

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

**Paper 5**  
**PURCHASING MANAGEMENT**

Date : 12.06.2009  
Time: 10.00am To 1.00pm

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.
- 

**PART A**

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

- 1) Purchasing does not play any role in the introduction of new products and process improvements.
- 2) Purchasing can help organization in reduction of overall transportation cost.
- 3) Vendor list updating in defined interval is not at all required in purchasing.
- 4) Order must be placed with the lowest price bidder irrespective of other criteria.
- 5) A closed limited tender is not advertised in news papers.
- 6) An import duty is a tax levied on certain goods entering a country.
- 7) Purchase manager should have through knowledge of taxes & excise duty.
- 8) Setting up of uniform policies with respect to seller relationship throughout the company is desirable.
- 9) Purchase manager should cultivate and manage supplier relations to produce continuous improvements in quality, service and price.
- 10) Negotiation skills are not required while purchasing.
- 11) One of the advantages of leasing is to minimize risk of obsolescence.
- 12) Strategic planning is influenced by legislation and government regulations.

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

(1)Business Process Reengineering	(a) Insurance claim
(2)Discrepancy Report	(b) Shipment
(3)Letter of Credit	(c) Environment friendly purchase
(4)Bill of Lading`	(d) Quality standards
(5)Balance sheet	(e) Fundamental rethinking for improvement
(6)Just in time	(f) Payment term
(7)Green buying	(g) vendor's assets & liabilities
(8)ISO 9000	(h) Reduction of inventory
(9)SAP	(i) Project Procurement
(10)Trade Discount	(j) Purchase of large volumes
(11) Quantity Discount	(k) Enterprise Resource Planning
(12) PERT & CPM	(l) Direct Purchase from manufacturer

**Q.3 Write the full form of the following. (1 Mark each)**

**[Total: 8 Marks]**

- |          |         |         |         |
|----------|---------|---------|---------|
| (1) ROI  | (2) RFQ | (3) FOB | (4) GPS |
| (5) RFID | (6) TQM | (7) EOQ | (8) CIF |
- 

**PART B**

**[Total : 48 Marks]**

**Write any THREE out of the following five questions i.e., Q.4 to Q.8: (16 Marks each)**

**Q.4** Describe purchase procedure in brief of any medium scale company. Also make organization chart for the company.

**Q.5** What are the merits and demerits of ERP system in a large scale company? How can appropriate ERP for purchasing be decided?

**Q.6** Describe importance of negotiation in purchasing. Please describe characteristics of successful negotiators. Also elaborate negotiation strategies and tactics.

**Q.7** What are the purchasing objectives? What is purchasing role in corporate planning? How can Purchasing be profit center?

**Q.8** What is "Make or Buy"? How are basic options in material outsourcing? What are the merits and demerits of outsourcing?

---

**PART C**  
**CASE STUDY**

**[Total : 20 Marks]**

**Q.9 Compulsory**

Mr Tapan Rai has started small rubber component manufacturing unit way back in 1999. Then he diversified his business in manufacturing of automotive tyres in 2003 with a brand name "ToughTyre". The growth of the company was enviable to other competitors. Over the years, ToughTyre has grown multi-locational with manufacturing facilities in Bhandup, Nasik, Vadodara and Chennai. The corporate head quarter is located in Mumbai. Company is engaged in manufacturing of two wheeler tyres & radial truck tyres. The sales growth during the span of last five years is 40%. Turnover of the company is 500 crores. The procurement per annum is around Rs 225 crores. Rough estimate of total procurement is (a) Raw material, chemicals, master batches, fuel oils, etc. – Rs 155 crores; (b) Engineering, spare parts, etc. – Rs 10 crores; (c) Capital goods, imports, moulds, drums, etc. – Rs 50 crores; (d) Consumables, packaging, miscellaneous, etc. – 10 crores.

Initially he trusted his Mr Charan Das, Chief Procurement Officer for entire purchasing function. He was expert and he commanded the Purchase Department with his sharp memory and talent. However, currently he resigned due to disputes with Mr Tapan Rai on issues like failure to implement new technology in procurement decisions. No doubt, Mr Charan Das was competent to procurement function solely dependant on his own memory. There was no system established in the entire organization.

Mr Tapan Rai appointed new Procurement Chief named Mr Anand Kapoor with a view to establish system approach to procurement decisions. Mr Anand Kapoor initiated his work with systematizing Vendor Master List. He decided first to use ERP and develop systems for (i) Vendor Evaluation and Registration; (ii) Vendor Performance Evaluation; & (iii) updating of vendor master at suitable interval. He believed that by doing so the company will also benefit in getting certification of ISO 9000 quality standards.

Please help Mr Anand Kapoor in establishing system for vendor evaluation for evaluation and subsequent performance. Please elaborate with scientific approach with relevant formulae for evaluation purpose. Please also state how such system approach will help the company practically.

---