

CHAPTER ONE

1) BACKGROUND

1-1) OBJECTIVE

The objective of this case study is to analyze and create a framework of structure and system of purchasing management in an electronic manufacturing company. It is geared towards higher efficiency of utilizing system to facilitate the control, definitely accompany by a sound organization structure. The case study will provide a rich and in-depth understanding on the operation system of purchasing management.

1-2) SCOPE OF LITERATURE REVIEW

Many books have written about purchasing management and mostly centralized to the objective of procurement, namely

" to purchase the right quality of material, at the right time in the right quantity from the right source, at the right price."

The objective has broden - up and the following are the suggested broad statement:

- 1) to supply the organization with a steady flow of materials and services to meet its needs. Continuity of supply by maintaining effective relationships

with existing sources and by developing another source of supply either as alternative or to meet emerging or planned needs.

- 2) to buy efficiently and wisely, obtaining by any ethical means the best value for every cents spent.
- 3) to manage inventory so as to give the best possible service to users at lowest cost.
- 4) to maintain sound cooperative relationships with other departments providing information and advice as necessary to ensure effective operation of the organization as a whole.
- 5) to develop staffs, policies, procedures and organization to ensure the achievement of the foregoing objectives.

As a company operating in a continuity situation, a stable supply chain — move smoothly from suppliers to assemble & then to customers is important and at the same time continuous Value Engineering activities is equally important.

1-3) DATA COLLECTION

5 companies in electronic related industries were chosen to for this case. One is a neighbouring factory, two located in Shah Alam and another two in Petaling Jaya. Findings gathered through informal interviews didn't show much differences between their purchasing system except in control — centralize or decentralize control.

More than 20 number of employees were interviewed in this study, with each interview lasted averaging from 30 to 40 minutes. Repeat interviews were conducted for 7 of the members. Some of the interviews were exploratory in nature, but most were unstructured. The interviews were at various managerial level and from a broad span of functions. In addition, personal first-hand job experience also included.

Many written document have been collected namely organization of purchasing section, operational procedures and company profile. Quantitative datas were collected on purchases, inventory, sales and EDP systems.

1-4) MODELS AND METHODOLOGY

This case study will use the following models.

- 1) Material Requirement Planning (MRP)
- 2) Minimum Ordering Quantity and ABC Concept
- 3) Slow Moving Concept.

1-4-1) Material Requirement Planning (MRP)

Material Requirement Planning is a tool used by most manufacturing companies to improve their materials control. It determines the following factors :

- 1) what to order
- 2) how much to order

- 3) when to order
- 4) when to schedule delivery

It helps a lot in minimizing obsolete goods and any other mean of loss cost and support in improving value engineering activities. The effectiveness of MRP system depends on the efficiency of operational members' understanding in

- 1) master production schedule
- 2) bill of material (standard material requirement to produce one product)
- 3) inventory control or level (what is in warehouse)
- 4) purchase order lead-time (outstanding order)
- 5) material delivery and production lead-time

1-4-2) Minimum Ordering Quantity And ABC Analysis

Theoretically, ABC analysis divide inventory on hand into three classifications on the basis of annual dollar volume. Practically, we should divide inventory on hand into

- 1) raw material
- 2) packing material
- 3) others - fast and slow consumable items.

In NECSEM, raw materials occupying more than 80% of the total purchases. Raw materials and packing materials which are variable to the production volume should fall under MRP system to facilitate control. On the other hand, other consumable items which can be divided into fast and

slow moving should fall under minimum ordering quantity system as the number of these items is very large & consumption is not consistent.

1-4-3) Slow Moving Concept

Aging of goods should apply to each category of materials to facilitate the control of slow moving materials. The aging period should be divided into 3 months, 6 months, 9 months, and more than one year. Further counter measures can be taken for each period of aging materials.

1-5) POSSIBLE PROBLEMS

One of the limitation of this research is the difficulty in obtaining headquarter's policy on purchasing system. Communication barrier arises due to differences in language. In addition of that, top management was not so keen in up - grading the purchasing system as it is not generating any sales up or cost saving which is contradicting with the purchasing manager's perception that up-grading of the purchasing system can create a better competitive edge over the competitors in terms of quality, cost and delivery.

1-6) STRUCTURE OF REPORT

The first chapter explains precisely the objective of this case study. It briefly touches on the scope of the literature review and followed by methodology of data collection for the case. Conceptual models which will be used and the limitation of the study are also included in this chapter.

Chapter two focus on the company's background, nature of business and specifically on the organization of purchasing section, methodologies and procedures in purchasing for NEC Semiconductors (M) Sdn.Bhd. There are various methods of purchasing goods and receiving of goods. The concept of MRP and minimum stock level were also discussed. Objectively is to give a clear view of the overall purchasing system and procedures.

Chapter three analyses the problems in Purchasing Management. Analysis focus on the areas like organization, control system and MRP.

Chapter four is on generation of proposals for the problems faced in chapter three and finally Chapter five concludes the case study with further proposal to study the ethics in purchasing management.