be lifted to the specific requirements of one particular organisation. Too often, also in attempting to ensure precision, the goal of improving quality and reliability of purchased item is lost. No system can be of any value unless it results in better vendor performance, nor can it work well unless the people involved understand it and are convinced that is worthwhile.

RATING TECHNIQUES

There are several rating techniques now being used. Whatever the technique, the vendors are assessed on the basis of a wide variety of factors or criteria which might include but are not limited to the following:

- Price,
- Discounts received,
- Maintenance of specifications,
- Compliance with other specifications,
- Promptness of delivery,
- Freight and delivery charges,
- Installation costs,
- Service,
- Market information,
- Co-operation,
- Management competence,
- Credit terms,
- Disposition of rejects,
- Employee training,
- Adjustment policies,
- Cost reduction suggestions,
- Inventory plans,
- Financial position.

A few important techniques of vendor rating are described here.

Categorical Plan

Under this plan, personnel from various divisions maintain informal evaluation records. Individuals involved traditionally include personnel from purchasing, engineering, quality control, inspection and receiving. For each major supplier, each person prepares a list of performance factors which are important to him. At a monthly meeting, each major supplier is evaluated against each evaluator's list of factors. Each supplier is then assigned an overall group evaluation, usually expressed in simple categorical terms such as 'preferred', 'neutral', or 'unsatisfactory'.

The categorical plan is simple, easy to operate, and hence is most commonly used technique.

The Weighted Point Plan

Weighted point plan: The performance factors to be evaluated by giving weights.

Under this plan, the performance factors to be evaluated (quality delivery, price and services) are given "weights", for instance, quality might be weighted 25, delivery 20, price 30 and service 25. The weights selected in any specific situation represent buyer's judgement about the relative importance of the respective factors.

to all cases of make or buy. Each case must be decided on its own merits with sufficient attention to all relevant considerations.

Although the final decision on a given make-or-buy question is usually with the top management of a company, many of the issues turn on purchasing possibilities and thus fall within the scope of the purchasing manager's job.

Make-or-buy decision is normally taken by a committee comprising representatives from different departments.

The decision to make or buy is normally taken by a committee comprising representatives from production, accounting, engineering, marketing and, of course, purchasing. Purchasing will advise on cost comparisons, production will specify needs and capacities, accounting will tabulate manufacturing cost data, engineering will check quality and suitability and sales may advise on trends and the likelihood that sales volume will be affected by the decision.

SPECULATIVE BUYING

Speculative buying is done with the hope of making profit out of price changes.

Speculative buying is conducted with the hope of making profit out of price changes. Two types of speculative buying may be distinguished. One is the usual type where the purchasing department buys certain items at low prices and sells the same when their prices shoot up, thus making profit in the bargain. A *second* type of speculative buying is conducted by some purchasing departments. This type of buying involves the purchases of material in excess of foreseeable requirements in anticipation that a need will arise for the material and that the firm will profit by making the purchase at the current price. Opportunities for purchases of this kind arise when a market drops temporarily and the buying firm has sufficient working capital to finance the speculative investment.

Distinction lies between forward buying and speculative buying. Forward buying is the practice of buying materials in a quantity exceeding current requirement, buy not beyond foreseeable requirements. The distinction between speculative buying and forwarding buying is that in the latter case, a definite production need for the material exists, while in the former case it does not.

Forward buying is the practice of buying materiels in a quantity exceeding current requirement but not beyond foreseeable requirement.

Speculative buying, particularly of the type where profit is sought to be made by buying at low prices and selling at higher prices, has no place in industrial purchasing. If a firm wishes to engage in this type of speculation, it should be organised and administered from the normal purchasing activity.

VENDOR RATING

Vendor Rating: It is the process of rating a supplier based on some rating technique.

The ability to select reliable vendors is a mark of successful purchasing action. The familiar saying 'tell me who your friends are, and I will tell what you are' can be applied to purchasing. Rather it should be: 'tell me who your vendors are, and I will tell you what kind of purchasing department you have'. It is not always easy to identify good vendors; in many cases, purchasing department is unjustly criticised because of poor vendor performance. In this context there is no substitute for an objective means of vendor appraisal.

An objective and accurate vendor rating can become an asset and valuable tool in the hands of a buyer in making his purchase decisions as also providing feedback to suppliers with low rating to encourage improvement in their performance. In the absence of such an improvement over a reasonable time, black listing or grey listing the vendor may follow.

