CHAPTER - 3

PURCHASE MANAGEMENT

3.1.1 DEFINITION
3.1.2 IMPORTANCE
3.1.3 PURCHASING OBJECTIVES
3.2 PURCHASE ORGANIZATION AND ACTIVITIES
3.3 PURCHASE METHODS
3.4 RECEIVING AND INSPECTION OF MATERIALS
  3.4.1 GENERAL INSPECTION
  3.4.2 QUALITY INSPECTION
  3.4.3 REJECTION
  3.4.4 PROCEDURE
3.5 INTERNATIONAL PURCHASING
3.0 "The most important materials management activity in most of the companies and institutions is purchasing." (1) In general, the purchasing department is responsible for the most activities and economical purchases of the right materials at right time and in right quantities.

3.1 Definition, Importance, Objectives.

3.1.1 Definition:

"Purchasing" may be defined as "buying materials for the manufacturing of goods and running the manufacturing process without interruption and it should be the right quality at the right time in the right quantity and at the right price." (2)

The National Productivity Council of India has defined purchasing as follows:

"Purchasing refers to the locating and development of sources of supply, market research for purchasing, negotiating prices, calling for tenders, selection of suppliers, entering into rate contract and periodical reviews of the same, issue of purchase orders with specifications and delivery schedules, complying with Government regulations particularly with regard to controlled commodities, imported items, etc. and also Suppliers performance evaluation, preparation of purchase budgets in conjunction with materials planning and inventory control sections and so on." (3)
3.1.2 Importance

Purchasing is essential to the small company with a staff of 12 employees as well as to the company of thousands of employees. It is the most important function of materials management. This department is very important, because the purchase manager is supposed to be a responsible person who meets the other companies, agents and salesmen and contributes to the relation of factories with the outside world and makes excellent or poor relations with the vendors. Purchasing can contribute to import substitution, therefore "purchasing is not a simple clerical or post box function but a dynamic discipline which can contribute greatly to corporate profitability resulting in the growth of the economy". (4)

Purchasing department is responsible for over 50 per cent of the profit-making in every company. Every rupee saved in purchasing is like a rupee earned as profit. A penny saved is a penny gained, according to Lamar and Donald, "A 5 percent saving in purchasing is equivalent profit wise to a 25 percent increase in sales". (5)

3.1.3 Purchasing Objectives

The objectives of purchasing is to increase the profit of the company and to ensure the availability of materials and product to keep the customers satisfied. According to Harold T. Kerine & others, objectives that support these goals are: (6)
(i) Procurement of the right materials, in the right quantity and of the right quality.

(ii) Receipt delivery of this material at the right place and at the right time.

(iii) Purchase of materials from the right source, and at the right price.

Lamar & Donald have stated the following objectives (7):

1. To support company operations with an uninterrupted flow of materials and services.

2. To buy competitively and wisely

3. To keep inventory investment and inventory losses due to deterioration, obsolescence, and theft at a minimum.

4. To develop reliable alternative sources of supply.

5. To develop good, continuing vendor relationship.

6. To achieve maximum integration with the other departments of the enterprise.

7. To train and develop highly competent personnel who are motivated to make the firm as well as their department succeed.

8. To develop policies and procedures which permit accomplishment of the preceding seven objectives at the lowest reasonable operating cost.
The above objectives of purchasing apply in principle to all manufacturing companies and to meet these objectives, purchasing department involves a variety of detailed assignments of both administrative and routine nature.

These may include:

1. Maintaining purchase records
2. Maintaining price records
3. Maintaining vendor records
4. Maintaining specification files
5. Maintaining catalogue files
6. Maintaining stock & consumption records
7. Conducting analysis of cost of materials purchased
8. Investigating supply sources
9. Inspecting suppliers plant
10. Developing supply sources
11. Checking indents
12. Securing & analysing quotations
13. Choosing between contractors & open market
14. Scheduling materials purchase & receipts
15. Interviewing salesmen of suppliers
16. Negotiating Contracts
17. Issuing purchase orders
18. Checking Legal Conditions
19. Follow-up of materials receipt
20. Checking receipts of materials
21. Verification of invoices
22. Making adjustments with vendors
23. Import licence application
24. Clearance through customs
25. Maintenance of service contracts

3.2 Purchase Organization & Activities:

An effective and efficient purchasing organisation looks after the quality, quantity, price and delivery. According to H R Swami:
"An effective purchase organisation prevents comments like: If this company can not it even get me a simple item like this in time how can it do anything else right?" (8)

In S.D.C. plant, the manager (purchase Engineer) reporting to DGM (Materials), is responsible for all purchasing functions (Exhibit 3-1). S.S.C. has followed the method of product organisation regarding purchase (Exhibit 3-2). S.A.C. has assigned all purchasing functions to a senior materials officer (purchase) who reported to the Manager materials (Exhibit 3-3). S.C.C. has adopted non-integrated system hence it has a separate purchase department headed by DGM (purchase) reporting to ASM. (Exhibit 3-4). All the cement factories under study have adopted delegation of powers regarding purchase of materials.
EXHIBIT (3-1)

General Technical Management
structure (S.D.C.)

D & M (Materials)

Manager

(material planning)

Store

Foreman

Store Keepers

Supervisors

Manager

(Purchase Engineer)

Officer I

(Purchase)

Store Keepers

Supervisors

Manager

(Inventory Control)

Officer II

(Purchase)

Foreman

Store Keepers

Supervisors

Dr. Manager

Supervisors
EXHIBIT (3-2)

Materials Management Organization in G.S.C.

