

Discuss the parameters and ten 'r's of purchasing.



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Discuss the Parameters and Ten 'R'S of Purchasing.

The success of any manufacturing activity is largely dependent on the procurement of raw materials of right quality, in the right quantities, from right source, at the right time and at right price popularly known as ten 'R's' of the art of efficient purchasing. They are described as the basic principles of purchasing. There are other well known parameters such as right contractual terms, right material, right place, right mode of transportation and right attitude are also considered for purchasing.

1. Right price:

It is the primary concern of any manufacturing organization to get an item at the right price.

But right price need not be the lowest price. It is very difficult to determine the right price; general guidance can be had from the cost structure of the product. The 'tender system' of buying is normally used in public sector organizations but the objective should be to identify the lowest 'responsible' bidder and not the lowest bidder. The technique of 'learning curve' also helps the purchase agent to determine the price of items with high labour content. The price can be kept low by proper planning and not by rush buying. Price negotiation also helps to determine the right prices.

2. Right quality:

Right quality implies that quality should be available, measurable and understandable as far as practicable. In order to determine the quality of a

product sampling schemes will be useful. The right quality is determined by the cost of materials and the technical characteristics as suited to the specific requirements. The quality particulars are normally obtained from the indents. Since the objective of purchasing is to ensure continuity of supply to the user departments, the time at which the material is provided to the user department assumes great importance.

3. Right time:

For determining the right time, the purchase manager should have lead time information for all products and analyse its components for reducing the same. Lead time is the total time elapsed between the recognition of the need of an item till the item arrives and is provided for use. This covers the entire duration of the materials cycle and consists of pre-contractual administrative lead time, manufacturing and transporting lead time and inspection lead time. Since the inventory increases with higher lead time, it is desirable to analyse each component of the lead time so as to reduce the first and third components which are controllable.

While determining the purchases, the buyer has to consider emergency situations like floods, strikes, etc. He should have 'contingency plans' when force major clauses become operative, for instance, the material is not available due to strike, lock-out, floods, and earthquakes.

4. Right source:

The source from which the material is procured should be dependable and capable of supplying items of uniform quality. The buyer has to decide which item should be directly obtained from the manufacturer. Source selection,

source development and vendor rating play an important role in buyer-seller relationships.

In emergencies, open market purchases and bazaar purchases are restored to.

5. Right quantity:

The right quantity is the most important parameter in buying. Concepts, such as, economic order quantity, economic purchase quantity, fixed period and fixed quantity systems, will serve as broad guidelines. But the buyer has to use his knowledge, experience and commonsense to determine the quantity after considering factors such as price structure, discounts, availability of the item, favourable reciprocal relations, and make or buy consideration.

6. Right attitude:

Developing the right attitude too, is necessary as one often comes across such statement: ' Purchasing knows the price of everything and value of nothing'; ' We buy price and not cost'; ' When will our order placers become purchase managers? '; ' Purchasing acts like a postbox'. Therefore, purchasing should keep ' progress' as its key activity and should be future-oriented. The purchase manager should be innovative and his long-term objective should be to minimize the cost of the ultimate product.

He will be able to achieve this if he aims himself with techniques, such as, value analysis, materials intelligence, purchases research, SWOT analysis, purchase budget lead time analysis, etc.

7. Right contracts:

The buyer has to adopt separate policies and procedures for capital and consumer items. He should be able to distinguish between indigenous and international purchasing procedures. He should be aware of the legal and contractual aspects in international practices.

8. Right material:

Right type of material required for the production is an important parameter in purchasing.

Techniques, such as, value analysis will enable the buyer to locate the right material.

9. Right transportation:

Right mode of transportation have to be identified as this forms a critical segment in the cost profile of an item. It is an established fact that the cost of the shipping of ore, gravel, sand, etc. , is normally more than the cost of the item itself.

10. Right place of delivery:

Specifying the right place of delivery, like head office or works, would often minimize the handling and transportation cost