

Project Management for Managers
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Lecture - 60
Procurement Management- Part II & Project Termination

Hello friends. I welcome you all in the session. As you are aware in previous session we were discussing about procurement. And, procurement should be treated as a profit centre function; it should not be treated as cost centre. So, you can convert this function as a profit centre through skillful negotiations with the vendors. And if you are updated with information related to new raw materials, new vendors, different prices, exchange rates, and so on- when you can really make lots of money in this particular activity.

So, as I said it is good to go for life cycle costing. Purchasing should be such that at the life cycle of the raw material should be seen. It is possible that the vendor may give you raw material at cheaper price, but the raw material would not have sufficient life cycle. So, you should look at life cycle cost of the material or the equipment or machine whatever you are going to purchase.

Purchasing and transporting cost: you can save a lot here. Let us see if your organization is in hilly areas. Then you should select vendor in such a way that he should be able to supply material in your plant. And the fellow should use an efficient transportation mode. So, choose transportation mode very carefully. Rather than going for let us say- you have you can have different modes right you have got rail, you have got road, you have got sea, you have got air, then you have got pipelines. you have got ropeways, you have got conveyor belt kind of transportation system and generally used in you know mining industry and so on.

So, use of transportation mode plays an important role in purchasing, because it will affect the lead time: the time between placing the order and receiving the order. It will also affect the freight charges. It will also affect, at the end of the day total efficiency of the purchase department. So, go for purchasing very carefully.

Now whenever you are buying something you need to have certain policies right, you should have some set of principles.

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Buying polices

Policy comprises a **set of principles** – expressed or implied-laid down to direct an undertaking towards the attainment of its objectives and guide executives in their decision making .

Major policies : by top management

House/sub-contracting

Centralisation/ decentralisation purchasing

Extent of in-house/ subcontracting mfg.

Consequential policies: Items to be purchased at **plant level**

Financial limits to be placed on an authority

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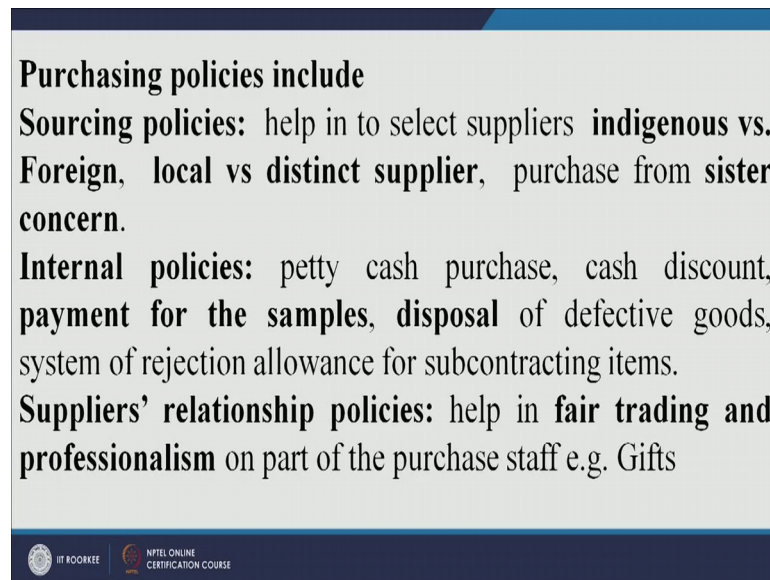
And these policies are generally framed by top management. So, you need to look at issues like should the product be made in house or should be outsourced are it should be in bought a new from some other party, right. So, you need to take decisions like centralization and decentralization purchasing. What product should be centralized and what to be decentralized.

And then you need to look at some other issues like financial limits to be placed on an authority who is going to purchase. So, let us say purchase department is authorized to purchase only those products having and cost less than let us say 10 lakh rupees. For more than that you need to go to higher level right in the organization. So, you can have different buying policies.

So, again you need to look at sourcing policies also. For example, you are going for indigenous product or some foreign source or some local source or some other supplier. Are you going to by a from sister concern right. So, you need to come up with issues for all these sources.