A drawback to vendor rating is that despite considerable effort to set up good system, the end results have too often been a group of antagonised suppliers and an impractical, meaningless mass of data which take too much effort to comply and is worthless to the purchasing department. Some companies make the error of adopting without changes, a rating plan which was developed for another company when, obviously, each system must

There seem to be mainly two alternatives to the problem of make or buy. Actually the case is not as simple as this. There are in between stages wherein a company may buy, but takes over some function that is normally performed by the vendor or a company may make, but allow outside suppliers to perform some of the functions involved. Examples vary all the way from control of quality by a purchaser who puts inspectors in a supplier's plant to the control of a supplying company through financial investment through management affiliations.

Assuming that only two extremes are available – make-or-buy, there are three types of make or buy, there are three types of make or buy problems:

(*a*) making or buying something which it never before procured,

(*b*) making something which it is now buying; or

(*c*) buying something which it is now making.

Whatever the type, the problem of make-or-buy arises in one of several ways. The development of a new product or substantial modification of an old one are typical situations requiring make-or-buy investigations. Secondly, unsatisfactory supplier performance for parts originally purchased is a second situation that gives rise to make or buy investigations. Unsatisfactory vendor performance may show itself in poor service or unreasonable price hike. Thirdly, periods of significant sales growth or sales decline also generate situations that initiate make-or-buy analysis. Reduced sales may result in reduced production activity rendering production capacity and workers idle. When this happens management may think of bringing to own shop, work which was previously performed by outside suppliers. During periods of rising sales, management seeks external assistance in satisfying the production demands made on its limited facilities.

Types of Make-or-Buy Investigations

Make-or-buy problems when viewed from a broad sense can be grouped into two general categories. The *first* category includes parts for which the using firm currently possesses the necessary major production potential. With only a small capital outlay for tooling and minor equipment, the firm can make each of these parts. The *second* category includes parts which the using firm cannot produce in its existing operations, without making a sizeable additional investment in tooling and facilities.

Investigation of problems in the second category extends far beyond the traditional make-or-buy analysis. Any 'make' alternative requiring a significant capital investment becomes a major problem needing a long time plan and which should involve top management.

The make or buy problem requiring only a nominal expenditure of funds in the event of 'make' decision is the type most commonly encountered by materials and production managers. A decision of this type is important insofar as effective allocation of the firm's resources is concerned. However, its effect on the firm's future is less far reaching, than in the case of a decision requiring a major capital investment. Although, the decision requiring a nominal expenditure of funds does not require direct top management participation, it does require co-ordinated study by several operating departments. Top management's responsibility is to develop an operating procedure which provides for the pooling of information from all departments affected by the decision. In other words, the management should ensure that the decision is made after a careful consideration of all relevant factors.

ROLE OF PURCHASING MANAGER

Who makes the decision to make or buy depends to a large degree on the amount involved. It may be made by one person but most often it is made by several individuals. Whatever the amount involved, it should be emphasised that no simple rule can be applied

The bill sent by the supplier is compared with the Order and the Good Received Note that is made out when the material is received. If the bill is correct in all respects, it is approved and given to accounting department for payment.

Blanket Order: Buyer issues an order covering the requirement of a small item for one year.

Blanket Orders : Blanket order is a method wherein the buyer issues an order covering the requirement of a small item for one year. The order is relevant for one year. Whenever the stock of the item reaches low, the buyer simply telephones the supplier and requests him to supply the item against the outstanding blanket order. Blanket orders are useful in more than one way (1) paper work is reduced (2) time of buyers is saved, (3) facilitate price negotiation because one order covering a year's requirement is placed once, and (4) facilitate inventory contract of small items.

In stockless buying stock of items is kept in buyer's plant, ownership of the stock being with the supplier.

Stockless Buying : Also called `systems contracting', stockless buying, is a special type of blanket order. It operates on the following lines:

(a) The buyer places a blanket order for a family of items, such as fasteners, at firm prices.

(b) On a telephone call from the buyer, supplier will deliver the items to the inventory area set aside in the buyer's plant. The items are still owned by the vendor.

(c) Vendor submits a single invoice monthly for all items supplied.

(d) Buyer makes a single payment for all items used.

(e) Computer prepares a summary report, at regular predetermined intervals, showing the items and quantity used, for both the buyer's and vendor's analysis, planning and re-stocking.

