



TIP SHEET

5 Common Direct Material Purchasing Risk Factors and How to Address Them

Budgeting for direct material purchases can be influenced by several risk factors and challenges. By actively addressing these risk factors and challenges, businesses can enhance the accuracy of budgeting for direct material purchases, ensure a stable supply chain, and effectively manage costs, ultimately leading to improved financial performance and operational efficiency. Here are some common risk factors businesses face and suggestions on how to address them.

1. Price Volatility

Fluctuations in raw material prices can significantly impact budget accuracy. Sudden price increases can strain the allocated budget, leading to cost overruns.

ADDRESSING THIS FACTOR

- Establish long-term contracts with suppliers to secure stable pricing.
- Diversify the supplier base to have alternative options during price spikes.
- Monitor market trends and stay informed about factors that can affect material prices, such as supply and demand dynamics, geopolitical events, and industry-specific factors.

2. Supply Chain Disruptions

Events like natural disasters, political unrest, or disruptions in transportation can interrupt the supply chain and affect the availability of direct materials.

ADDRESSING THIS FACTOR

- Develop contingency plans to mitigate potential risks and ensure alternative sourcing options are available.
- Maintain open communication channels with suppliers to stay informed about any potential disruptions.
- Regularly evaluate and update your risk management strategy to adapt to changing circumstances.

3. Quality Control

If the quality of direct materials received does not meet the required standards, rejections and rework can lead to additional costs.

ADDRESSING THIS FACTOR

- Establish clear quality standards and specifications for direct materials.
- Conduct thorough due diligence when selecting suppliers, considering their track record and reputation for providing high-quality materials.





- Implement quality assurance processes such as regular inspections and testing to ensure adherence to standards.
- Maintain open lines of communication with suppliers to address any quality concerns promptly.

4. Changing Business Needs

Business needs and requirements can evolve over time due to factors such as product innovations, shifts in customer demand, or changes in regulatory standards. Failure to account for these changes can result in budget inaccuracies.

ADDRESSING THIS FACTOR

- Regularly review and update the budget based on evolving needs and market conditions.
- Stay informed about industry trends, customer preferences, and regulatory changes that may impact direct material purchases.
- Foster cross-functional collaboration and communication within the organization to ensure all stakeholders are aware of changing requirements and can provide input for budget adjustments.

5. Compliance and Sustainability

Increasingly, businesses are required to comply with environmental regulations and adopt sustainable practices. Failure to account for these factors in budgeting can lead to non-compliance or reputational risks.

ADDRESSING THIS FACTOR

- Conduct thorough research on regulatory requirements related to direct material purchases and incorporate them into the budgeting process.
- Prioritize suppliers with strong sustainability practices and certifications.
- Regularly review and update sustainability goals and initiatives, aligning them with budgetary considerations.
- Invest in technologies or processes that promote sustainability and resource efficiency.

To learn more about how ResourceWise can transform your business intelligence, visit resourcewise.com or contact us.

Contact us

About ResourceWise

ResourceWise was founded in 2021 to empower companies to make wise decisions by providing high-quality data, business intelligence, and insights that resolve value chain issues while promoting a low-carbon economy and profitable growth. We deliver price reporting and benchmarking, market analytics, and strategic consulting for commodity markets focused on forest products, chemicals, and renewable fuels. Our group of companies includes Fisher International, Forest2Market, Tecnon Orbichem, and Prima Markets.

