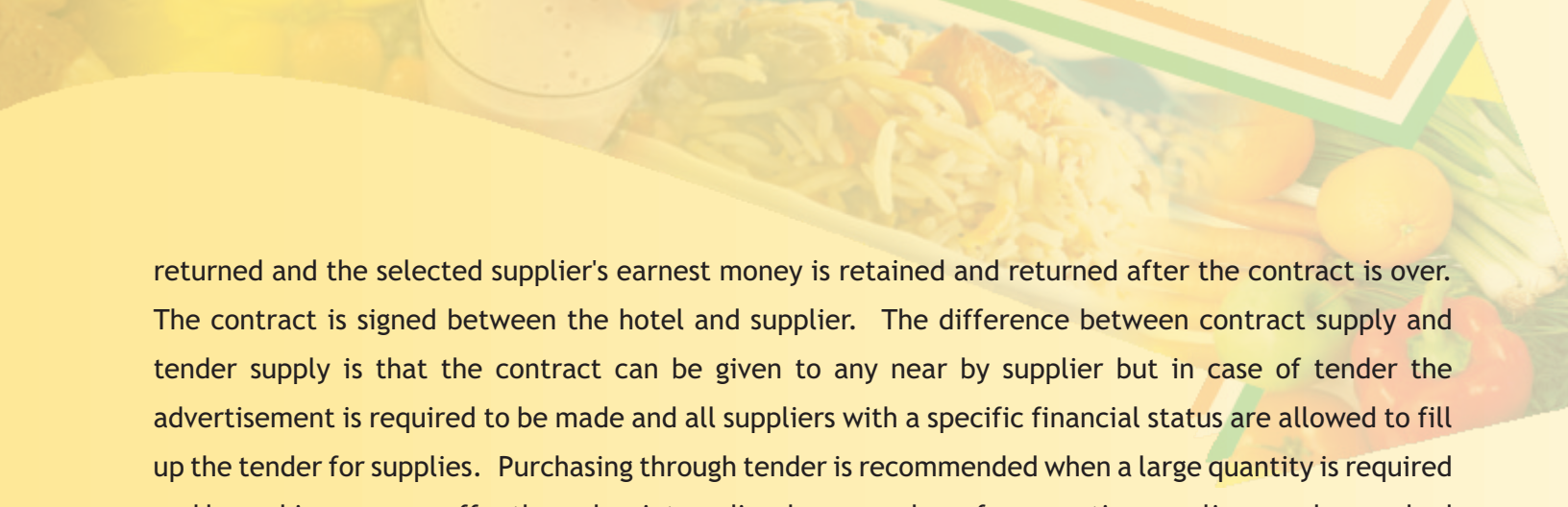
The departmental stores selling all kind of groceries, fruits, vegetables, frozen food have mushroomed in this competitive world and the prices are very competitive and change on daily basis due to competition. Hotels at time prefer to send its representative with the list and purchase from various departmental stores, pay cash and carry the items. This ensures the best quality fresh perishables, and at competitive price. Usually management fixes the list of departmental stores from where to purchase grocery and other perishable items. These departmental stores are large enough to ensure regular supply of all commodities at competitive price. Even credit facilities can be extended by the departmental stores.

### Advantages of Cash Purchases:

- a) It is very useful for smaller establishments and they are able to procure goods at competitive prices, even though the total value of goods purchased may be of very small quantity.
- b) The variety of items in different packaging is displayed on counters / racks and can be inspected and compared by the buyers.
- c) A small quantity of a new item can be purchased and if approved then the large quantity can be purchased
- d) Since these departmental stores are very close by so, the hotel / restaurant can purchase as frequently as desired. This reduces the inventory cost and also a small store space can store all the items.

## 3. Purchasing through Tenders:

The open tenders are called to supply certain quantity of items with specifications. The prospective suppliers apply through sealed tenders on the tender forms supplied by the hotel along with earnest money. Tenders are opened at a specific time and date in the presence of those suppliers who are present. Rates are compared and the order is placed. The unsuccessful supplier's earnest money is



returned and the selected supplier's earnest money is retained and returned after the contract is over. The contract is signed between the hotel and supplier. The difference between contract supply and tender supply is that the contract can be given to any near by supplier but in case of tender the advertisement is required to be made and all suppliers with a specific financial status are allowed to fill up the tender for supplies. Purchasing through tender is recommended when a large quantity is required and by making an open offer through print media a large number of prospective suppliers can be reached and more competitive prices can be obtained.

#### **4. Centralised Purchase:**

A chain of hotels may prefer to have a centralised purchasing system for non perishable items. All requisitions / requirements for the entire year or for a specific period are sending to head office. The Purchase department places order for all the hotels and dispatched the items to various hotels. The advantage of centralized purchasing is that it reduces the purchase department's over heads and due to large quantity of ordered more competitive rates can be settled for all commodities. The centre stores keep some ready stock of various items where ever possible. Some times the suppliers are directed to supply the requisite quantity to the respective hotels and the hassle of supplying is also eliminated.