Then you can have internal policies: what about petty cash purchases.

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Purchasing policies include

Sourcing policies: help in to select suppliers **indigenous vs. Foreign, local vs distinct supplier**, purchase from **sister concern**.

Internal policies: petty cash purchase, cash discount, **payment for the samples, disposal** of defective goods, system of rejection allowance for subcontracting items.

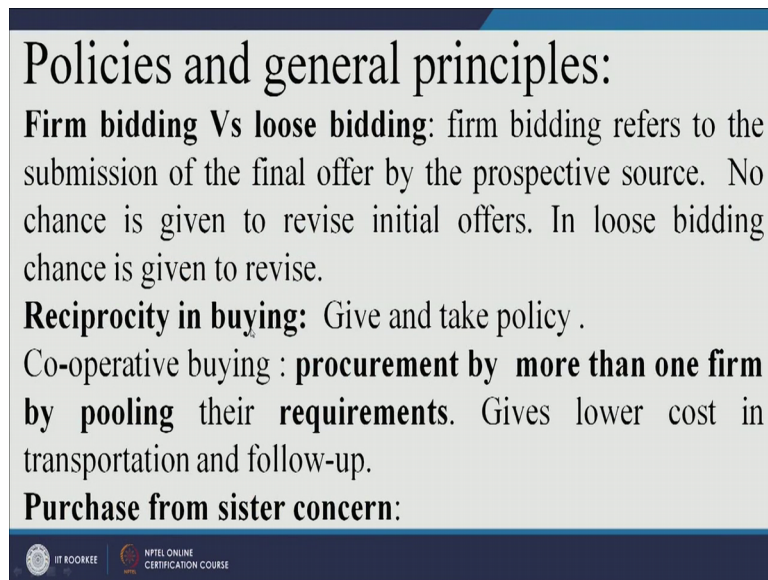
Suppliers' relationship policies: help in **fair trading and professionalism** on part of the purchase staff e.g. Gifts

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What about cash discounts, would you be giving payments for the samples which you received from vendor before actually selecting vendor? So, this is very important topic and important point you should look it carefully payment what the samples. We see what happens whenever you buy a something from a vendor then he will give you samples first. And at the time of coming up with an agreement with the vendor you should be very clear whether you be making payment for those samples or not. Isn't it? Because sometimes samples are very expensive, isn't it. So, it all depends on terms and conditions between bar and supply.

Supplier's relationship policies of course should help in fat reading and professionalism on part of purchasing staff and gifts, this is something. In fact, we will discuss in next slide something about ethics right, ethical issues in buying. So, again policies and general principles from bidding versus loose building. What kind of bidding you are going for? So, when you say firm bidding refers to the submission of final offer by the prospective source, so no chances given to revise initial offers. So, let us say if I am a vendor I have quoted some price for a material, then I should not be given any chance to revise my prices. So, it is firm bidding. In loose meaning it is possible.

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Policies and general principles:

Firm bidding Vs loose bidding: firm bidding refers to the submission of the final offer by the prospective source. No chance is given to revise initial offers. In loose bidding chance is given to revise.

Reciprocity in buying: Give and take policy .

Co-operative buying : **procurement by more than one firm by pooling their requirements.** Gives lower cost in transportation and follow-up.

Purchase from sister concern:

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Many times you need to have reciprocity in buying. You may go for given take policy right. In fact, there are some situations where you are buying a raw material from let us say different forms and you are finished product may be bought by those forms; it is possible. Let us say if you are in a business of furniture right. So, let us say you have obtain material from different 2-3 vendors and your final product is furniture.

So, those people will also buy your product. So, I have given take kind of policy. Many times you can go for co operative buying, right. So, you can have a group of 2-3 organizations coming together and all of you are buying from one particular vendor. You are just clubbing your requirements and buying products from different seller's.

So, these are couple of policies and general principles; speculative buying, purchase of goods from own employees. In fact, there are several businesses in which the raw materials and components come from their employees. So, employees would have there businesses set their houses are at some other sides. So, those employees will be sending you raw materials and components, it is possible.

