



INDIAN INSTITUTE OF MATERIALS MANAGEMENT  
Post Graduate Diploma in Materials Management  
Graduate Diploma in Materials Management

Dec 2018

PAPER No. 5

**Purchasing Management**

Date : 22.12.2018

Max. Marks :100

Time : 10.00 a.m. to 1.00 pm

Duration : 3 Hrs.

**Instructions :**

1. From Part A – answer all questions ( compulsory). Each sub questions carries 1 mark. **Total : 32 Marks**
2. From Part B – Answer any 3 questions out of 6 questions. Each question carries 16 marks. **Total : 48 Marks**
3. Part C is a case study (compulsory) with questions.  
Read the case study carefully and answer the questions **Total: 20 Marks**
4. Please read the instructions given in the answer sheet

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PART A

**Total 32 marks**

**(compulsory- each question carry one mark)**

**Q1. Please state whether the following statements are “True” or “ False”.**  
**Please do not e-write the statements while answering in answer books.[Total : 8 Marks]**

- a) Items that goes directly into an organisation’s products are required to run the business are defined as MRO items.
- b) Value analysis is also called as Functional Analysis.
- c) Arbitration is a communication process by which a buyer and a supplier attempt to reconcile their differing objectives, constraints and perspectives to achieve a mutually satisfactory solution.
- d) Fixed Price contracts provide for a firm price or an adjustable price.
- e) Excise duty is imposed on imports.
- f) Open Tenders are not advertised in newspapers.
- g) One of the purchasing code of ethics is to give consideration to mission and policies.
- h) Escalating demand refers to the more you get the more you require.

**Q2. Fill in the blanks with appropriate words as given in the brackets after the statement.**  
**Please do not re-write the statements while answering in answer books.[Total : 8 Marks]**

- i) Materials required for packaging and shipping for example, tapes, bags, shrink wraps, etc., are defined as \_\_\_\_\_ items. (Production Support, Finished Products, Maintenance Repair & Operating).
- ii) A few reliable vendors are sent letters to send the price and other details for a particular commodity as per the desired specifications, quality and delivery is often referred to as \_\_\_\_\_. (Open Tender Enquiry, Limited Tender Enquiry, Proprietary Article Certificate)

- iii) It is an orderly and creative method to increase the value of an item. It is known as \_\_\_\_\_ . (Functional Analysis, Price Analysis)
- iv) It is dedicated to motivating people, developing skills and promoting synergies with an aim of maximising overall performance of an organisation. It is called as \_\_\_\_\_ . (Value Engineering, Value Analysis, Value Management)
- v) \_\_\_\_\_ is a technique which allows us to represent the data on a map. ( Curve Mapping, Perpetual Mapping, Competitive Mapping)
- vi) A process that tends to divide communities into two large and opposing alliances is called as \_\_\_\_\_ . (Polarization, Contention Dynamics, Sacrifice Trap)
- vii) There are \_\_\_\_\_ phases of negotiation process. (Three, Four, Five)
- viii) Regular purchases made without authorised purchase requisitions are called as \_\_\_\_\_ . (closed purchase order, blanket purchase order)

**Q3. Match the following. Please do not re-write the statements while answering in answer books.**

**[Total : 8 Marks]**

<b>S. No</b>	<b>Column 'A'</b>	<b>S. No</b>	<b>Column 'B'</b>
(i)	A transfer of risk without buying insurance policies	(a)	Give only one option
(ii)	Reduce, Reuse, Recycle	(b)	Quivering Quill
(iii)	Take it or leave it	(c)	Cash in Advance
(iv)	Seek concession just before signing	(d)	Disaster Management
(v)	Product Suitability for intended purpose	(e)	Hedging
(vi)	Exporter eliminates credit risk	(f)	Just in Time
(vii)	Ongoing effort to eliminate waste in production process	(g)	Quality Assurance
(viii)	Discipline of dealing with and avoiding risks	(h)	Green Buying

