

# PURCHASING OR PRICE BUYING?

Right Buying Requires Management Attention and Professional Administration

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Right Buying Requires Management Attention and Professional Administration

*"Businessmen pay lip service to quality but they pay attention to price..... A hand-to-mouth purchasing policy may be buying but it's not purchasing..... I have little doubt that purchasing is indiscriminately done in Thailand....."*

Purchasing is 'right' buying. Price buying is, of course, 'price' buying. Right buying entails consideration of a mix of factors - including price - before the buying decision is made. Price buying is relatively easy. It doesn't take too much effort or time. Right buying, however, requires time, experience, knowledge and effort - it isn't easy.

Companies don't need to be told that marketing, production and finance are functions which require the brightest and best management possible. But as companies grow and prosper the purchasing function will grow in importance. It seems to me that purchasing in Thailand is not getting the attention it should and that it may be the weak link in an otherwise powerful company chain.

After teaching principles of purchasing for several years, talking with business men, digesting a few hundred Thai student purchasing reports and reading several articles written about purchasing in Thailand and, perhaps more importantly, buying locally made products I have come to the conclusion that, in general, purchasing in Thailand is indiscriminately done with price (cheap) being the basic and perhaps the sole factor in most companies purchasing decisions.

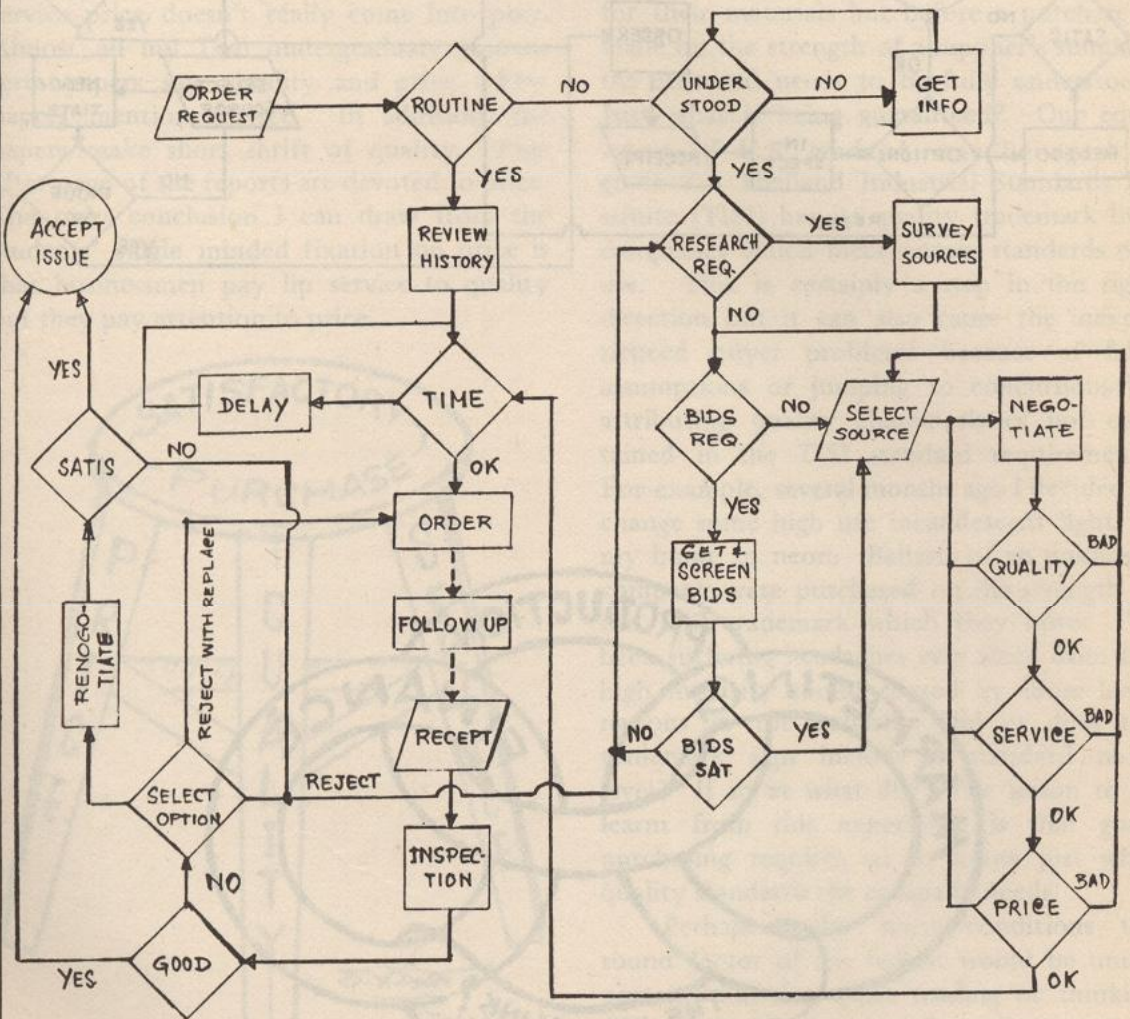
Based on the information I have come into contact with and the paucity of purchasing articles in the local media it seems that a short paper aimed at reintroducing the readers to a few factors that go into 'right' buying is in order. Most readers know that purchases can take 50, 60, 70 or even higher

percentages of the sales dollar in manufacturing and retail companies. This fact alone should suggest the need for a lot of management attention. Does it get it? Probably not. It isn't difficult to show that if right buying could reduce the ultimate costs of a firm's product by a percent or two then it may be the equivalent of sales increases of 20 percent or more or increases in profitability by a like amount. The recent Thai Government statement that production cost rises due to the latest round of electric price increases will amount to only one or two percent and therefore can be absorbed by the companies without the need for increased prices may not be altogether true. Companies operating on low margins, high output turnover with high fixed costs may find these 'small' rises in production costs bone-crushing. They may need to pass the increase on to their customers or find ways to increase their efficiency. Raising efficiency, or productivity, in Thailand seems to be a feasible option for many but this topic is beyond the scope of this article unless increases in the productivity of the purchasing department can be realized.

