



IIT ROORKEE



NPTEL ONLINE
CERTIFICATION COURSE

Project Management for Managers

Lec – 59

Procurement Management- Part 1

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SELECTIVE INVENTORY CONTROL

classifying items into different categories.

ABC analysis (Annual consumption value)

SOS

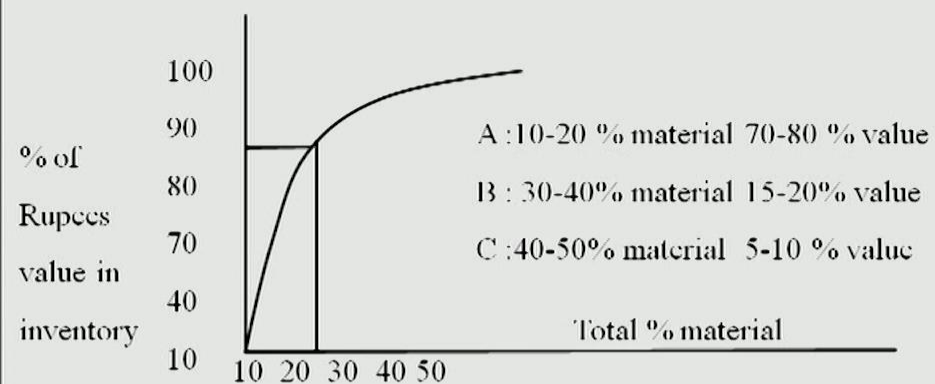
VED

GOLF

FSN

SDE (Depending on lead time- Scarce (Abroad), Difficult, Easy)





Item	Annual consumption (unit)	Price / unit (Rs.)
1	4000	10 /lit
2	600	10/kg
3	2000	16/pc
4	3500	1/kg
5	50	8/kg
6	6000	6/kg
7	2400	5/kg
8	4200	1/lit
9	50	10/kg
10	100	7/kg
11	80	40/kg
12	50	8/kg
13	20	10/kg
14	2000	.15/pc
15	30	6/kg
16	80	.25/kg
17	200	.50/kg
18	750	4/kg
19	350	6/kg
20	20	10/kg



Item	Annual consumption (unit)	Price / unit (Rs.)	Annual consumption (Rs)	Rank	Cum	%
1	4000	10 /lit	40000	40000	40000	27
2	600	10/kg	6000	36000	76000	51
3	2000	16/pc	32000	32000	108000	73
4	3500	1/kg	3500	12000	120000	
5	50	8/kg	400	6000		
6	6000	6/kg	36000	4200		
7	2400	5/kg	12000	3500		
8	4200	1/lit	4200	3200		
9	50	10/kg	500	3000		
10	100	7/kg	700	2100		
11	80	40/kg	3200	700		
12	50	8/kg	400	500		
13	20	10/kg	200	400		
14	2000	.15/pc	300	400		
15	30	6/kg	180	300		
16	80	.25/kg	20	200		
17	200	.50/kg	100	200		
18	750	4/kg	3000	100		
19	350	6/kg	2100	80		
20	20	10/kg	200	20	147000	

A
15%

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15	30	6/kg	180	300		
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17	200	.50/kg	100	200		
18	750	4/kg	3000	100		
19	350	6/kg	2100	80		
20	20	10/kg	200	20	147000	

A
15%

Purchasing: Is the procuring of materials, supplies, machine tools and services required for the equipment, maintenance and operation of the manufacturing plant.



Growing importance of purchasing: earlier it was activity of production management.

- Higher cost of goods and services – 50 to 70% raw material, component, services in total cost.

- Escalating cost of stock outs

- Higher present day cost of capital : fixed and working capital – 60:40, around 80% of working capital is locked up in inventory of RM,WIP, FG. Interest rates are very high.



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Purchasing is not mere act of buying: it includes

- market research,
- vendor rating,
- standardisation and verity reduction,
- codification,
- indent control,
- pre-purchasing value analysis,
- price negotiation,
- inventory control,
- surplus disposal,
- purchase budget,
- import substitution,
- purchase system design.



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Objectives of scientific purchasing

- Procure material at **competitive price**
- Maintain **continuity** in supply
- Ensure **production** of goods of better quality
- Suggest better **substitution** of materials
- Assist in **standardisation, variety reduction, cost reduction**, etc
- Advice on prices
- Create **goodwill**



Functions of purchase department

Primary duties:

- **Receipt**, scrutiny of purchase intend and determination of method of buying.
- **Search** for suppliers
- **Acquisition** and analysis of suppliers' proposal
- **Selection** of suppliers
- **Follow-up** for timely receipt
- **Performance** evaluation and **feedback**
- **Disposal** of **surplus** **obsolete**, and **scrap material**

Purchase as profit centre:

It should be looked as a profit centre not as a cost centre.

- To earn a rupee- increase sale by Rs10
- Good to save one rupee in purchasing through **skilful negotiation**
- Purchasing and **capital** release: reduce RM, WIP and FG
- Purchasing **and life cycle** cost:
- Purchasing **and transportation** cost: Select mode of transportation carefully