Stockless buying differs from *blanket ordering* in one respect in the former the stock of items is kept in buyer's plant, ownerhship of the stock being with the supplier. This is not the case in blanket order buying.

Stockless buying offers the advantages of centralised purchasing (with professional negotiation of a basic agreement covering the organisation's total needs) without incurring the disadvantage of excessive paper work on relatively minor transactions. The technique should be limited to relatively minor purchases that are made as and when the need arises. It should not be used for major purchases.

The purchasing function is influenced by certain policies. The policies refer to *(a)* ancillarisation, *(b)* make or buy decision, *(c)* speculative buying, *(d)* vendor rating, *(e)* ethics in purchasing, *(f)* reciprocity, *(g)* purchasing for employees, *(h)* gifts, *(i)* and value analysis.

I PURCHASING POLICIES

Ancillary Development

b-contracting is situation where irm buys a part from outside suppliers.

When a company decides to buy a part from outside suppliers, it is usually sub-contracted. In most cases, the sub-contractor is an ancillary unit. Sub-contracting is the work of obtaining the prime manufacturer's requirements, mostly of fabricated parts and components, from outside sources in order to manufacture a certain product in the prime manufacturer's plant. Sub-contracting is being practised to a much greater degree now than in the past. One of the reasons is the policy of the Central Government to encourage ancillary industries in our country.

All public sector undertakings of the Government of India have been given a directive whereby they are required *"to identify and earmark particular lines of production and items of manufacture"* which could be off- loaded to ancillary industries. In fact, the directive goes to say that entrepreneurs should be given all facilities for setting up such ancillary units and

2. Description of Requirement

The purchase requisition described the required item. In order to assure complete and accurate information for ordering, the requisition must include all necessary information in a form that can be readily checked and verified.

Purchase requisition should give accurate information for ordering recognised product.

The buyer must check a requisition on the basis of his/her own knowledge of the item, records of past purchases and vendor catalogues. He/she should not change an inadequate requisition, interpret sketchy descriptions, or in any way make judgements about a questionable requisition. He/she should refer it back to the originating department seeking clarifications. Even what appear to be obvious errors should be checked with the using department because production can be delayed if the user wanted an item for some purpose different from that assumed by the buyer and such avoidable delays can be very costly.

3. Selection of Source

After a need has been recognised and described, the purchasing department proceeds to select the source of supply. In most cases the purchasing department would know from where the material could be bought. A regular list of approved suppliers, called Register of Suppliers, is maintained by the purchasing department. Often it becomes necessary to advertise in the press inviting tenders from suppliers.

Registered suppliers who are approved by the company.

Whatever the method, it is essential that a right source must be selected. A right supplier is one who delivers materials of the correct specifications on the stipulated delivery dates. He/she is ethical in his/her behaviour, stands by the promises and has a high regard for cordial buyer-seller relationship. He is progressive in his business and seeks technological advancement in improving the quality of his products. His price is reasonable. In short, he can be wholly relied upon. Further, he is at all times honest and fair in his dealings with the customers, his own employees, and himself, who has adequate plant facilities and know-how, so as to be able to provide material which meets the purchaser's specifications in the quantities required and who realises that, in the last analysis his own interests are best served when he serves his customers.

Single vs Multiple Sources

Before selecting a right source, a relevant issue that needs solution is whether to have a single source or multiple sources. The issue is often decided after a careful consideration of arguments for both the possibilities.

Arguments for Single Source

A *single source* has the following arguments in its favour :

Buying from single supplier helps develop long-term relationship and reduces the risk and interruption in the supply.

(i) The supplier may be the exclusive owner of certain essential patents or processes, and therefore, be the only possible source. Under such circumstances, the purchaser has no choice, provided that no satisfactory substitute item is available.

(ii) A given supplier may be so outstanding in the quality of his product or in the source provided as to preclude serious consideration of buying elsewhere.

(iii) The order may be so small as to make it just not worthwhile, if only because of added clerical expenses, to divide it.

(iv) Concentrating purchases may make possible certain discounts or lower freight rates that could not be had otherwise.

(v) The supplier is more co-operative, mere interested and more willing to please if he knows all the buyer's business. This argument, of course, loses much of its weight even if the total order amounts to, but little or although fairly large, represents but a very small proportion of the seller's total sales.