

# Case Study - Introducing the Materials Management Department

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## INTRODUCTION

Initially in LaZaCo (1) the Estate Managers (EMs) used to handle purchases as well as other operations and all such matters. Later on certain items were bought centrally in order to obtain quantity discounts. One such nodal point was the Estate Operations Department (EOD) which used to purchase some of the common items such as fertilizers, machinery spares etc.

In order to coordinate operations, the EOD used to have meetings with the EMs. Sometimes these meetings grew quite acrimonious with accusations of incompetence and non-cooperation flying back and forth. At one such meeting one of the EMs, Kelliappa made some comment about the sub standard spare parts being procured by the EOD.

"Oh come on Kelly," Iqbal Ali (Manager, EO) protested, "You're just being fussy."

"Is that so?" Kelliappa, an even-tempered man, smiled. Then he reached down for a bag and pulled out a bearing. "See this."

"Looks perfectly fine to me," said Gobind, (DGM, District Office (DO)).

"Yes, it looks fine - from the outside," and Kelliappa took a chisel and forcibly pried the bearing open. Greasy steel bearings dropped onto the table. Kelly picked up a few, cleaned them and displayed them. "Now see. Old bearings – genuine new parts will never have a surface like this – they look smooth but you can clearly see where they have been reconditioned."

Since there was little the EOD could say, that particular argument ended there.

On another occasion a large quantity of pesticide had been received. On checking a sample, it was found that the cans (which were supposed to be 1kg packs) were overweight. Puzzled at the excess quantity received, the inspectors

reported it to the Iqbal Ali who passed on the information to Mandur (Finance Manager, DO). When Mandur took up the issue with the supplier, (a large MNC), he was told that it was not possible – that the cans were automatically filled and the dispensing machines had been calibrated to a 0.5% tolerance. Till then Mandur had not been seriously concerned but at the casual and dismissive attitude of the supplier, he invited them to verify for themselves. When the MNC supplier's representatives arrived, they were shown the cans and asked take a random sample and to do the weighing of the same. (Ref. Table 1) The representatives were mystified, but then one of them asked Mandur what his concern was.

"If a few cans are overweight that means that we are supplying a slightly larger amount and your company benefits. Why are you so concerned?"

"Is that so?" Mandur retorted. "Our order was for 20,000 cans weighing 1 kg each to be supplied in two lots. Today you have observed that the cans in this sample are overweight. In fact we have also checked the total weight of the other 9970 cans supplied in this instalment. The average weight of the rest of the supply matches with the sample. So, on an average, all the cans have been overfilled. In your next delivery, of the balance 10,000 cans, they may be under-filled to the same extent, and you may still argue that the total quantity supplied is correct as per our order. But when these cans arrive they are delivered to the estates, where in turn they are re-distributed to the divisions (2) for operational purposes. Then after dilution, they are used for spraying. That procedure is standardized – how much water has to be added to dilute one can and what area is to be covered by one sprayer. But if the sprayer is issued a can with a shortfall it will definitely reduce the effectiveness (3) of the spraying, and that deficiency will not be offset by spraying more elsewhere! In fact, the problem is even worse than that, because if enough of the pests are left, they will re-infect the area. It is not possible for us to verify each and every container. So please go back and check the calibration of your equipment."

Many other similar such problems were observed. The business had expanded over the years and the value and

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volume as well as the range of materials to be purchased had become quite substantial. Since several departments independently carried out procurements, this resulted in inefficiencies leading to serious problems in manufacturing, product quality, delivery schedules and naturally customer dissatisfaction. When the business started to suffer, that too noticeably, corrective steps had to be taken and a top-level decision was taken to set up a new Materials Department headed by a full time appropriately qualified Purchase Manager (hired from outside) to look after all purchase and purchase related matters such as empanelling of an adequate number of suppliers, arriving at proper delivery schedules, monitoring stock levels, establishment of quality control procedures etc. Budgeting and financing would also have to be coordinated. But unfortunately over a period of years these activities had been left in the hands of different departments / individuals resulting in highly personalised "jagirs" (4). Needless to add almost invariably vested interests and other malpractices had taken firm root.

Thus there was non-co-operation from those who stood to lose 'perks' (substantial and tax free, provided by the suppliers, sometimes for favours, sometimes in general) or those who objected to their wings being clipped and so on. Then there were mutterings about costs going up unnecessarily, squeezing margins etc. But the management proceeded to set up a materials department with suitable infrastructure, staff, etc (partly from the existing personnel). In order to ensure smooth functioning of the new dept some highly visible top management support was also provided. The new department was placed directly under the supervision of the Finance Manager (5) initially.

