



**INDIAN INSTITUTE OF MATERIALS MANAGEMENT**  
**Post Graduate Diploma in Materials Management (3 Years)**  
**Graduate Diploma in Materials Management,**

**Dec 2019**

**PAPER No. 5**

**Purchasing Management**

**Date : 21.12.2019**

**Max. Marks : 100**

**Time : 10.00 A.M. – 1.00 P.M.**

**Duration : 3 Hrs.**

**Instructions :**

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| 1. From Part A – answer all questions (compulsory). Each sub questions carries 1 mark.                           | <b>Total : 32 Marks</b> |
| 2. From Part B – Answer any 3 questions. Each question carries 16 marks.   | <b>Total : 48 Marks</b> |
| 3. Part C is a case study (compulsory) with questions.<br>Read the case study carefully and answer the questions | <b>Total: 20 Marks</b>  |
| 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)**

**Q.1. Please state whether the following statements are “True” or “False”.**

**Please do not re-write the statements while answering in answer books. [Total : 8 Marks]**

- a) Transportation of goods to the delivery point, issues arising from international or domestic transportation forms part of principle of right source.
- b) Cross functional teams are established to control product costs.
- c) Central Excise Duty is a direct tax which is levied and collected on the goods / commodities manufactured in India.
- d) Cost Price analysis is not a factor affecting the price.
- e) Material Handling incorporates a wide range of manual, semi-automated and automated equipment and systems that support logistics and make the supply chain work.
- f) RFQ is the only form of seeking solicited business proposals.
- g) Benchmarking is the process of comparing cost, cycle time, productivity or quality of a specific process or method with another.
- h) Dishonesty, lack of probity are some of the terms used in purchasing policy.

**Q.2. Fill in the blanks with appropriate words. Please do not re-write the statements while answering in answer books. [Total : 8 Marks]**

- i) The process of give and take the parties go through to reach an agreement is known as \_\_\_\_\_
- ii) \_\_\_\_\_ and inventory management software is easy to use accounting software utility to organize all stock and account details of any business association.
- iii) \_\_\_\_\_ teams are established to design and develop new products.
- iv) Fixed-price types of contracts provides for a firm price or, in appropriate cases, an \_\_\_\_\_ price.
- v) The origin for purchase cycle is purchase \_\_\_\_\_
- vi) The activity of checking goods or services to make sure that they are good is known as \_\_\_\_\_
- vii) \_\_\_\_\_ may give incentives for self improvement.
- viii) The process of allowing an initiator firm to assess their competitive position by comparing products and services with those of target firm is known as \_\_\_\_\_ benchmarking.

**Q.3. 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)	An independent accounting unit used for external (legal) reporting	(a)	A Central Purchasing Organisation
(ii)	A group of Companies	(b)	Improve the service-profit chain
(iii)	A purchasing organization that is not assigned to a company code	(c)	A Client
(iv)	Cross functional teams	(d)	A Company Code
(v)	Petty Cash	(e)	Product Specification
(vi)	Direct Pay invoice	(f)	Product Benchmarking
(vii)	Process of designing new products or upgrade to current ones	(g)	One of the Purchasing Methods
(viii)	A stand alone qualitative and quantitative description of the product	(h)	One of the Payment modes

**Q.4. Write Full Forms of the following.**

**[Total : 8 Marks]**

- (1) NAEB      (2) VQR      (3) VE      (4) BPO  
 (5) LPO      (6) KPO      (7) PR      (8) IFB

## PART B

**[Write any three questions i. e. Q.5 to Q.10: [(3 x16) =Total 48 Marks]**

**Q5. (a)** Briefly spell out the Golden Rules of Purchasing and explain any four of them in detail. **(8 marks)**  
**(b)** Explain the importance and scope of purchasing function and its impact on competitiveness. **(8 marks)**

**Q6. (a)** Explain the different ways to classify the organizational structure. **(8 marks)**  
**(b)** Explain the various types of accountability of the purchasing organisation. **(8 marks)**

**Q7. Write short notes – Any Four : (4x4=16 Marks)**

- (i) Activities, Duties and Functions of Purchasing Department
- (ii) Learning Curve
- (iii) Price Vs Cost
- (iv) Firm fixed Price Contracts with Economic Price Adjustments
- (v) Vendor Development and Evaluation of Sources
- (vi) Product Specifications

**Q8. (a)** Name the different cost considerations and explain any two of them in detail ( 8 marks)  
**(b)** Explain the concept of value management and briefly explain the key principles **(8 marks)**

**Q9. (a)** What are the factors affecting Price ? **(8 marks)**  
**(b)** Explain packing and handling cost in detail. **(8 marks)**

**Q10.(a)** What are the various evaluation criterias ? **(8 marks)**  
**(b)** Explain the A to Z issues on rating system **(8 marks)**

PART C  
(Compulsory Question)

**Q.11. CASE STUDY.**

**[Total : 20 Marks]**

Lovely Garments Limited was established in 1985 at Bangalore. It is a 100% Export Oriented Unit having a similar unit at Greater NOIDA. The Company manufactures readymade garments and the garment unit employed 1000 workers. The garment unit consists of measurement, cutting, stitching, finishing and packaging sections. Most of the processes have been automated in recent years.

The garment unit is headed by Vice President Krishnan, aged 48 years, an engineer by training who has been with the company since its establishment. He has risen fast to this position by virtue of his capability and hard work. His concern is to maintain the productivity standards of the company while keeping morale of the workers high.

**Declining Profitability**

In Dec 2006, the company saw a decline in the profitability which greatly concerned the top management. A team led by Krishnan was formed to review the costs under all heads. It was found that overtime costs had increased and the performance of the workers in general had declined considerably against the agreed norms. It was realized that laxity in monitoring had led to such a state. The supervisors were pulled up and no punitive action was taken against them. The company had entered into an agreement with the recognized Union 18 months ago, fixing performance standards of each job and deduction of proportionate wages for any shortfall in the performance standards. The norms were set realistically on the basis of the performances achieved by the executive trainees. The shortfall was severe in the stitching section, where performance declined to 73% of the set norms. Most of the workers performance was 60-65% of the norms. The problem required immediate attention. The team decided to initiate corrective measures in this section.

**Productivity Improvement**

In Feb 2007, the team decided to deduct proportionate wages for work not done as per the agreement. The recognized union was apprised of the situation and sounded about the decision to deduct the wages for the month of March. Since April and May fall in the marriage season, the step was assumed to put more pressure on the workers. The stitching sections having 100 workers was chosen for the implementation of this decision.

The management had faced a similar problem in the other unit at Greater NOIDA in Oct 2005, wherein the workers had gone on a "go slow" and the management had deducted proportionate wages for work not done. The Union had moved to court and the court had granted a verdict in the company's favour. Gradual improvement had been witnessed in this unit but it was still not upto the norms.

The workers of the stitching section agitated against the deduction of the wages, but the management stood by its decision. In addition, they sent two good performers working on simpler machines to a comparatively complex stitching machines, who achieved 107% of the set performance norms within 45 days.

Seeing the two junior workers as role models, other workers of the stitching section also began to show improvement in their performance, which in some cases reached 96% of the set norms.

Krishnan was feeling at ease on 29<sup>th</sup> May 2007, assuming that the strategy has worked.

**Questions : ( 5 x4=20 Marks)**

1. Why had productivity declined in Lovely Garments Ltd., ?
2. Who was responsible for the problem in this case ?
3. Was the strategy adopted by the team led by the Vice President correct?
4. Had you been in Krishnan's position, how would you have handled the situation ?
5. Has the problem been resolved in the case ?. Comment.

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