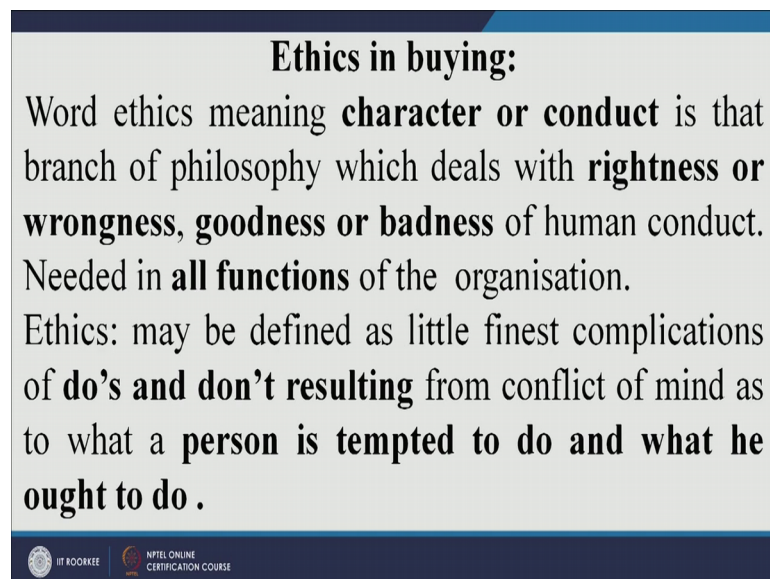
You can have employees purchase. Cooperative society of the company, now it is; many times what is happening let us say in your organization you have got thousand employees and you are making let us say your product is a textile product right are let us say shirt is there. So, your final product is a shirt right. Now you can have a cooperative type of

system in which the shirts would be sold to your employees at somewhat cheaper rate. So, that is known as a cooperative type of purchasing.

Sale of goods to employees: in fact many times you have got surplus and obsolete items. Surplus I have those items which are there in your organization even after end up there useful life. You have not used those raw materials and components, because of improper planning are some other reason or let us say because of low demand. So, those are surpluses. And obsolete items are those items which you are not using because of changing technology. Since new technology has come those materials are of no longer any use. So, you can have obsolete items. You can have cartons, wooden box, gunny bags, and so on.

So, all these things can be sold to your employees. So, these are couple of further things which you should keep in mind.

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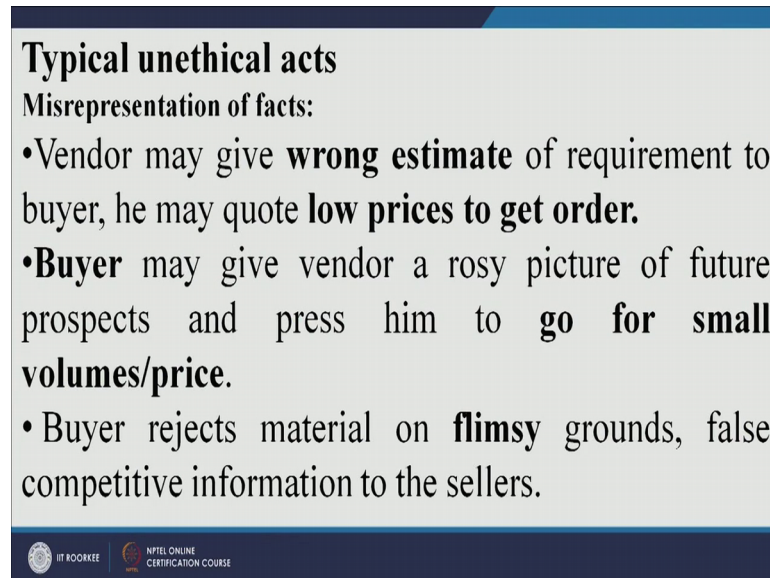
Ethics in buying:
Word ethics meaning **character or conduct** is that branch of philosophy which deals with **rightness or wrongness, goodness or badness** of human conduct. Needed in **all functions** of the organisation.
Ethics: may be defined as little finest complications of **do's and don't resulting** from conflict of mind as to what a **person is tempted to do and what he ought to do .**

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In fact, let me move on to ethics in buying, very important topic. It deals with the character or conduct of the person. You need to decide what is right and what is wrong, because there is a very thin line between these two. Purchase manager has to be very honest. He can make changes in your organization by following right practices, by following latest purchase management practices.

