SUMMARY OF FINDINGS AND SUGGESTIONS
CHAPTER VI
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FINDINGS

On the basis of the accounting records and factual informations collected and compiled from the officials of SPB Ltd, the following important findings relating to "Materials Management in SPB Ltd", have been deduced, as are detailed below; they need not be extended to cover the whole of the proper industry as prevalent elsewhere due to vide variations in the contributing factors.

Materials Management is the integrated functioning of Purchasing and allied activities so as to achieve the maximum co-ordination and optimum expenditure in the area of materials.

However, the planning of materials will depend on the type of industry and the items required for use by various departments to achieve the production targets.

The concept of Materials Management of yesterday was linked to profit. The concept of Materials Management of today is very much related to survival.

An analysis of the financial statements of a large number of private and public sector organisations indicates that materials account for nearly 60 percent of the total expenditure.
The result of the efforts in reducing the materials cost by 5 percent is the same as the marketing efforts of increasing the sales of 30 percent.

In order to protect the indigenous bamboo based paper industry a protective duty was levied in 1925 on imported paper.

Apart from the shortage of paper created in India during the time of II World War, there was also a steep rise in the per capital consumption of paper which went up from 0.7 kg in 1951 to 2.0 kg in 1961.

In the area of newsprint also India's progress is not satisfactory. India's newsprint consumption of 8.5 lakh tonnes per annum is just above 1 percent of the world total.

In the absence of adequate power supply by the State Government, the industries have to depend upon their own power generation.

The paper industry is using various chemicals such as alum, causticlye, chloride etc. The cost of production in these industries has also gone up. The industries also depend upon power. Due to power cut they have to shut down or incur additional expenditure for power generation which increases the cost of chemicals.

Even the modern machines can process only conventional raw materials. With an acute scarcity of bamboo and pulpable wood,
the mills are compelled to switch over to other raw materials like bagasse. Processing of bagasse requires new type of machinery. Installation of such new machinery makes the machineries already installed obsolete.

In the budget for 1987-88 and 1988-89, the Government of India imposed 15 percent duty on the import of waste paper. This 15 percent import duty on waste paper has come as a load on the small paper units and their pleadings with the government for its withdrawal have no use.

It may be underlined that bagasse is available to sugar mills at no cost, hence there is no way to provide an alternative fuel at the same cost as bagasse, they cannot be persuaded to spare bagasse for paper manufacture.

Central government has not encouraged the scheme of captive plantation by paper mills even though the Planning Commission has recommended it in seventh five year plan document.

The demand for paper is likely to grow every year by at least five percent due to a variety of factors including the rising need of packaging paper by the food processing industry. On the other hand the paper industries in India using on an average 71 percent of the installed capacity.
The favoured treatment which had been accorded, to the education of children of this country in the past has been quietly given up.

A working group has made 14 suggestions a decade ago to augment the supply of raw materials but not one of them has been implemented so far.

The paper mills of this country have not been doing well financially. Their total production is around two million tonnes a year.

SPB Ltd is first ever in the world to cook bamboo in its continuous digester.

The company took advantage by establishing a bagasse processing system to manufacture paper with bagasse pulp, which incidentally is entitled to 100 percent excise duty exemption.

If a company uses two or three suppliers, it will be protected in times of shortage by having alternative sources of supply.

Working capital is tied up with the excess inventories. With change in design or availability of better type of materials, long lying inventories will become obsolete.

The materials department is accused of both stock outs as well as large investment in inventories and the solution, lies in exercising
a selective inventory control and application of inventory control tech-
niques.

The optimum level of safety stock involves a trade off
between the costs of stock-outs and the carrying costs of safety stock,
or the safety stock will be optimum when the total of carrying and stock-
outs cost is minimum.

Order quantity is that quantity which is ordered at a time,
to a great extent the prices depend upon the order quantity.

The inventory carrying cost in a typical Indian industry
works out 30 percent normally. A major portion of this accounted for
by the interest on capital which in turn depends on the fiscal policies
of the government.

Instead of doing ABC analysis SPB Ltd classify 'A' items
as accounting for consumption value of above Rs.10000. 'B' items between
Rs.1000 and Rs.10000 and 'C' items less than Rs.1000 of annual consump-
tion.

Some consumable items like lubricants, etc. though negligible
in monetary value, may be vital for running the plant and constant atten-
tion is needed.

The basic responsibility for inventory control lies with top
management. The effects of poor inventory management are not directly
visible on the operating statement as a composite of inventory management. In most companies, these indirect costs, dispersed and hidden throughout the operating statement, can have a significant influence on profit.

Out of 12000 items of materials handled by this company 5000 items are moving materials and the remaining 7000 items are non-moving materials.

