

# Cut Down Costs by Materials Management

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Like the concept of socialism 'management' is the most widely used terminology particularly in recent years. Associating the word 'management' with any activity bestows on it something like a halo. It is a symbol of modernity and prestige. Indiscriminate use of this concept in all possible contexts has resulted in loss of its original meaning and import. To some it means planning and implementation. A few experts think that it is simply getting things done through others. Management is also viewed as a process of executive control and of organising force. Some people define it as employment of capital efficiency so as to obtain maximum results. Yet to some others it means utilisation of talent and resources to achieve a targeted result.

Management, undoubtedly, is the summation of functions. It is a distinct process, consisting of planning, organising and controlling, conducted to determine and accomplish predetermined objectives with the help of human beings and other resources. Any functional process of management is the interaction of constituents viz man, machines, methods, money, market and materials.

For instance, material management covers a large segment of management. While manpower aspects are looked after by personnel management it is the efficiency in the area of material management which greatly contributes to maximisation of production, cost reduction and optimisation of margin of profit. A conservative estimate shows that normally 60% of the current expenditure in any manufacturing enterprise is accounted for by materials and services in various forms. The following illustration will make this point abundantly clear.

A dealer sells an electric lamp for Rs. 100/-. When we go into the factors that have been taken into consideration in arriving at the selling price for this particular product we can find that the cost of the material required for manufacturing the lamp constitutes 60%, the interest burden 10% and other costs 20% leaving a profit margin of 10%. Assuming that price remaining constant over a period of time, a 10% reduction in material cost would mean 120% increase in profitability. Net material cost will be Rs. 54 and net profit Rs. 11/- per unit. This in ordinary language means that through proper material management the profit percentage will increase considerably. For example a reduction of just 10% in material cost will result in boosting up profit to the extent of 120%.

In the present Indian market where profiteering appears to be the major concern and cut-throat competition is the order of the day, scientific material management holds the golden key not only to the stabilisation of prices but also guarantees to the manufacturer a reasonable profit.

This is not a tall claim. When we pay Rs. 10,000/- for an Indian colour TV, a similar product of Japanese make may cost Rs. 2 to 4 thousands only. One may wonder how the Japanese manufacturer is able to sell this product at such a low price.

In the field of electronic goods manufacture Japan could achieve cost reduction of 3.15 percent just in 18 months by applying modern techniques of material management. The Japanese National Railways was able to save about Rupees Seven Crores in a year through proper materials management. The average savings works out to roughly 4.9% annually.

One may tend to conclude that materials management techniques have more relevance to the private sector which is the major source of goods and service in our country. In fact, it is equally, if not more applicable and effective in the public sector. The Govt. of India, engaged in constantly devising means and methods of bringing about economic discipline, particularly in the investment areas, can reap better results by employment of material management techniques.

It is a common practice to curtail funds allotment just to show savings for record purposes. This is more prevalent in the non-manufacturing governmental departments. Avoidance of an investment in purchase is generally considered to be a saving, whereas the losses on account of such 'austerities' are not always quantifiable and they really neutralise the so called savings. This notion of saving is not real saving.

During 1972-73, the Govt. of India, realising the importance of materials management in combating inflationary trends and controlling the spiralling prices introduced a package programme known as credit squeeze. The broad philosophy underlying this strategy was to squeeze the free flow of capital, thereby forcing the private and public sectors to trim

the Institute are to obtain a wider recognition of materials management and to promote the importance of efficient materials management in commercial and industrial undertakings in all sectors. It is engaged in popularising material management activities by stimulating among the members of the Institute, thought and effort by collecting and disseminating information regarding practices relating to procurement, marketing and manufacturing functions in respect of various products, their sources of supply etc. for their benefit. Lectures, conferences, seminars, exhibitions, library research, consultancy, publications etc organised by the institute are in great demand. Another distinct feature of the institute is its emphasis on commercial morality and dignity amongst the members. Where large transactions of purchases are undertaken, corruption cannot be ruled out.

### **Commercial honesty :**

As in the case of medical profession this institute has prepared a code of conduct to ensure honesty in business transactions like buying and selling. It denounces all forms and manifestations of commercial bribery and calls upon its members to eschew anti-social practices. The society of materials managers realises that it is not only the professional acumen and prowess but high standards of personal conduct are equally important for the healthy progress of our economy.

### **Activities of the Institute**

The Indian Institute of Materials Management has its headquarters in Bombay and has 21 branches in important State capitals all over the country. It has also chapters at Coimbatore, Kanpur, Trivandrum and Nasik. Its membership has grown to 4274 in 1983. At the national level it is governed by a council consisting of a President, Senior Vice President, four Vice Presidents, Secretary, Treasurer and a large number of executive members elected by the branches, based on the principle of proportional representation. The board of studies, decides upon the standard of the courses and the training programmes conducted all over India. The diploma awarded by the Institute after two years graduation course is recognised by the Govt. of India. It is the only one recognised diploma course on the subject in the country. The diploma is the minimum qualification prescribed by the Govt. of India for appointment to higher posts in materials management in Public Sector Undertakings. The Institute feels that the trained mind of a university graduate may be able to make better contributions to the material management profession and to the economy of the country. The institute offers opportunities for training in materials management to raw graduates through exposure to modern scientific materials management methods. There are regional education committees consisting of representatives from universities, management institutes, polytechnics etc. The Institute has also established training centres where candidates who want to make a career in materials management are given adequate training.

The Research cell carries out investigations and studies into various aspects of materials management and related subjects continuously. Recent publications of research

papers of Inventory control in Leather, Automotive Engineering industries have received recognition in Industry. Training films produced by Dr. Ramani have achieved international recognition. The Institute brings out two publications, viz, 'Materials Manager' (a bimonthly published from Calcutta and 'The Materials Manager News Bulletin' (a monthly published from Bombay).

Indian Institute of Materials Management has strong and extensive overseas connections, a natural corollary to the importance of its specialisation. The Indian Institute of Materials Management is a charter member of the International Federation of Purchasing and Materials Management (IFPMM). IFPMM has a membership of over 60,000 representing 34 countries in Europe, America and Asia and also Australia.

IIMM is the only body in India specialising in the art and science of managing materials. The contribution of materials management professionals in the management requirements of industry and commerce, in the areas of production, marketing, quality control and industrial engineering, is considerable. The importance of this contribution is more pronounced in the present context when Indian economy suffers from disproportionate inflationary trends.

The Institute has recently submitted a petition to the Govt. of India for chartership through an Act of Parliament.

In large Government projects where thousands of crores of rupees are blocked in materials, the role of materials management has to be underscored. More so as the Government has recently reoriented its projects policy from investment to productivity.

Materials management has a bright future so far as India is concerned. It is definitely going to play a pivotal and prestigious role in streamlining and strengthening our developing economy by preventing wastage of precious resources and by ensuring cost reduction in production.