So, ethics maybe in fact as I said may be defined as little finest complications of do's and don't resulting from conflict of minds as to what a person is tempted to do and what he ought to do. Ethics is quite an important topic. And there are several unethical acts which should not be there. For example, let us say miss presentation effects. It is possible that the vendor may give wrong estimate of the requirement to buyer.

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Typical unethical acts
Misrepresentation of facts:

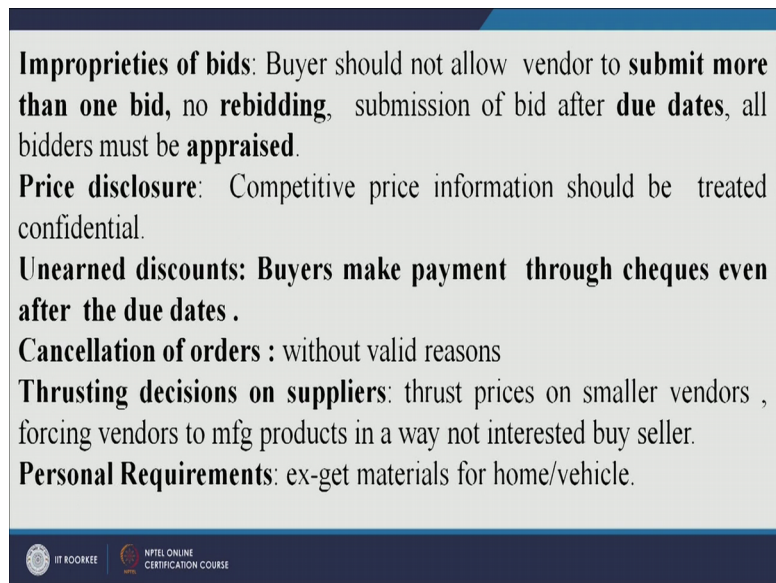
- Vendor may give **wrong estimate** of requirement to buyer, he may quote **low prices to get order**.
- **Buyer** may give vendor a rosy picture of future prospects and press him to **go for small volumes/price**.
- Buyer rejects material on **flimsy** grounds, false competitive information to the sellers.

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In quote low prices to get order; this is quite common unethical practice. Many times you will find vendors quoting very low price, because their objective is to get that particular order. So, that should not be done. Buyer may give vendor or rosy picture of future prospects and press him to go for small volumes are price. Now this is again quite an unethical practice.

Buyer we will give an assurance to the seller that I will buy this much quantity in near future. So, you just reduce your prices. So, if he does that then that is also not acceptable. Buyer rejects material on flimsy grounds false competitive information to the sellers; so again not a good thing.

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Improprieties of bids: Buyer should not allow vendor to **submit more than one bid**, no **rebidding**, submission of bid after **due dates**, all bidders must be **appraised**.

Price disclosure: Competitive price information should be treated confidential.

Unearned discounts: Buyers make payment through cheques even after the due dates .

Cancellation of orders : without valid reasons

Thrusting decisions on suppliers: thrust prices on smaller vendors , forcing vendors to mfg products in a way not interested buy seller.

Personal Requirements: ex-get materials for home/vehicle.

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So, improprieties of bids; so whenever you are buying a material and let us say there are you invited tenders then you should be very careful. You should not allow any vendor to reach change his quotes. Once the last date of bidding is over that is over, do not allow any vendor to submit bid after closing date.