High value 'A' class items are reviewed and controlled by the chief of Materials Department. The 'B' class items are reviewed by the Junior Officers of the Materials Department. The 'C' class items are under the care of the Assistants.

In SPB Ltd low inventory stock is maintained for the processing materials which constitute 90 percent of total consumption value. At the time of stock out for any of the above items a rush to market is made to manage the situation.

This method is adopted in SPB Ltd for the purchase of processing materials and thus saves a huge investment on these valuable items. But the essential requirements for the JIT technique is not carried on by it.

For each item of materials SPB Ltd depends on more than two suppliers. So that it will be protected in times of shortage, through alternate sources of supply.
Working with local vendors and encouraging them to be capable suppliers is a part of progressive purchasing.

Many of the buyers indicated their willingness to pay slightly higher prices to gain the advantages of better service and immediate availability of materials offered by some local suppliers.

For raw materials no levels are fixed and for the processing materials only minimum level is fixed. Daily review is made by the concerned manager. If there is any stock-out position, the managers themselves take immediate action to bring the situation under control.

The levels are fixed depending on the consumption trend and lead time as applicable for each items.

Time given to stockist is increasing year by year where the possibilities of bad debts are more.

Operating cycle turnover is decreasing year by year which is largely tied up in the RM and Drs. There is improvement in the current year where the operating cycle turnover has again increased to 3.5 times.

The Materials Management proves to be the most beneficial area in which the computers can be put to effective use. Since computerisation of inventory control ensures better control and profitability any big concern can go for computerisation irrespective of the cost involved therein.
Advanced countries have saved up to 15 percent of the total cost of the materials by proper application of computers in monitoring and decision supporting system.

Movement analysis, lead-time analysis, ABC analysis, vendor rating, etc, can be computerised in a short time which helps the management to take scientific decisions so as to control the inventory levels.

Instead of having Central Data Processing department, small computers can be distributed throughout the organisation, and this allows corporate departments to do their own computation most effectively.

This removes the need for purchasing card and clerical work, at the same time increasing managerial productivity since the managers can get the data they need whenever they want rather than waiting for a Central DP Department in processing it.

The computer is the common bond which draws all materials activities into an integrated system. The resultant tendency is towards the development of materials management type of organisation.

Thus computerisation has enabled the purchase department of SPB Ltd in obtaining quick results through the processing of the data in extended terminals.
The stock turnover ratio which stood at 25.59 times during 1982-83 was the highest one for the study period. The ratio has been decreasing year by year with the exception of 1988-89. During 1988-89, effective measures were implemented by the management to bring down the investment effected on inventories in that year.

In general after 1980 the paper mill was not financially sound and has been incurring heavy losses year excepting for the year 1983-84 wherein it has made a profit of Rs.74 lakhs and was in position even to declare a dividend of 12 percent to the shareholders.

In the first place, due to the acute scarcity of conventional raw materials, bagasse was also used partly in the manufacturing process as alternate raw materials, despite the fact, the productivity of the bagasse is lower than that of the conventional raw materials.

SUGGESTIONS

As the quantum of profit in turn depends on effective materials control, a well organised and efficient materials management becomes inevitable for the paper industry.

In order to keep the investments on inventory at a low level the high value 'A' items should have very low quantity and if possible nil minimum stock and the stockout possibilities will be avoided by close follow-up of orders weekly, fortnightly or monthly for review of the stock position.
A higher minimum stock has to be kept when materials are imported from another country than if they are to be received from buyer's own country.

The essential requirements of JIT concept are direct calling of items from suppliers involved, domiciling of suppliers near the factory, provision of main Store Houses and optimisation of transport systems both internal and external. These concepts should be seriously reviewed.

Instead of making rush purchases as and when required for the important items it will, be better for the concern to indulge in buying economic order quantity, at least for those important items for which accurate forecast of annual consumption can be made.

Inventory budget with prior allocation should be prepared for inventory stating separately for materials, spares and components every year.

"Materials Intelligence Cell" should be constituted for organising information pertaining to statistics of suppliers and materials, maintaining records of price trends indigenous manufacturers and it should be integrated with the data base of the computer.

A control system having feed back and corrective action should be introduced for effective control over wastages pilferages etc.
A comprehensive programme of "Inventory Audit" can be introduced for supervising and verifying the correctness of the system of inventory adopted.

Suppliers assuring long-term sources for their raw materials and component parts should be favoured and continued.

Unless a national policy for development of forest resources, particularly as captive plantation, be adopted and implemented immediately the industry would not be able to meet the raw material requirement even for its existing capacity.

The land ceiling acts stand in the way of leasing land to paper mills. However, land covered by coffee, cocoa, cardamom or rubber land is exempted from land ceiling. Similar exemption should be provided for the lands which are to be brought under tree plantation, it will facilitate the leasing of forest lands to paper mills.