Even then a Purchase Committee under the Chairmanship of the Finance Manager (6) was constituted, the other members being the Purchase Manager and senior representatives of the user departments. This committee met every week to approve all major purchases on the basis of tenders while routine/minor purchases were made by the Purchase Manager and placed before the Committee to be taken on record. Copies of the Minutes were circulated to all concerned with one copy to Markhand, (Vice President, Operations).

But things took time to settle down. Mandur himself was approached by various managers advocating that their departments were exceptions.

When he visited the company hospital the Chief Medical Officer (CMO), Dr. Krishnayya asked to have a quiet word with him. "I am all for the new Materials department Mandur," Krishnayya started off, "Things have been going on unchecked around here. There have been all sorts of rumours about people looting the company. But I am very worried about the impact on us. We are running a hospital. We are not involved in operations. All the new procedures – very thorough I am sure, but time consuming. Our requirements are critical and special we should not have our urgent medical requirements delayed because they are subject to all these processes. Please see if anything can be done." Not wanting to get into any controversy, Mandur simply promised to look into his concerns.

On another occasion one of the EMs, Chandan, brought up the matter. "This is a very good idea, Mandur. These people in the EOD have been enjoying things here for too long. But

Table 1: Observations of Weights of Cans in Sample

S.No	Wt	S.No	Wt	S.No	Wt
1	1045	11	1044	21	1047
2	1076	12	1043	22	1029
3	1037	13	1058	23	1034
4	1013	14	1039	24	1095
5	1045	15	1058	25	1099
6	1100	16	1073	26	1038
7	1090	17	1033	27	1026
8	1065	18	1071	28	1051
9	1025	19	1031	29	1007
10	1022	20	1041	30	1059

Note: All observations in gms. (Stated Value on can = 1000 gms)

timely supplies are very important. We have to spray pesticides immediately after pruning and any delay will affect the plants.” Chandan emphatically gesticulated jabbing his forefinger in the air. “If fertilizers are not applied well before the monsoon begins then they will get washed away. It is very critical – all supplies must be on time. If supplies are not available on time – we will lose the crop. You understand some of our worries because you have been here for some time, but a newly appointed commercial man may not appreciate our operational problems. Please see if any exceptions can be made.”

Yet another time the Industrial Relations (IR) manager, Pareek met him. “We supply blankets to the labour and their representatives are also involved in the process,” explained Pareek. “Of course, I am all in favour of the Materials Department and proper procedures but you know these union leaders. Previously they used to verify the quality of the materials supplied to the labour and now they might kick up a fuss. Personally, I fully agree that it is a good idea to have proper controls and systems, but we are a labour intensive industry – and the union leaders are very well connected to the government. Please see if something can be done. Very sensitive issue, you understand – lot of potential for trouble.” Pareek shook his head dolefully.

Such concerns were duly addressed through regular high level consultations and eventually things were brought under control. The effort was worth the trouble. Open competition among suppliers ensured reasonable prices, quality, adherence to delivery schedules etc. Inventory levels were strictly monitored. At the same time payments were streamlined to the satisfaction of the suppliers. If, for example, payment terms were 30 days, then on the 30th day the cheque was ready to be picked up from the Accounts department. No follow-up, no haggling, no pleading, no 'incentives'; the only requirement being that the correct supplies of the materials/services be made, on time, and as per all the terms and conditions.

#### Notes (Numbered in parentheses in text)

1. Many writers refer to the division/divergence of India and Bharat. In some parallel universe, the Indian sub-continent (of our universe) was instead divided into Bizarreland and Bazaarland. This case is set in those two lands. The company LaZaCo (Lala Zaka Company) (fictitious) grows, processes and markets Zaka, a type of beverage cash crop (fictitious).
2. Estates are divided into smaller areas called divisions for operational purposes.
3. Effect of Deviations: If a can contains up to 5% less, effectiveness though reduced is still acceptable. If content is less than 95% of the stated content effectiveness drops off at an increasing rate.
4. Possibly an appropriate equivalent English word would be fiefdom.
5. Though not generally desirable, this was done initially for one year to neutralize the disruptive influence of numerous powerful vested interests, who might otherwise try to bamboozle the new purchase manager.
6. As in point 5 above, only for the first year after which the Convenor would be the Purchase Manager as would normally be expected.