Right buying entails buying the right quality materials in the right quantity from the right source at the right time and for the right price. Quality needs should be determined by the user and explicitly defined in the company specifications. Quantity, time, source and the price decisions all require managerial judgment and the responsibility for these decisions should be left to



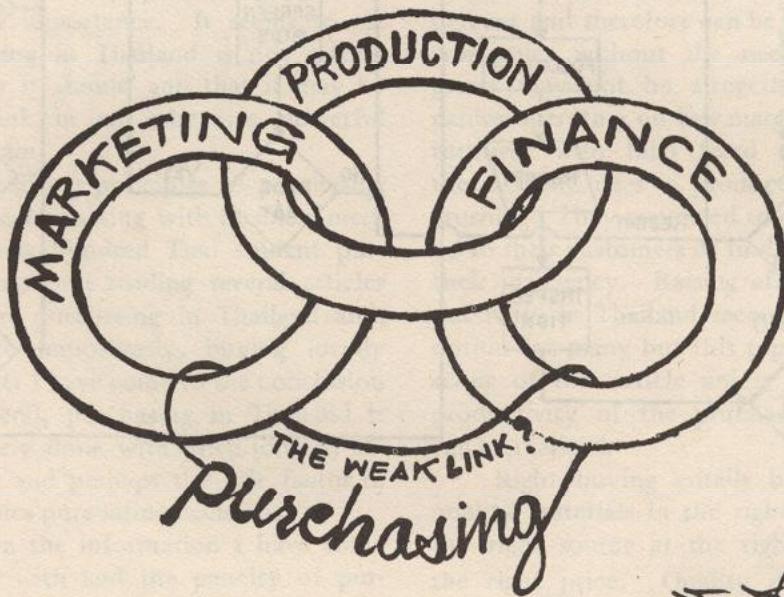
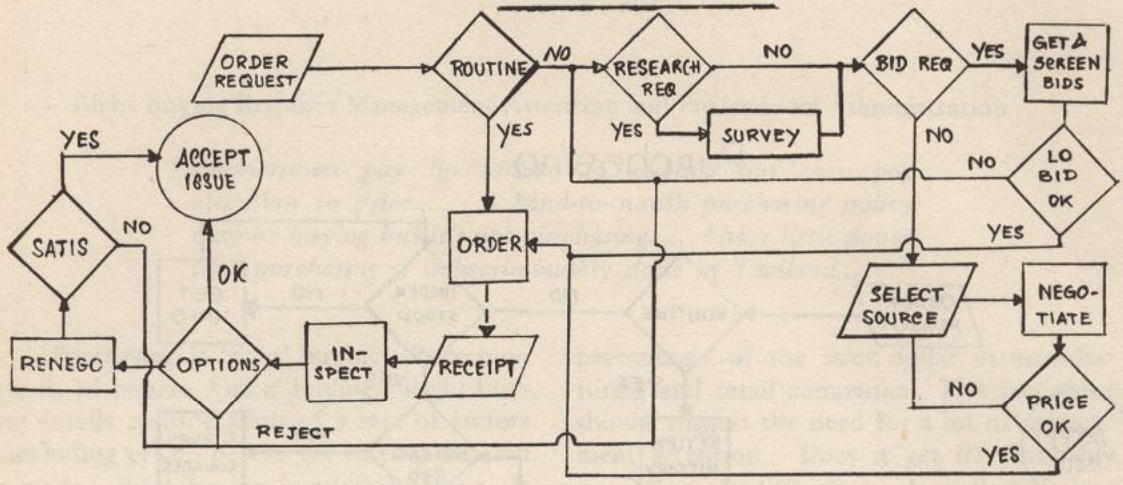
# Purchasing





# PURCHASING OR PRICE BUYING?

## OR PRICE BUYING



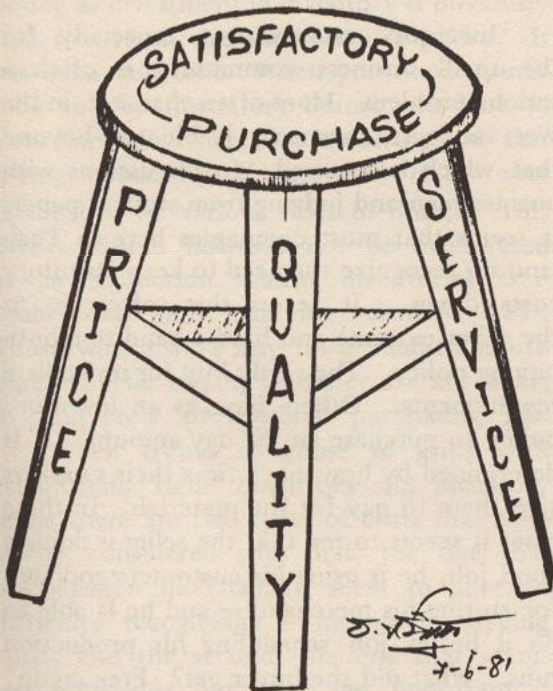
*S. J. Davis*  
4-6-81



the purchasing manager.