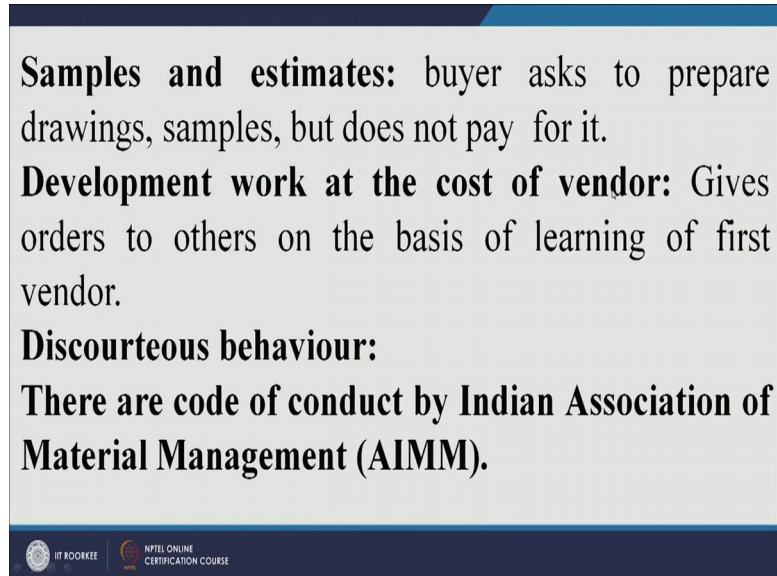
Buyer should not disclose prices of different vendors to one particular vendor: quite an unethical practice. Many times what happens the buyer tries to on an discounts because buyer makes payment to supplier even after you know agreed upon a one particular date of payment. So, he will make payment after that particular date. So, this is quite an unethical practice. Many times buyer cancel orders without giving many valid reasons. Then thrusting decisions upon suppliers they will no pressurize sellers to cut down on price to deliver product at particular location about which not informed apriory to be supplier.

Then they may ask for some personal requirements. So, there you can have different examples like likes getting material for home or for getting some material let us say getting some part of the vehicle for his own vehicle. So, all these things should be stopped.

Unjustified river charges very important. Unnecessary transportation charges; discrepancies in consignments this is quite important. Whenever you receive material from vendor you always report shortages to the vendor, but you should also report

surpluses if received from vendor. So, there should not be any discrepancies in consignment. I have already talked about samples and estimates, this is good one.

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Samples and estimates: buyer asks to prepare drawings, samples, but does not pay for it.

Development work at the cost of vendor: Gives orders to others on the basis of learning of first vendor.

Discourteous behaviour:

There are code of conduct by Indian Association of Material Management (AIMM).

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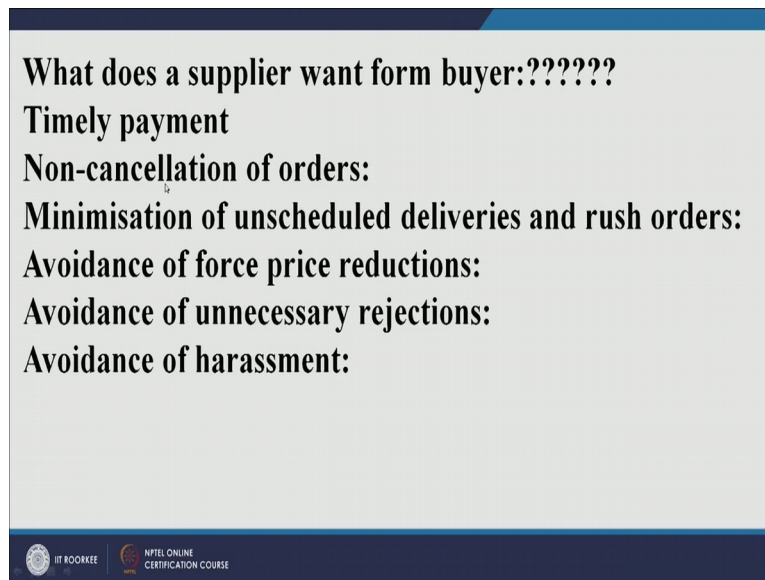
Development work at the cost of vendor: many times what happens you are a buyer and let us say there are three four vendors. So, you are getting some designs, some drawings made from one particular vendor, so that vendor has done all those things for you, but you are not giving order to that fellow; isn't it. So, that is quite an unethical practice.

