

CHAPTER – V

CONCLUSIONS AND SUGGESTIONS

CHAPTER FIVE

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5.1 Conclusions:

From the survey undertaken and data analysed, the following are the conclusions drawn.

The majority of the organizations are adopting centralized purchasing. Similarly, the purchasing policy followed by the majority of them is conservative, i.e. strictly by requirement, in other words, hand-to-mouth buying.

In the selection of suppliers, approximately 88 per cent of the organizations call for quotations and the final supplier is selected. The majority of the organizations keep their material purchasing records under the vendors' invoices records and while purchasing the materials and before the final acceptance of materials from suppliers, 75 per cent of the units undertake the inspection of materials. Regarding the maintenance of stores, 69 per cent of the units are adopting centralized stores.

While determining the layout of stores, 75 per cent of the units have considered the aspect of minimum handling and transportation. Regarding inventory control, the majority of the organizations have adopted perpetual inventory technique. In case of identification of materials,

75 per cent of the units have adopted tagging and labelling.

For solving the problem of how much to purchase, 62 per cent of the industries surveyed have fixed the economic order quantity and 88 per cent of the industries have fixed the stock levels. Re-order and maximum level is fixed by 69 per cent units and the maximum level is fixed by 44 per cent units.

The study, with regard to the techniques of inventory control, has revealed that a less number of organizations, i.e. 6 per cent, are adopting two-bin, control ratios, reservation systems, budgetary control system and verbal instruction technique.

The study has recorded that the majority of the organizations, i.e. 62 per cent have estimated their normal loss and the type of material loss that exists in a wastage.

The study with regard to the scrap spoilage and documents for material losses indicate the reasons for the scrap such as defective and broken parts as well as processing of material which was highlighted by 63 per cent of the units. The spoilage of material is in the form of loss in weight denoted by 50 per cent of the organizations. The major reason for the spoilage is the loss-in-transit as well as loss in material handling.

More than 50 per cent of the organizations consider purchase of good quality of materials as one of the steps for controlling scrap and wastages while the same percentage of the organizations are adopting perpetual inventory system for controlling losses. With regard to the method of pricing the inventory, the study highlights 38 per cent of the units adopt simple average price method.

5.2 Suggestions:

Having presented the data and the conclusions being drawn, the following suggestions can be recommended.

As the survey indicated that the majority of the units do not adopt the purchasing budget, it can be suggested that the proper budgets with regard to the inventory consumption should be prepared. While preparing this budget, care should be taken to consider the production capacity, the level of the demand, the storage capacity and the cost of inventories having classified them as ABC items. Care should be taken to have the flexibility in this budget preparation, because of the consideration of the inflation, the material shortages, etc., as the situation changes and demands that the budget should be reviewed and revised.

Since 80 per cent of the cost of production is incurred due to the inventories. This needs to be taken proper care of by storing them properly and giving the



identification marks (codification). This aspect of codification seems to be neglected by 60 per cent of the units. At the same time, the observation made during survey has indicated that the material is not stored properly with proper protection, the material was to be thrown in the plant without the use of proper racks. To overcome these drawbacks, it can be suggested that the material received should, first of all, be stored at proper location, taking into consideration the fast moving items as well as slow moving items. Having located the materials at proper places, care should be taken that these items are not being exposed to climatic conditions. Having considered these facts, codification for the items in use should be done so as to avoid spoilage, production wastages, scrap and wastages, etc. While making use of codification systems, care should be taken to adopt a simple codification system, which could be followed easily by the storekeeper rather than going in for complicated one, such as alphabetical codification system. Finally, one should also see that whatever codification system is followed, it is reviewed periodically in order to keep abreast of the changing technology, innovations and production function modifications.

The study has revealed that the majority of the units under study are using unscientific methods of issuing materials, for instance, if one of the department orally

communicates in an informal manner for certain items, the same are issued by the storekeeper without any requisition note. This ultimately will have its effect on the purchases and storing of the materials consumed. With regard to the purchases, it was brought to the notice that the purchases are made by following the policy of conservative buying (hand-to-mouth buying). As these organizations are not taking into consideration the stock levels, such as safety stock, buffer stock or reordering level, it was found many times that the production got hampered, i.e. production stoppages due to the lack of materials. To avoid all these problems, it can be strongly recommended to have a proper accounting of the material consumed and to place the orders for the inventories at proper times. The management of these organizations should see that the materials are issued strictly on the basis of either material requisition note or bill of material by the department. At the same time, having worked out the consumption rates of the various items, the stock levels should be decided and the order should be placed at the appropriate time, taking into consideration the lead time and the consumption rate.

In order to study, it is highlighted that the majority of the organization adopt the Annual Stock Verification System to keep track of items existing and consumed as well as the items to be purchased newly. In this system, the verification of materials will give us the picture of

of the materials either lost or wasted at the end of the year. Locating the losses and controlling the inventories at the end of the year would be hazardous to the management. In the light of this fact, it may be suggested that these organizations should go for periodic verification or continuous stock verification. In respect of this method, the units having too many items may find it difficult and time-consuming. This can be taken care of by going in for random sampling of these items, which are cheaper and consumed more, such as 'C' items. On the contrary for 'A' items, 100 per cent stock verification periodically can be done.

For taking proper care of the inventories as well as for avoiding wastages and spoilage, the necessity of recording system by a qualified person is a must. Unfortunately, during the survey, it was noticed that, barring a few units, materials were issued by unqualified persons looking after the stores department. This factor further reinforces due to the lack of proper documents as well as inadequate documents used for controlling the materials. In the light of this fact, it may be suggested that a qualified person having adequate knowledge of storing and materials management should be recruited and designated as storekeeper. At the same time, the management should see that the material loss or scrapped or wasted material is recorded and maintained properly for future review, as and when the decision with regard to the purchase of material is taken. Similarly, many

times, the material is purchased by calling for quotations and the records for the same are not at all maintained for future requirements. It is similar with the purchasing policy of contract purchasing and the documentation regarding the contract purchasing is not being maintained. To help in taking quick and effective decision for future purchases, whatever may be the purchasing policy adopted, the records of these past purchases should be maintained properly.