## THE PURCHASING TRIAD : QUALITY SERVICE, PRICE

Purchasing officers, and most textbooks, point out that buying right centers on three basic buying decisions: quality, service, and price. Without right quality and adequate service price doesn't really come into play. Almost all my Thai undergraduate student term papers say: quality and price. Few papers mention service. In addition, the papers make short shrift of quality. Page after page of the reports are devoted to price. The only conclusion I can draw from the students' single minded fixation on price is that businessmen pay lip service to quality but they pay attention to price.



Thailand isn't well known for the quality of its goods and perhaps part of the answer can be attributed to gigo — computer jargon meaning: garbage-in, garbage-out. In this case it means that if poor quality raw materials are procured and enter the production process then poor quality end products will, in all likelihood, come out.

Just what constitutes right quality? What factors need be addressed? Basically, one needs to first determine 'his' quality needs. This definition is usually made explicit in the company's specifications. A company's definition of quality is likely to be made up of a number of factors such as the physical, electrical, dielectric, chemical properties of the desired material. Some suppliers have guaranteed standards of quality for their materials but before a purchase is made on the strength of a supplier's standard the standard needs to be fully understood. Just what is being guaranteed? Our equivalent of U.S. grade A may be equal to grade Z. Thailand Industrial Standards Institute (TISI) has its quality trademark that companies which meet certain standards can use. This is certainly a step in the right direction but it can also cause the inexperienced buyer problems because of false assumptions or jumping to conclusions by attributing quality characteristics not contained in the TISI standard requirements. For example, several months ago I decided to change some high use incandescent lights in my home to neon. Ballasts of an unknown company were purchased on the strength of the TISI trademark which they bore. I've been suffering headaches ever since from the high intensity sound caused by loose laminations in the ballast. Did or does the trademark sign include a standard noise level? If so at what db? The lesson to be learnt from this experience is that good purchasing requires us to know just what quality standards the company needs.

Perhaps under most conditions the sound factor of the ballast would be unimportant, but for quiet reading or thinking when there are no other distractions present, then the acoustical quality factors take on added significance.

To determine just what is right quality we should start the decision making process with minimum acceptable quality. This minimum level of quality must be suitable for the intended purpose. Quiet reading room: quiet ballast; noisy shop floor or de-



partment store: ballast acoustics unimportant. Upon analyzing student papers it would appear that minimum acceptable quality is not only the starting point in determining desired quality but the ending point as well for most purchasing men. This is probably why students claim that in Thailand quality comes first — the buyer knows what his minimum acceptable quality is and he acquires it. Why? Minimum acceptable quality materials are usually the cheapest priced materials. But a higher quality material than that defined as minimum acceptable may, in fact, be available at a cheaper price. Higher quality materials may also be available at higher prices but if used in the manufacturing process would end up costing less. These statements will be further amplified later in this article.

### **PRICE - QUALITY — YOU CAN HAVE EITHER WITHOUT THE OTHER**

Quality versus price, is there a direct link? They are often discussed together as if there were. Many think so; but, this old wives tale has been disproved time and time again. Quality is defined by a number of factors but price isn't one of them. Some time ago I was painfully (hurt in the wallet) reminded of this fact. I bought an executive chair at Central Department Store on Silom. I paid 3,300 baht for it after making a cursory inspection. My thoughts: "Central's price is 400 to 500 baht higher than for similar chairs I've seen in shop house furniture stores and Central would handle only good quality stuff — especially at this price." The chair lasted two or three days! Poor materials, gigo? Partly; but, poor design, perhaps with an eye to saving some material costs, was the primary reason for the chair's unsatisfactory condition. Complaints to Central only served to remind me of that old latin saying which I had been exposed to (obviously I didn't learn it) years before: caveat emptor — let the buyer beware. I was inept in my buying but this didn't stop me from wondering who the inept Central

buyer was. I can only hope he wasn't a former student of mine. The Central guards and office staff did an admirable job of keeping me from seeing the buyer; I thought I was back in Washington D.C.

One would assume that Central Department Store would have some very professional buyers. We can't help but wonder — do they?

As mentioned purchasing the 'right' quality materials is predicated on establishing specifications that clearly define our needs. The minimum acceptable quality then becomes our starting point for acquiring the material. The primary objective being the attainment of materials which will insure the ultimate least cost.

### **MANAGING INVENTORY: HAND-TO-MOUTH STARVATION OR GLUT?**

Inventory management especially for the small business community is often a serious problem. More often than not, in the West at least, inventory is bloated beyond that which is required. In discussions with businessmen and judging from student papers it seems that most companies here in Thailand do recognize the need to keep inventory costs down. It seems they often go to the other extreme and have a hand-to-mouth buying policy. They only buy for immediate requirements. Others have as an inventory policy to purchase an 'X' day amount. 'X' is determined by how much time their suppliers give them to pay for the materials. In these cases it seems to me that the seller is doing a good job, he is using his customers' godowns for storing his merchandise and he is able to do a better job scheduling his production runs. What did the buyer get? Free credit? Maybe; but, I would be inclined to say that the seller got the better deal. After deciding the most suitable — for a purpose — material to purchase, then the company, not the supplier, should tackle and decide the question of how much to order. The most economical ordering quantity tempered by a thought-out inventory policy should deter-