So, there are certain codes of conduct by Indian Association of Materials Management. If you look at this process then there are certain expectations of buyers and sellers. Being a buyer, a buyer wants what; defect free supply, ability to hold price, correctness of paperwork, adequate after sales service in terms of let us say how vendor is collecting and defective parts from buyers site. (Refer Time: 17:50) vendors samples. So, these are couple of things which a buyer looks for.

On the other hand water supplier looks for, right. Supplier, he wants long term business relationship with you, he wants timely payment, and he also wants sharing of information for future plans. In fact, if you give your vendor right information he can also plan his budget, his materials, his manpower and so on.

So, these are couple of things which supplier wants; non-cancellation of order.

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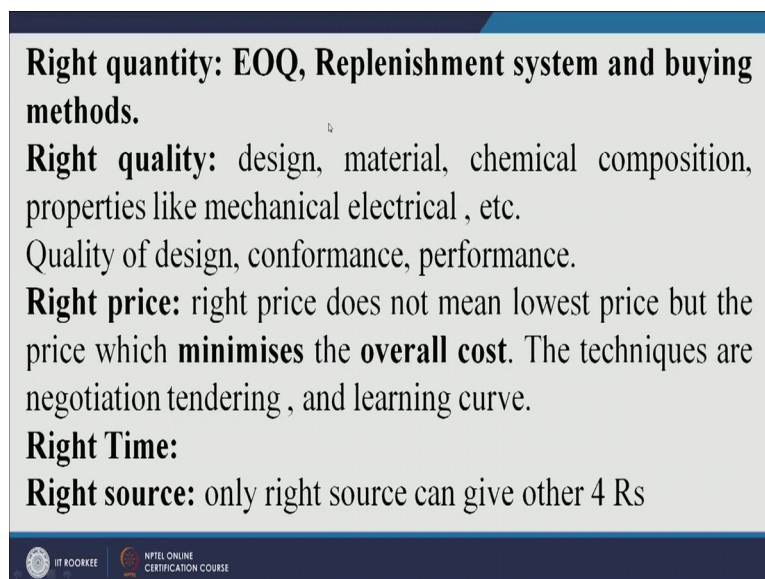


What does a supplier want from buyer:??????
Timely payment
Non-cancellation of orders:
Minimisation of unscheduled deliveries and rush orders:
Avoidance of force price reductions:
Avoidance of unnecessary rejections:
Avoidance of harassment:

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Of course, cancellation he would accept, but there should be a valid reason for that, right. Then avoidance of force price reductions should not be there, it should be very much clear at the time of agreement between two parties; nowadays of unnecessary rejections avoidance of harassment and so on. So, as I said in a project procurement process you have to look at five R's, right; so right quantity. So, you can determine using several techniques like what is economic order quantity, replenishment system and buying methods.

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Right quantity: EOQ, Replenishment system and buying methods.
Right quality: design, material, chemical composition, properties like mechanical electrical, etc.
Quality of design, conformance, performance.
Right price: right price does not mean lowest price but the price which **minimises the overall cost**. The techniques are negotiation tendering, and learning curve.
Right Time:
Right source: only right source can give other 4 Rs