Additional General Manager

D.G.M. Purchase  D.G.M. (Inventory Control & Stores)

Manager (foreign purchase)  Addl. Manager (Indigenous)

Deputy Manager  Senior Engineer  Senior Engineer  Engineer  Manager (Inventory control)  Addl. Manager (materials)

Addl. Manager  Senior Engineer  Engineer

Sr. Eng. (Receipts)  Sr. Eng. (Production shops)  Engineer (Custom clearance)  Ir. Engineer (Invoice clearance)
EXHIBIT (3-4)

Materials Management Organisation

in (S.C.C.)

General Manager Materials

Sr. Manager

Stores

Materials Officer

In. Materials Officer

Sr. Manager

Purchase

Materials Officer

Materials Officer

Materials (Contract)
3.3 Purchase Methods

In our study, we observed that all the methods of purchasing are used; the open tender and limited tenders are being used largely in all the factories. Repeat order and rate contract methods are also used. Inviting tenders have limitations. In S.D.C. tenders are issued for the purchase of items valuing up to Rs.200,000. If the value of purchase is more than Rs.200,000, then open tender is issued. All the factories issue tenders in various newspapers of national and state editions in which due date and timings by which tenders are desired are mentioned.

S.C.C. generally avoids the repeat orders but in some cases purchases are made through this method when the demand is not more than 20 percent of the original demand.

Cement factories in Gujarat have been maintaining the list of registered suppliers. S.A.C. has established a separate section headed by a Junior Purchase officer for the registration of firms, floating enquiries assessing credibility, etc.

3.4 Receiving & Inspection of materials

Receiving and inspection is very important to know the quantity and quality. After placing the order, there is follow-up and lead time.
To receive the purchased materials at right time is very important, usually the follow-up action for undelivered supplies through letters, telephonic talks, telex messages faxes or personal contact is required and feasible. S.A.C. sends reminders to suppliers on printed forms. It is suggested that this should be dispensed with because suppliers don't pay any attention to reminders and personal visits are often necessary to persuade them.

After follow-up, lead time is a very important factor affecting the size of inventory and cost of materials. According to the parliament committee on materials management "By lead time is meant the time taken for replenishment from the time a requisition is submitted to stores or purchase department to the time, the material is received at the stores or using point". (9)

According to H. R. Swami "Lead time has two components (i) Administrative Lead time from initiation of procurement action until the placing of an order, and (ii) delivery lead time from the placing of an order until the delivery of ordered material". (10)

The most important function of materials management is receiving and inspection of the coming goods. The study has shown that the Central Receipt Stores have been assigned the duty of receiving the purchased materials. The receiving department personnel make identifying inspection of all incoming items and see that there is no obvious damage. Inspection differs from one material to another as it depends upon the nature of the goods.
The inspection may be very complex using many measuring devices or it may be little more than visual inspection. It may be performed on 100 percent of the items or it may be merely a sampling inspection on each lot received.

"The aim and primary purpose of inspection is to make sure that specifications are complied with. The inspection of incoming materials may be of two types. First, General inspection and Second quality inspection". (11)

3.4.1 General Inspection:

Central Receipt stores does the general inspection for the incoming materials. The store fills in the form called provisional goods inward note and it is prepared as the materials are cleared by the receiving section and sent for inspection.

This form mentions the goods code, quantity received, rate, date of receipt, carrier details, supplier details, location code and description of the materials.

3.4.2 Quality Inspection

Good quality of the materials is an important objective to be kept in mind which purchasing. The production departments always ask for a specific quality. AMAR DEAN has stated in his book that "The procurement of the material of right quality is the most important objective of purchasing." If the buyer does not get the quality of material he needs, he gets nothing of any worth and price, delivery and favourable relations
with the suppliers become unimportant. After Inspection Department has received the materials from Receipt sections, they will start to inspect materials for quality standards. The materials which are received, if they are found to comply with the set norms, then they are sent to the concerned stores; if not they are either sent to the original supplier or rectified if possible.

3.4.3 Rejections:

As we have already seen, the quality of inspection depends upon the inspection department. In this study, the percentage of rejection of purchased materials was between 5 to 10 percent of their total annual purchase. It was seen that the heavy rejection rates have been due to supply of defective material or due to the items not conforming to specifications. In B.S.C., the number of rejected items was reportedly valued at Rs. 20 lacs.

The cement factories have been maintaining rejection registers but there was no classification of these materials. There was no time limit for the replenishment of rejected materials.

3.4.4 Procedure:

The inspection procedures are implemented in some factories as S.C.C, B.S.C. and G.A.L. and they get very fast release of the inspected materials and goods under inspection. Other companies are not adopting strict inspection procedure which is a mistake and they should adopt scientific ways for inspection.
3.5 International Purchase:

Cement factories which are exporting cement can import up to 25 percent of the value of goods they export. Most of their imported materials consist of coal which is of a good quality and gives more calory and reduces the cost of production.

Spare parts and components are also imported from different countries. S.D.C. the only company in our study are importing raw materials, in the last 10 years the percentage of the imported materials form 25 to 35 percent (13). The spare parts and components in the respected companies have been fluctuating as in S.D.C. from 5 upto 10 percent (14), in S.C.C. are from 3 upto 5 percent (15), in S.C.C. are from 20 upto 30 percent (16) and in S.A.C. are from 10 upto 40 percent (17).
REFERENCES

5. IBID. P.17.
11. IBID. P. 69;