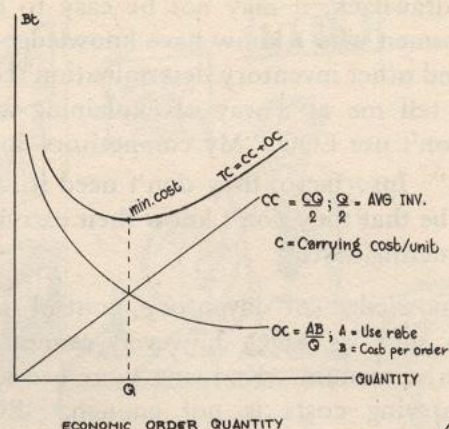


mine the amounts to order. Determining order size may be a complex problem but since it is quantifiable, in part at least, it should be soluble. Some of the bigger companies here have established inventory and safety stock levels determined by various rules of thumb. They are the ones who are often victims of gluttony. Today some of these companies are using computers to help maintain inventories and stock levels. But computers programmed with rules of thumb are woefully underutilized. For inventory control the computer is of value only if it is programmed to help determine proper stock levels. If it doesn't do this it's an expensive toy, else it may serve to massage management ego.

Proper order quantity may, as mentioned, be predicated in part by company policy as investment in inventory is obviously tied to overall company finance policy. It has been said that: 'When you need money look to your inventory before you look to your banker.' There is a lot of truth to that saying, especially, if inventory levels were established by various rules of thumb. This caveat should however not be interpreted as an injunction against inventories established by more exacting scientific ways. Those who always buy on a hand-to-mouth basis may be buying but they are not doing a completely professional purchasing job.

When trying to come to grips with establishing 'right' quantities and inventory levels there are two types of costs that need to be considered: the first, the one that businessmen in Thailand seem to have no difficulty recognizing — inventory carrying costs; and the second, the one that seems less noticeable but is no less important — ordering costs. Ordering cost may be a little like the 'silent killer' high blood pressure. You don't pay any attention to it until it kills you.

Mathematical and statistical methods and techniques for determining stock levels are available and have been used by well



managed companies for decades. At ABAC students run into EOQ (Economic Order Quantity) models in at least five or six different courses. EOQ has been found quite useful in helping determine proper order size for conditions of certainty. It can be used for conditions of moderate uncertainty as well if we add a safety stock. EOQ is as simple as ABC, it only requires one to know his costs: carrying cost and ordering cost. The formula:

$$EOQ = \sqrt{\frac{2AB}{C}}$$

Where A = use rate for a period  
 B = ordering cost per order, assuming the same ordering costs for a range  
 C = carrying cost per unit for a period of time

Look easy? It is, providing one knows 'his' carrying costs and ordering costs. Most know their use rates. If they don't then EOQ is not for them; they must be operating under conditions of uncertainty. Some inappropriately use EOQ tables developed for others. One need to know 'his' ordering



and carrying costs. Determining these costs is the drawback, it may not be easy to do. Businessmen who I know have knowledge of EOQ and other inventory determination techniques tell me as a way of explaining why they don't use EOQ, "My competitors don't use it." Ipso facto, they don't need it. Or can it be that they don't know their carrying and ordering costs?

Knowledge of inventory control and models such as EOQ, however, cannot be used in a vacuum. Knowing your ordering and carrying costs is not enough. EOQ needs to be used with common sense. For example, would anyone order 5,000 ice cream cones if their refrigerator could hold only 1,000 or if it would take three years to consume them? I don't think so. EOQ doesn't take factors such as: storage space, shelf life, quantity discounts, total production run and the like into account — purchasing men need to.

Inventory control is not normally a purchasing responsibility but purchasing must obviously understand what it is all about if they are to buy the 'right' quantity. Inventory control for companies that cannot afford a separate department should be a joint responsibility shared between: purchasing, stores, finance, production and others directly affected. As mentioned, inventory management doesn't negate the need for common sense and there are times when financial factors may dictate less than desirable or mathematically determined inventory levels or order quantities. In any case for the small and middle sized companies the management of inventory and proper order sizes may be particularly difficult to determine and one of the easiest to ignore or neglect. The Thai small businessman's resistance to overstocking seems to be well entrenched, perhaps too well if student papers are to be believed. I'll have some of my future classes explore the inventory level issue more fully to verify or refute the sketchy information I now have.

## **TIMING CRYSTAL BALL OR STUDIED MARKET FORECASTING?**

The timing of when to make the purchase also comes into play and may modify the basic order quantity. Determining the right time to buy isn't much of a challenge for those who use a hand-to-mouth inventory policy — it's determined by the company's hunger pangs. Student papers however indicated that companies did change the timing and amounts ordered in response to highly predictable cycles such as seasonal commodity price changes. In such cases businessmen cannot help but notice the tie-in between time and price. But are they aware of the time-quantity aspects of the purchase? They all add stock when the price is low. This may or may not be apropos. Holding off a purchase and using safety stocks to wait for the expected downturn in prices may be the right thing to do whereas stocking with low cost inventory for the forthcoming dry season may be the wrong thing to do. Additional carrying costs incurred by big inventory levels may more than offset the cheaper price of the moment.