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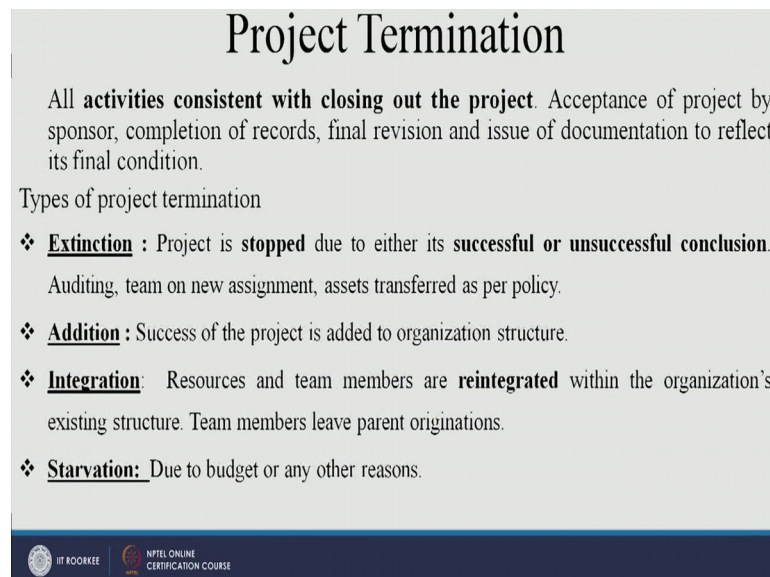
Right quality: we have already talked lot about quality. Right price: what is right price: Right price is not the minimum price. Right price is that price which minimizes the overall cost without compromising on quality time of delivery, isn't it.

Then right time: what is right time? What is the right time to purchase a product? Isn't it, so you need to plan your; it starts from marketing research to let us say from forecasting to aggregate production planning to master production schedule and so on. So, you should do right, you should get material in right time.

And then right source: What is right source? Right source is a source which gives you a right quantity, right quality, right price, and right time. So, if you have got all other four R's correct in a vendor then that is a right source.

With this let me stop here, and let me teach you how to close down a particular project. In fact, there are couple of points which you should keep in mind before you hand over project to your client. So, let us look at project close and termination. Quite an important step, because as I said project life cycle has got different phases. And the final phases (Refer Time: 21:21) phase, our termination phase.

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Project Termination

All **activities consistent with closing out the project**. Acceptance of project by sponsor, completion of records, final revision and issue of documentation to reflect its final condition.

Types of project termination

- ❖ **Extinction** : Project is **stopped** due to either its **successful or unsuccessful conclusion**.
Auditing, team on new assignment, assets transferred as per policy.
- ❖ **Addition** : Success of the project is added to organization structure.
- ❖ **Integration** : Resources and team members are **reintegrated** within the organization's existing structure. Team members leave parent originations.
- ❖ **Starvation** : Due to budget or any other reasons.

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So, project termination. So the all activities consistent with closing out of the project; for acceptance of project by sponsor completion of records, final revision and issue of documentation to reflect its final condition. So, you can have project termination in

different ways. Termination means you are actually completing the project. It is not necessary that its successful project is un-successful project.

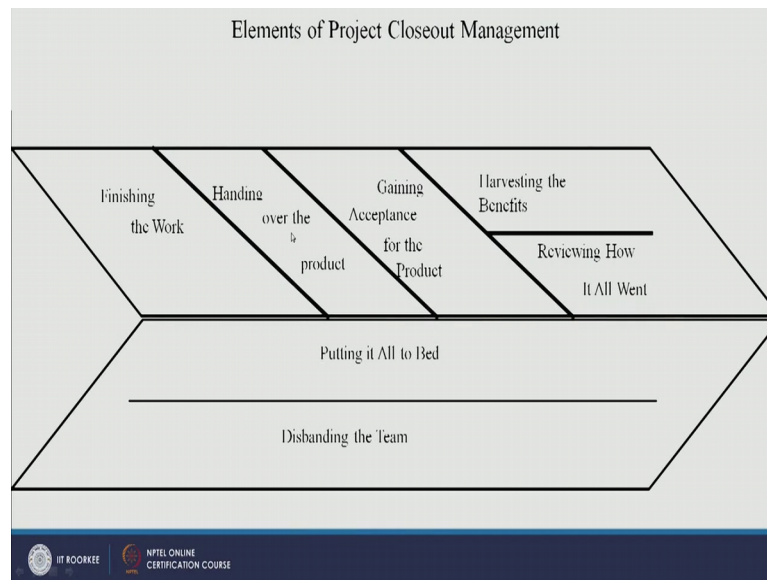
So, there are different types of project terminations. First is extinction: so project is stopped either due to successful or unsuccessful conclusion. So, that is known as extinction. Now when I say un-unsuccessful conclusion it can be due several reasons; that is extinction. Then project can be terminated through the process of addition.