#### **5. Periodical Purchase:**

Certain items are not purchased on regular basis and are procured periodically. The procedure adopted for their purchase is usually quotations, cash and carry or contract purchasing. Usually either the non perishable items are purchased through periodical purchase system or those items which may not be required on regular basis.

### **VII. STANDARD PURCHASE SPECIFICATIONS (SPS):**

A concise description of the quality, size, weight, quantity, etc of a particular item is described in a Standard Purchase Specification. The specification is determined by the management after a lot of consideration and should be adhered as far as possible. For making the purchase specifications, the menu, pricing, portion size, price of the menu / dish, desired food cost, etc are considered. The bin card contains the specification of the item mentioned on each bin and is strictly followed by stores, purchase department, receiving department and the chef, bar, restaurant, etc. Copies of the purchase specifications are also readily available with all the above mentioned departments.



### **VIII. Reasons / Objectives for preparing Standard Specifications:**

- a) **Buying Standard:** For each item to be purchased a buying standard is established by the management.
- b) **Written Order:** The supplier is informed in writing precisely what the management requires to purchase.
- c) **Price:** The price of the item is settled along with the purchase specification of the item.
- d) **Receiving Department:** The receiving department is supplied with the copy of purchase specification so that he knows what quality to be accepted.
- e) **Quality of Finished Product:** The right quality of item will ensure the right quality of finished product (dish). This will ensure the standard food and standard portion size.
- f) **Chef's Performance:** If chef is supplied the standard raw material then, for any complaint in the kitchen, he cannot be blame the purchase department for providing sub standard raw material

### **IX. The Preparation of Standard Purchase Specifications:**

For each item a purchase specification is prepared and the quantity to be purchased is specified. While specifying the quantity; the maximum stock, minimum stock and re ordering point for each item is specified. All suppliers may not agree to supply a small quantity so while fixing the quantity this point should be kept in mind. But at the same time storage space, availability of cash for stock should also be considered. It is never recommended to purchase an item, which is readily available, for a very long period. However incase the price of the item is expected to rise or if that particular item will not be available due to any reason, it may be purchased in bulk.

Before finalising the quality of the item, it is better to consult the Chef, Restaurant Manager, Purchase Department, Accounts Department, Control Department and then final the approval of the General Manager should be obtained. The Yield is a very important factor while fixing the quality, size, weight, etc. of items to be purchased.

It is also recommended to involve the supplier while fixing the purchase specification so that he understands the need for a specific quality, size, weight, etc. and he does not deviate from the specifications. It is essential that the specification is drawn up as clearly as possible so that no misunderstanding may arise in the use of terminology, as this may lead to unnecessary litigation and the preparation of final products.





### Illustration:

Two following quotations are received from suppliers.

Supplier 'A' ₹ 10 per unit

Supplier 'B' ₹ 9.80 per unit plus ₹ 200 fixed charges irrespective of units ordered.

Calculate the order quantity for which the purchase price per unit will be the same. Considering all factors regarding production requirements and availability of finance, the purchase officer wants to place an order for 500 units, what interne should the supplier should be selected.

### Solution:

Disregarding fixed charges, the position is such:

Supplier 'A' ₹ 10 per unit

Supplier 'B' ₹ 9.80 per unit

Saving with supplier 'B' ₹ 0.20 per unit

But Supplier 'B' will charge 200 as fixed charges

To Save Rs. 200 charged as fixed charges by supplier 'B', the minimum order should be of 200 divided by .20 (20 paise is the difference in rate of Suppliers 'A' and 'B') = 1000 units. For orders exceeding 1000 units supplier 'B' will be selected and for orders less then 1000 units supplier 'A' will be selected.

The Purchase Officer wants to place the order for 500 units and this quantity of order supplier 'A' should be selected as he will charge:

$$500 \times 10 = \text{Rs. } 5,000$$

Supplier 'B' will charge:

$$500 \times 9.80 + 200$$

$$= 4,900 + 200 = ₹ 5,100$$



### SUMMARY / RECAPITULATION:

1. The purchase can be made either by quotation, market, contract, tenders, centralised and periodical procedure.
2. The purchase officer must ensure that there should be regular supply of right quality and right quantity of supply.
3. The purchase officer must follow the purchase procedure and must prepare purchase requisition, purchase order, etc.

### LONG ANSWER QUESTIONS:

Q1. Give the job description of a Purchase Manager / Officer and list the duties and responsibilities.

Q2 Explain the process of selecting suppliers and supplier rating system.

Q3 What is standard purchase specification? Draw a SPS for fillet of beef.

Q4. Define purchasing and explain the objectives of purchasing department.

Q5. Draw the formats for

- (a) Purchase Order
- (b) Purchase Requisition
- (c) Standard Purchase Specification

Q6. (a) What are the aims of purchasing?

- (b) Write the qualities of the purchasing staff.
- (c) How to select a supplier?

Q7. What are the different methods of purchasing and draw a format of Purchase Order form ?

Q8. What is means by Standard Purchase Specification? Define the objectives of standard purchase specification and make a standard purchase specification for the purchase of chicken.

Q9. (a) Define purchasing and discuss the importance of purchase function.

- (b) Draw the cycle of control and explain its stages briefly.