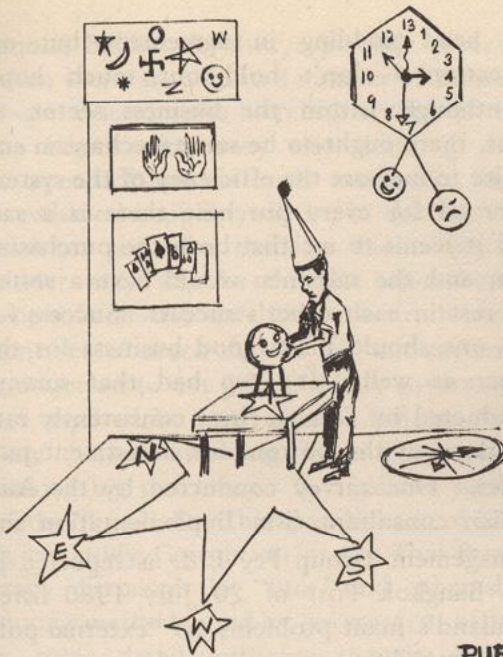
Obviously the right time to make needed purchases requires external knowledge of market conditions and forecasting ability; whereas, right quantity decisions requires internal knowledge of carrying and ordering costs. Knowledge of both internal and external factors is needed to do a good purchasing job. We need however more than an ability to forecast the seasons — up in the rainy season, down in the hot. A true purchasing program is more than seasonally adjusted buying — it is prudent forward buying, buying in advance of needs. In a free market situation market forces, supply/demand etc. affect the price and availability of materials. The more aware a buyer is of these forces and what is taking place around the world the better able he will be to set a proper timing schedule for company purchases.



THIS

OR

THIS



PURCHASING MANAGER

E. M. J. 1964. May.

Forward buying should not be confused with speculative buying. The difference between the two centers on the intent of the purchase and the risk. Bunker Hunt was speculating in silver; he had no intentions of making use of it and was gambling on its appreciation as he had hoped to corner the market. The risk we all now know was great. The Thai cotton buyers of some years back were either speculating or they panicked. In The Thai cotton buyers of some years back were either speculating or they panicked. In either case their forecasting ability went away. The point: speculative buying is not and should not be a purchasing prerogative, it is a top management one. Good purchasing men however have an obligation to keep top management abreast of unusual marketing situations and of opportunities that may be a little risky but hold the potential for returning handsome profits.

### RIGHT SOURCE SELECTION A PERPLEXING PROBLEM

Buy, from whom, from where? From the right source of course. Selecting the right source is a prime purchasing responsibility

and it often presents a perplexing problem to the buyer especially in developing nations where many industries are protected by infant industries laws and excessive import restrictions. These infant industries often metamorphose into gerontocratic ones. In such cases inefficiencies and poor quality high priced materials tend to dominate the local markets. Where there are few suppliers and many users a take it or leave it attitude often develops. Few big users and many small sized suppliers also present problem situations. Businessmen in developing countries, it seems to me, do have special obligations to help develop their nations but this should not mean that they need to help establish or maintain industries that will never be able to stand on their own feet unless, of course, such industries are considered necessary or vital to national survival. American Standard of Thailand has seemingly made great strides in shifting their sources of raw materials from imports to locally procured. They reportedly said that in order to get the quality materials they need they will help their suppliers develop it. We talk about this facet of purchasing responsibilities in class but students usually



dismiss this aspect as text-book stuff or not applicable in Thailand. Too bad they don't read the local press. The more common situation however was reported by one of my students with some practical work experiences in purchasing. He had this to say concerning a large domestic company, "When quality is not up to (the) standard stipulated in the contracts no rejections are made..... I find this to be quite a problem..... On occasion there have been large lots of 'B' grade goods originally bound for foreign markets dumped in the local market because the importers in the foreign markets would not accept them..... For these (finished) goods the company gives a discount thus cutting into its earnings." The buying company does not reject substandard imports because the supplier would have to bear high transportation costs and strained buyer-supplier relations may occur. According to his report this is a constantly recurring problem. Could too much emphasis on price considerations be a factor in this recurring problem? Are the buyers shopping around for the cheapest priced materials and dealing with suppliers who need to cut corners to cut prices? If so, who is doing the suffering? The commodity involved is not that scarce nor restricted to OPEC like cartels and it seems to me that the purchasing men are remiss in their responsibilities to seek out and if necessary to help develop dependable sources of supply who can deliver the quality and quantity needed on time every time.

Mr. Boonchu Rojanastien, the former Deputy Prime Minister has been advocating a Thailand Inc. to tout le monde. His theme as I understand it is basically cooperation between the various sectors of society, decentralization of government decision making and sacrifice. He of course doesn't advocate trying to duplicate Japan Inc. as he knows full well that this is neither possible nor necessary. As Mr. Rojanastien rightly points out Thailand unlike Japan is resource rich and that Thailand needs to develop these resources. Listening to and reading Mr. Rojanastien's arguments for Thailand Inc., I find

my head nodding in agreement but on reflection I don't hold out much hope. Even though within the business sector, at least, there ought to be some mechanism and desire to increase the efficiency of the system, after all for every purchase there is a sale and it seems to me that both the purchasing men and the salesmen would have a vested interest in each other's success. Success for the one should mean good business for the other as well. It's too bad that surveys conducted by foreign firms consistently rate Thailand at the bottom for investment purposes. One survey conducted by the Australian consultant firm Implementation and Management Group Pty Ltd. as reported in the Bangkok Post of 20 July 1980 listed Thailand's main problems as: "external political instability, corruption and poor communications in addition to government policy in general, red tape, workers' attitudes, stability of the labour force and availability (or lack) of good joint-venture partners." We certainly need no secondary problems. I do not agree with all their findings but I am not a major investor.