So, what happens in addition? The successful project is added to the organization structure. So, let us say if I IIT goes for start of let say PhD programming in let us say nanotechnology, so that is a project. And if everything goes right then it will always be there in IIT. So, you can have a situation where your organization has gone for a project and if everything goes right then that becomes a process for your organization. So, that is kind of addition.

Then you can have integration: integration what happens in integration let us say in your organization you are doing a project and in project there are different team members from different functional areas. So, once project is completed successfully those people we will go back to their respective areas. As I said the project is a temporary organization, so the team members we will go back to their parent departments right are the respective organizations. A starvation is the fourth a type of termination, you are not completing project due to budget or some other reason. And you can have a number of reasons for this. So, there are couples of project termination methods.

Now the there is a process is called elements of project close out management. Whenever you approach towards finishing phase you need to look at some of the things very carefully. Finishing the work- you see what happens in a project towards and the team members would try to think about new project. So, they will lose focus on a particular project towards end. So, it is the responsibility of manager to ensure that the team members do not lose focus. So, that is quite challenging task for a manager; so this finishing the over.

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Handing over the product to the client: it is not only you are handing over, in fact we will look at some other things also. So, handing over the product, any acceptance of the product, harvesting the benefits, reviewing how it all went putting it all to bed and disbanding the team. So, these are seven points we should be looked carefully in project close out management process right.

So, as I said finishing the work it is a kind of polishing your work towards and the members lose focus. So, manager should keep those members intact, they should remain focused on completion of the project. Handing over the project: so you are not handing over project to the client, but you are also ending several other things. So, you know drawings designs and you are going for them, you are going technical support and training on the employees of the client and so on.

Gaining acceptance: so, once you have handed over the project to the client now the client should accept it. Over a period of time projects get acceptance from client. So, this is your responsibility also that the client should get benefit out of that particular project. Harvesting benefits: projects are of course initiated to find out solved some problems and find opportunities. So, whether the project is actually giving benefits to the organization or not. So, this the fourth point in close out management.

And then you have got putting it to bed. Now this is a process in which you are handing over the closing the several documents to your clients, you are giving different kind of

information to the client whether on the information related to cost, are the man power, are the legal issues like penalties cases and so on. So, all these things should be handed over to client. So, it is called putting it to bed.

Then finally, you have got disbanding the team. Of course, the last step in close out process it is the process wherein your disbanding your project team; can be formal or can be informal. So, these are couple of things which you should keep in mind while closing down project.

Now let me summarize what we have done in this particular course. This course is a course in which we have focused on ten knowledge areas of project management. Due to limitation of time we could not focus much on project integration management, communication management and scope management. But, other areas we have discussed in quite a detailed manner; whether it is a risk management, whether it is human resource management, whether it is procurement management, quality management and other areas. We have discussed so many things in details.

And once again I would like to tell you that if you ask me which are three important; top three knowledge areas of project then again I would say that it is the time management, it is cost management, and risk management. I am not saying that other areas are not important, but according to me these are quite important areas. And one should look at all the processes of these knowledge areas. And I have told you in the in the beginning that and there are approximately 57 processes. So, this is subject which should be taught according to those knowledge areas. There are people who think that it is the per CPM crashing is project management. There are some people who think that it is the management of finance; it is the controlling of cost that is project management.

No, it is not like that. Project management is basically a full package. In fact, in several institutions each of these areas of project management are taught as a different course. So, you can have full course on let us say human resource management, you can have number of courses on human resource management. You can have different courses on quality management. For example, you can have a design of experiment as a full course, you can have control charts second full course, you can have TQM third full course.

So, project management is something which requires knowledge of all these disciplines. Then only you can successfully complete this particular subject. And with this let me

come to end of this particular session as well as this particular course, thank you very much.

Thanks a lot.