**Q4. Write Full Forms of the following. (1 mark each).**

**[Total : 8 Marks]**

- (1) ITJ    (2) CVC    (3) NIT    (4) EFT  
 (5) RFI    (6) AON    (7) TQM    (8) LCC

PART B

48 marks

**Write any three out of the following six questions i.e, Q.5 to Q.10: (16 Marks each)**

- Q5. (a) Discuss in detail the various type of accountability relating to purchase.
- (b) What is Value Engineering ? Describe in detail its origin and job plan.
- Q6. (a) An established policy eliminates the necessity of making fresh decision every time when a comparable situation arises. Define as to how policies and procedures are developed for **any two** of the following -
- (i) Conflict of Interest;
  - (ii) Unauthorised Purchases;
  - (iii) Meeting and Interviewing Suppliers;
  - (iv) Gifts, Gratuities and Business Meals.
- (b) What are the various stages in Sourcing solution. Explain any two of them in detail.
- Q7. Write short notes – **Any Four** : (4 marks each)
- (i) Purchase Budget;
  - (ii) Factors determining – Make / Buy / Outsource Decision;
  - (iii) Vendor Quality Rating, with minimum two examples;
  - (iv) Concept of Value;
  - (v) Principles of Excise Control;
  - (vi) Weighted Point Plan, with examples;
- Q8. What is the Product Specification – define, state its importance, relevance to product specification and user profile and its guidance on its best practises.
- Q9. What is Bench Marking – Define the procedure involved and various types of benchmarking.
- Q10. (a) Explain in detail the Zero Defects concept;
- (b) Explain in detail ISO 9000 as a Quality Management System;

## PART C

### **Q11. CASE STUDY. Compulsory Question**

**[Total : 20 Marks]**

At a recent Management Meeting of M/S Best Cosmetics Company Ltd., Marketing Head reported that the Company is missing lot of Sales Targets due to delayed shipments and inferior quality Products. Production Head noted that this situation was due to low production yields that resulted from poor material and supply availability. To offset the problem, production worked overtime to get orders out once supplies arrived. Purchasing needed to improve requisition of items available from single sources as well as those that had required long-lead times.

#### *Company Background*

In January 2003, M/S Best Cosmetics Company Ltd., Hyderabad decided to go in for a major change in the designs of all its Products. The Company had about 75 Products in its Range. The main objective was to double the Sales Turnover during the next two years. The Company employed approximately 850 production workers and 250 managerial /administrative staff.

The Company also had 10 Job-workers / Loan Licensees who were manufacturing and packing their Products on a regular basis, based on the formulations given by Best Cosmetics. Best Cosmetics arranged the materials too.

In addition, the Company had very ambitious plans to go in for ISO Certification during the current year.

#### *Purchase Department*

Best Cosmetics used a Master Production Schedule (MPS) to coordinate jobs as well as generate material & supply orders through its Manufacturing Resource Planning System (MRP). Updates to the MPS resulted in the MRP advancing, delaying or canceling any number of planned purchases. In addition, the inordinate delays in development of new designs and short notices given to arrange the supplies complicated the matters further.

Recent reports indicated that the procurement system had problems. The system relied upon an order forecasting method to anticipate supply requirements and avoid stock outs. Inaccurate forecasts forced buyers to cancel orders or return supplies of some items to prevent excessive inventories. Even when forecasts were correct, the long lead-times on some supply items resulted in stock outs. The prolonged New Design Developments and shorter lead-times given for procurements made these problems worse. In some cases, small order sizes as well as limited storage space at the Job-Workers complicated the matter further.

In light of these and other problems, the Management had initiated a number of programs to improve the purchasing operations and profitability. These programs covered a number of areas including cost reduction, vendor development, ordering and buying policy review and lead-time reduction. Despite these efforts, Best Cosmetics needed to ensure that the materials were available to support ongoing changes. The Purchase Manager needed to identify some alternatives to improve supply/material availability.

#### **Questions :**

1. What immediate problems must the purchasing management correct?
2. Give your suggestions to improve the purchasing system.
3. What Modern Techniques/Tools would you suggest to improve the efficiency of Purchase Department and why?
4. Give an overview of the case.

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