To sum up, national goals, tariffs and import restrictions, individual company objectives and small companies without adequate human or financial resources have special problems in obtaining their raw materials in an oligopolistic, government interventionist, protectionist environment. The 'right' source problem in Thailand may take a great deal of management effort, study and development but it may also be the key to unlocking the door to great success.

## **COLLUSION IN BIDDING IS EVERYONES HANDICAP**

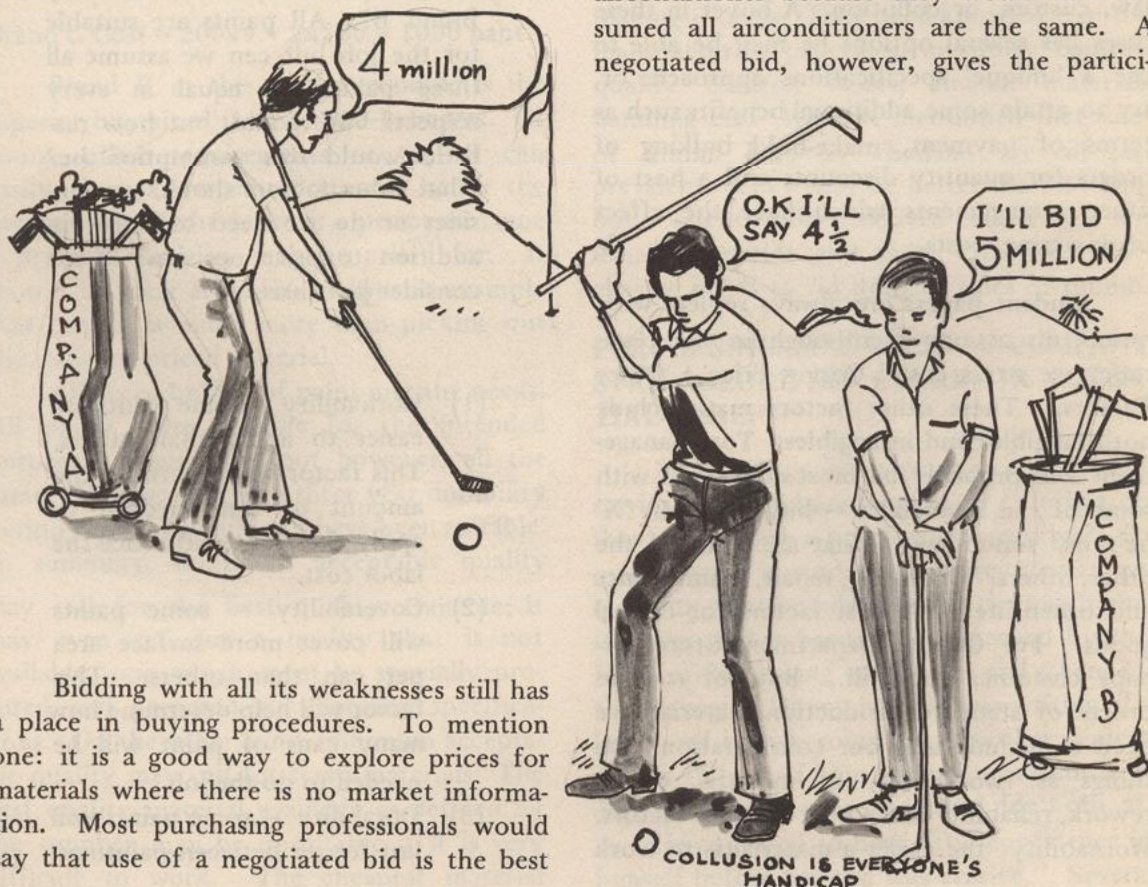
Purchasing, buying right, what's so difficult about it, muse the ill-informed. All one needs is to use a bidding system. Get as many bids from suppliers as possible then select the lowest bid. This procedure will in and by itself insure a long run successful buying program. Right? Wrong. Collusion



among bidders is always possible especially when there are a limited number of suppliers. Some unscrupulous members within the buying organization may also draw up a set of specifications in such a manner that a preselected supplier will be in the preferred position to make the low bid. The low bidder may also be the one who found a loophole in the specifications or needs the contract so much that he will cut corners in production to cut prices. Many governments are required by law to use a bidding procedure before awarding large contracts or making big purchases. In Thailand we hear of the "hua." Dr. Thinapan Nakada of NIDA in his study Corruption in the Thai Bureaucracy discussed the "hua" and other sharp buying methods used by government officials in some detail outlining the the benefits derived by the "hua" members and those who place personal gain before their obligations to society.

buying method if for no other reason than that the use of bidding, even if there is no collusion, gives no consideration of the past performances of the suppliers. Adherence to a buying policy completely based on bids would in effect make one a 'price buyer.' Being called a price buyer is not a complementary term, it is being non-professional. Price, in most cases, does not equal cost.

What everyone within the company should be interested in is the ultimate cost of the product, not just the initial outlay of cash for raw materials. In the case of capital equipment who would ignore the life cycle costs? Who would pay 10,000 baht for a 12,500 BTU airconditioner that had an operating cost of 2,000 baht per month when they knew they could get a 12,500 BTU airconditioner for 15,000 baht that had an operating cost of only 1,000 baht per month? All other things being equal. Some, of course, would purchase the 10,000 baht airconditioner because they would have assumed all airconditioners are the same. A negotiated bid, however, gives the partici-



Bidding with all its weaknesses still has a place in buying procedures. To mention one: it is a good way to explore prices for materials where there is no market information. Most purchasing professionals would say that use of a negotiated bid is the best



pants a great deal of elbowroom. During the discussions all factors pertaining to: quality, service, price should be open to negotiation with both sides looking for the mix that gives both a satisfactory deal. A good negotiated settlement of anything is one in which both sides think they won — if so, they did. Of course a negotiated settlement requires the participants to know what they are talking about.

