

**DEC-2009**

**INDIAN INSTITUTE OF MATERIALS MANAGEMENT**

**Post Graduate Diploma in Materials Management**

**Graduate Diploma in Materials Management**

**Paper 5**

**PURCHASING MANAGEMENT**

**Date : 12.12.2009**

**Time: 10.00 am to 1.00 pm**

**Max Marks: 100**

**Duration: 3 hours**

**Instructions:**

1. **PART A** is compulsory. Answer all questions.
  2. From **PART B**, answer any three questions. Each question carries 16 marks.
  3. **PART C** is **Case Study** and is compulsory. Answer the questions reflecting through understanding of the case.
  4. Please read instructions on the answer sheet carefully.
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**PART A**

**Q.1 Please state whether the following statements are “True” or “False”. (1 Mark each)  
[Total : 12 Marks]**

- 1) Setting up of uniform policies with respect to seller relationship throughout the company is desirable.
- 2) Vendor list updating is important in purchasing.
- 3) Purchase manager should not have thorough knowledge of Customs, taxes & excise duty.
- 4) Negotiation skills are required while purchasing.
- 5) A closed limited tender is advertised in news papers.
- 6) Freight is part of Purchase Cost Element.
- 7) Bulk liquid chemicals are transported in open truck.
- 8) Quality and energy efficiency of equipment is not important in purchasing.
- 9) “Force Majeure” forms part of Purchase Contract.
- 10) Trade discount is sought for while purchasing directly from manufacturer.
- 11) Purchasing is just clerical function.
- 12) Purchasing objectives should focus on relationship building and quality consistency.

**Q.2 Match the following. (1 Mark each)****[Total : 12 Marks]**

(1) Dispatch by Air	(a) Transit damages
(2) Arbitration	(b) Shipment by sea route
(3) COD	(c) Green buying
(4) B/L	(d) ISO 9000
(5) Quality standards	(e) AWB
(6) Just in time	(f) Payment term
(7) Critical Path Method	(g) BPR
(8) Eco friendly	(h) Inventory Control
(9) ERP	(i) Project Procurement
(10) Rethinking for improvement	(j) GPS
(11) Insurance Claim	(k) Oracle, BANN, SAP.
(12) Vehicle tracking	(l) Purchase order term

**Q.3 Write the full form of the following. (1 Mark each)****[Total : 8 Marks]**

(1) FSN; (2) RFQ; (3) L/C; (4) GPS; (5) RFID; (6) DGS&D; (7); SCM (8) JIT

**PART B**  
**[Total : 48 Marks]**

**Write any THREE out of the following five questions i.e, Q.4 to Q.9: (16 Marks each)**

- Q.4** Maximizing the effectiveness of the procurement process is a major goal of an organization. What steps can be taken to help ensure the effectiveness is maximized?
- Q.5** A key part of the procurement process is the selection of vendors. What criteria are commonly used in this selection process? Which criteria should be given the highest priority? Why?
- Q.6** What are the components of total landed cost? Is it realistic to expect companies to consider all these components? What are the major sources of prices in the purchase of major raw materials in your company?
- Q.7** What are the roles that outsourcing and procurement play in the supply chain? What are the risks and benefits of outsourcing? When you outsource, how do you ensure timely supply of material?
- Q.8** What is negotiation? What are negotiation strategies? What are the different types of discounts offered by suppliers? What should be the "Buyer-Seller Relationship"?
- Q.9** Discuss the advantages and disadvantages of e-procurement. How internet does help in your procurement process? Please write in brief e-procurement practices in your organization?

**PART C**  
**[Total : 20 Marks]**

**Q.10**  
**Compulsory**

**CASE STUDY**

The Duraboard Vinyl Pvt Ltd is a leading manufacturer of vinyl siding products for home and commercial buildings. In 2007 , the company had record sale of 720 crores – a 20% increase over 2006. However, during last five years , the net profit margin had slipped from 7.2% to 4.5 percent.

Mr Pankaj Kalsi , CEO of the company pointed out the downward trend of net profit and challenged the team to increase the profit margin by 2 % for the next year. There is price pressure from competing companies and increasing costs were the primary reasons for declining profit margins. He asked each team members to develop a strategic plan to accomplish the profit goals.

Nirmala Devi , GM(Purchase) was reviewing the purchasing data the procurement team had gathered in developing purchasing strategic plan. First, procurement costs had increase from 57% of sales during last five years.

The procurement staff increased by five people during the same time period. Company manufactures 1500 SKUs and purchases over 5000 SKUs of materials to support the manufacture, sale & delivery of its finished goods line.

Nirmala Devi calculated an increase of 0.65% in profit margin, if there is reduction in procurement expenditure of 1%.

Most of the purchasing tasks are completed manually. A computer is used for internal control of inventory levels and for printing invoices. There is no procurement computer in place and there is no use of e-commerce for purchasing. The purchasing staff consists primarily buyers who are assigned to particular product groups.

Over the years, the buyers have become very adept at gaining price discounts from vendors. However, this has created very serious warehousing problems and the warehouse was completely full forcing the company to go offsite to store finished goods. The inventory levels of raw material can last upto next year. Also the inventory levels of over 50% of the finished good SKUs exceed two year supply at current sales level.

With only one warehouse in the system company had to optimize the utilization of the facility. If company uses an outside warehouse for short term shortage, it incurs a 15% additional cost of storage. The procurement department noted the need for more time to research potential vendors and to maintain good vendor relations.

Nirmala Devi's primary objective was to reduce procurement costs while maintaining the product quality and efficiency of procurement. Price discounts from vendors did not appear to be major source of cost savings.

**Questions:**

1. What organizational changes would you suggest for the company's procurement department?
2. What type of computerization would you recommend?
3. How would e-commerce benefit the company?
4. Would you recommend the same computer and e-commerce strategies for al 5000 SKUs purchased? If not , how would these strategies differ?
5. What strategies do you suggest for maintaining procurement service levels?