

As the tool of control
and within its



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As a matter of fact, overall management planning and control system is a broad perspective within which material planning functions and materials budgeting is an exercise translated in money terms for its effective functioning, control and execution. The basis of materials planning is generally production plan based on demand forecasts for finished goods. Requirements of various items of materials are arrived at by exploding a master production schedule for a planning period through time horizon.

Explosion chart is documented through bills of materials in a matrix form and grouped together for various materials. Then it becomes the basis of the materials plan for firms' requirements. Materials budget then becomes the tool of control and within its framework, money is made available for purchase and procurement of materials. Planning Approaches for Materials Management: Functional managers apply the basic concepts of planning in making daily business decisions. These managers usually use following planning approaches for taking decisions regarding materials management activities: 1. Budgeting 2. Purchasing Research 3. Project Planning 4.

Annual Operating Plan.

1. Budgeting:

Budgeting is a basic tool of managerial planning and control. A budget is a device which balances the planned allocation of expenses with forecasted income during specified periods of time.

A company's budget is broken down into numerous sub-budgets, each of which covers the specific departmental operating activities. All departmental heads prepare a budget and pass it on the higher authorities who coordinate

and combine these sub-budgets into a total company budget. This total budget is then submitted to the budget committee (composed of top management representatives and the company's major departmental heads) for approval.

2. Purchasing Research:

In the planning process, several long-term and short-term decisions are to be taken and these decisions cannot be taken until the unknown areas are explored. Hence, in the planning stages, most purchasing actions require certain research investigations. Purchasing research is conducted under the four following areas: (a) Strategic Materials Planning (b) Procurement Planning (c) Research on the purchasing system.

(a) Strategic Materials Planning: Strategic materials planning focus on the impact of changes in internal environment on the firms material needs and procurement policy. Strategic materials planning activity involve both economic and technical investigation. Price trends and technological developments in industries producing inter-changeable materials are taken into consideration to forecast future conditions in competitive industries as these forecasted conditions are related to the firm's future needs. Technical investigations involve the research relating to make or buy and value analysis. (b) Procurement Planning: It involves a study of firm's material requirement and determination of acceptable cost objectives. Procurement planning research involves the exploration of followings: (i) Developing cost estimates.

(ii) Discovering potential suppliers and in-depth examination of benefits and disadvantages in developing relationship with these suppliers. (iii) Other data required in planning for specific purchasing negotiations. (c) Research on the purchasing system: It involves the analysis of policies, procedures, organisation structure, manpower planning, job analysis, job specification, job description, wage payment plans, incentive plans, performance approval, and job evaluation and so on. This research assists the top management in developing an effective purchasing policy. In short, it can be said that formal purchasing research recognizes the need for collecting, analyzing and interpreting the data and utilising it for developing an effective system of purchasing.

3. Project Planning:

Materials department many times is involved in planning and controlling of project type activities.

The basic consideration in these types of activities is right scheduling of the project. It means that planning of starting of different activities in such a way that no work at any time is being delayed because of non-completion of the previous activity or the other adjoining activity. For scheduling of project, network techniques like CPM & PERT are employed.

4. Annual Operating Plan:

Every planning activity starts with developing annual operating plan which is a forecast of the scope and magnitude of key operating activities. In a manufacturing firm, the key operating activity is the forecast of sales for the overall forecast of sales for the organisation. This overall sales forecast is

further broken down on the basis of different product items as well as smaller time frames.

From this sales forecast, production forecast is made, which, subsequently leads to the developing the production schedule.