As for government controlled prices. We've seen what happens at the one extreme in the controlled sugar prices. The public paid the controlled price for lesser quality or desired brown sugar or they paid double or more for backroom purchases of white or they went without. How about fixed prices that are set on the high side? Should we conclude that they are fixed and that's that, there is nothing to negotiate?

Quite to the contrary, negotiations are generally used when relatively large amounts of cash are involved and prices are fixed by: law, custom, or collusion. A buyer in these cases has several options he may be able to use a 'unique' specifications approach; or, try to attain some additional benefits such as terms of payment, make-hold, bulking of orders for quantity discounts and a host of other arrangements which have the effect of lowering costs.

Student papers are always replete with 'price' discussions eventhough in the classroom we stress cost.  $\text{Cost} = \text{Price} + \text{Other Factors}$ . These other factors may include both tangibles and intangibles. Top management will probably be most concerned with some of the intangibles — buy from Mr. 'X' he's my son-in-law. What are some of the other, others? Operating, repair, maintenance and other life cycle cost factors for capital goods. For Central Department Store perhaps customer goodwill. But for routine orders of standard production materials we need to include into our consideration such things as: workability of material, waste, rework, reliability and a host of other factors. Workability: the easier a material is to work

the less the labor cost. Waste: higher quality purchased raw materials may result in less waste than lesser quality and priced material and thus be cheaper. Reliability: the more reliable purchased fabricated parts and sub-assemblies the more reliable the end product and probably less need for quality control.

To illustrate this cost equals price plus other factors aspect again let us take an overly simplified case of painting a fence. Assume there are three brands of paint.

Brand A has the cheapest selling price of 100 baht per can. Brand B is priced at 150 baht per can and Brand C is the most expensive at 200 baht per can. If all paints are suitable for the job and meet the minimum acceptable quality requirements which shall we buy? The cheapest, the most expensive or shall we compromise and buy Brand B? All paints are suitable for the job but can we assume all three paints are equal in every respect? We could, but how realistic would this assumption be? What other factors should we consider or do we need to know in addition to price per can? Let's consider just three:

- (1) Workability — some paints are easier to apply than others. This factor will determine the amount of time needed to apply the paint and hence the labor cost.
- (2) Coverability — some paints will cover more surface area per can than others. This factor will help determine how many cans of paint will be needed to do the job.
- (3) Durability — some paints will last longer between paintings.



Taking these factors into account we have determined the following:

Factor	Brand A	Brand B	Brand C
price/can	100 bt @ can	150 bt @ can	200 bt @ can
workability/man days	4 man days	2 man days	2 man days
coverability	6 cans	4 cans	4 cans
durability	2 years	3 years	4 years

Now if we know our labor cost and how long the paint is expected to last we will begin to be able to make a buying decision. Assuming the fence is a temporary one and will stand no more than 2 years we may eliminate the durability factor. Also assume an outside painter will be used at a cost of 100bt per man day. Now we can see that Cost = Price of paint plus the labor charge.

Brand A Cost =  $100 \times 6 + 4 \times 100 = 1000$  baht

Brand B Cost =  $150 \times 4 + 2 \times 100 = 800$  baht

Brand C Cost =  $200 \times 4 + 2 \times 100 = 1000$  baht

Brand B in this simple example is the superior buy since it costs 200 baht less. Of course other requirements or factors can easily change the equation and hence the decision e.g. if the fence is a permanent one a Brand C decision may be called for. It should be clear from this simplistic example that buying is much more than picking out the cheapest priced material.

All three brands of paint met the needs. All paints were suitable for the intended purpose. They were not however, all the same. Had we needed a three year durability period Brand A would not have been suitable. In summary, minimum acceptable quality may call for the best quality available; it may even call for a quality that is not available, one which must be specially procured and prepared to company specifications. On the other hand, minimum acceptable quality may call for scrap materials. The best quality material available as defined by the supplier may be unsuitable if it is very difficult to work. The cheapest material

may end up costing more because of waste and rework and overall lower productivity. It's purchasing's job to help minimize the ultimate cost even if it means paying a higher price for the 'right' materials.

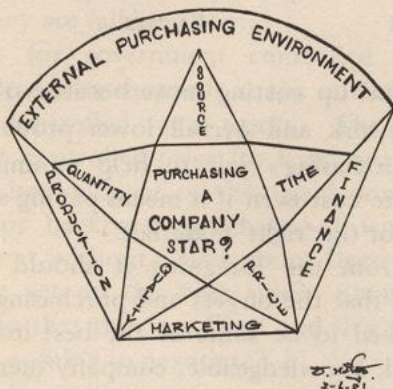
From the foregoing it should be apparent that the buyers and purchasing managers need to be some of the best informed, trained, knowledgeable, company men in the firm. For purchasing to do its job right they need to ask questions and understand answers, they need to take part in the decision making process. They need knowledge of the manufacturing processes, inventory control, quality control, stores, finance materials handling etc. We have mentioned that rules of thumb here in Thailand are all too prevalent. They may be better than nothing but, scientifically derived standards are usually superior and more effective. Purchasing needs to rid itself of rules of thumb.

#### **PURCHASING MANAGER: A COMPANY STAR, GLORIFIED CLERK OR POTENTIAL THIEF?**

Many companies have an executive that carries the purchasing manager title but do they really have a purchasing executive? To quote from a student's report: "every requisition must be submitted to the purchasing manager and subsequently approved by the Head of Purchasing and Stores and (then) by the Managing Director." He was writing of a large well known company. Another student wrote: "The half-hour interview session with Mr. X seemed to be an ordeal for both of us. He appeared to have little confidence in himself before me and was evasive." Several



years ago one of my students wrote in his report that Ms. 'X' a U.S. college master degree holder does everything according to the book. His report went on almost completely contrary to our book.<sup>1</sup> I sure wish he had used footnotes to let me know just what book she did everything in accordance with.



Although not addressed in this article it is also apparent that the major qualification in many, if not most, companies for the position of purchasing manager is proper blood relationship. This of course stems from the all too often real problem of integrity and trust or more precisely the lack of it. Harold Koonze and others have written that if you can't trust your employees' judgment — train him; if you can't trust his honesty — discharge him. I've always thought this to be very sound advice. Jules Kroll, a U.S. consultant specializing in white collar crime, in an interview with *International Management*, Nov. 1980, a McGraw-Hill publication, said that the purchasing department of any company is potentially the prime commercial bribery area. He says that purchasing officers tend to be underpaid and under recognized in a company's hierarchy even though they spend vast sums of money. Because of these factors Kroll says that they can easily rationalize unethical and illegal breeches of conduct. Unfortunately I can only shake my head in agreement. A purchasing star needs star wages and recognition. A man dealing in millions shouldn't be paid in peanuts.

Most students' naturally try to be complimentary in their reports and few are skilled interviewers therefore their reports were very short on analysis and lacked critiques (Krengjai?). The Chinese/Thai penchant for secrecy also played a part as most reports indicated a reluctance on the part of the executives to talk to them. Some executives obviously thought the students were spys. Be that as it may, from these several hundred reports, my talks with local businessmen and from the paucity of information in the local media I have no doubts that purchasing in Thailand is, on the whole, indiscriminately done with price being the dominant factor in the purchasing decision with minimum acceptable quality both the starting and stopping point in quality determination.

Most companies in Thailand are small and the top managers will undoubtedly say, with some justification, that they can't afford a purchasing staff.....I wonder, can they afford not to have one?

The purchasing staff need not be large it can be a part time job for a manager who may double in some other function; hopefully, not production. Production managers charged with the purchasing function will invariably lean in favor of production's immediate needs perhaps to the detriment of the company as a whole. For example one student reported that in a well known international company here in Thailand the production manager carries the major portion of the purchasing burden while the company material manager is the chief clerk and responsible for follow up actions. It seems that in one project supply delays caused the company to lose a considerable amount (in millions of baht) in production costs. On another occasion this same company discovered it was buying fabricated parts from a competitor who was deliberately delaying deliveries so as to be in a position to launch their similar product first! The purchasing function requires a manager assigned to the task. He may need to educate and train himself by reading, attending seminars and



perhaps joining a professional management association such as the Thai Management Association (TMA). I was surprised to learn that the TMA does not have a purchasing group. A one man purchasing staff may be sufficient. If he is the 'right' man he won't need a big staff, he'll be a super coordinator and know how to use the other executives as members of his part-time staff.

In summary, buying right isn't as easy as some may think nor is it an impossibly difficult task. Buying right however is much more than looking around for the cheapest material that can be used in the manufacturing process. It's helping the company produce its products at the lowest ultimate cost consistent with quality needs and requirements. This may well mean buying more expensive materials if production or other trade offs so warrant. Buying right means buying the right quantity which requires knowledge of the company's carrying and ordering costs and inventory policies. Right buying is buying materials at the right time. This requires knowledge both of internal and external factors. It requires first order analytical skills. Selecting the right source is often a vexing problem especially in developing countries. Perhaps for purchasing in Thailand this is the area of greatest need and therefore opportunity. Discovering and developing sources of supply is a prime responsibility of purchasing and it seems to be an area where Thai purchasing men feel the most helpless, wherefore they try to make the best of the existing situation instead of trying to create a new situation. Buying right means understanding that price

is but one factor in the cost equation and a cheap price is **meaningless** without assured delivery, quality and satisfactory commercial relations.

Finally buying right requires right buyers. Men and women with integrity who have expert knowledge of not only the principles of purchasing but of the company and its manufacturing processes. Company men and women with good human relations skills and not afraid to ask questions. The mai pen rai, krengjai man need not apply.

In conclusion this article is far from being an exhaustive study of purchasing, its purpose was, hopefully, to stimulate thought. Top managers to think and ask themselves if they are satisfied with purchasing's contribution to the company's profit/competitive position. Purchasing managers and buyers to ask themselves if they are professional purchasing men and women or are they price buyers.

#### <sup>1</sup>Author's postscript

I've been thinking about this article for the past several years and the Bangkok flood that closed our College for a month gave me ample time to grade my term papers and write this article. Footnotes were not used as I drew my data from my memory banks and the students papers. But, Stuart F. Heinritz and Paul V. Farrell's book: Purchasing — Principles and Applications, 5th edition, 1971, Printice-Hall has, I'm sure, influenced me greatly as I have liked it and used it in my purchasing class for the past three years. ☆