



UNIT-14

Purchase and Storage Management

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Describe the Elements of Purchasing
- ✓ Understand the Material Purchasing System
- ✓ Discuss the role of Warehouses or Stores in construction management.

Unit 14

Purchase and Stores Management

Introduction

To maintain an uninterrupted supply of materials of construction, organisations need to set up purchasing and procurement departments to manage the process efficiently. An essential component of this procurement and purchasing process is an efficient store management system for the effective management of materials and flow of spare parts to produce the desired product at a relatively low cost. The main purpose of this unit is to familiarise the reader with the processes involved in material procurement and purchase and the development of effective storage systems and procedures for managing materials in the stores.

Elements of Purchasing

The main objective of purchasing is to ensure the uninterrupted availability of all ingredients for a project from start to finish. Purchasing high-quality items at a low price ensures that the final product will be of a high quality at a reduced cost. The purchasing function must be carried out using prescribed procedures such that items are of the highest quality, sourced from the right source at the right price, obtained at the right time in the right quantity, using the right mode of transport and delivered to the right place.

Below, Figure 9.1 provides details of some of the important elements of purchasing.

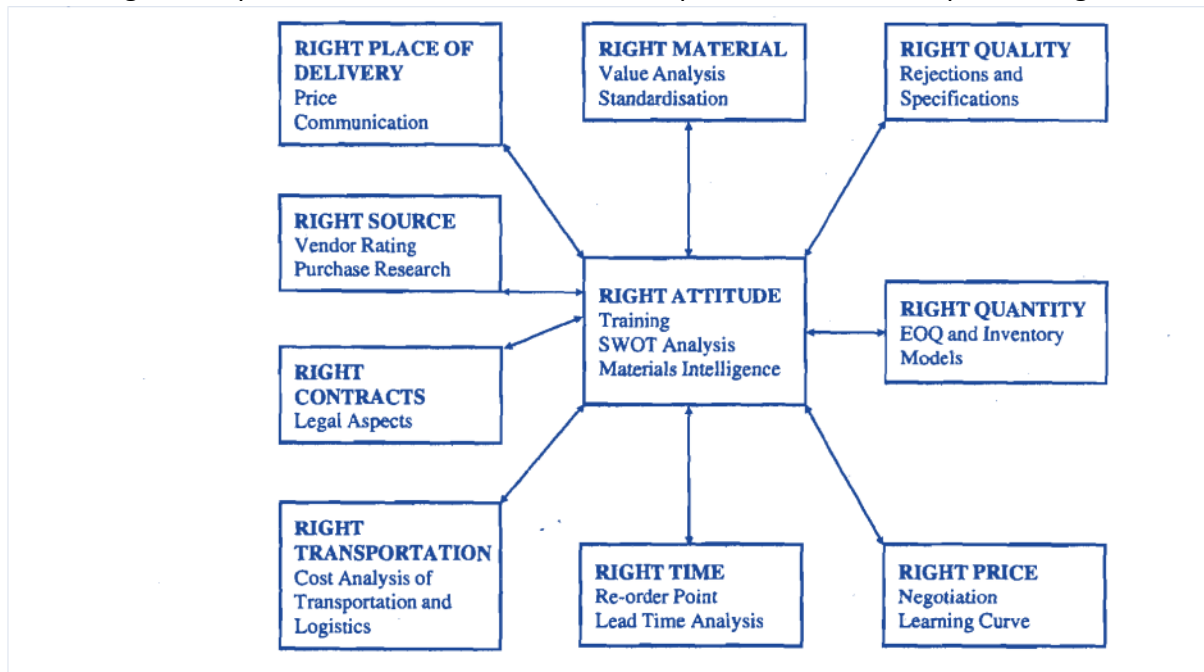


Fig: 9.1 Elements of purchasing

Right Source

Firstly, value analysis techniques should be used to locate the right materials and the cost of transporting the items should also be considered in order to arrive at the right source. The source should be reliable and have the capacity to deliver uniform and high-quality materials. Experience confirms that the cost of transporting certain materials such as aggregates is usually higher than the cost of the materials themselves. Decisions must also be made on whether or not to obtain materials or items directly from the manufacturer or from a secondary source.

Right Price

Generally speaking, it is advisable to use guidelines to determine the right price of the items using the cost structure of the item. The tender system can normally be used with an emphasis on the lowest reliable bidder, to select from an array of competing bidders. In other cases, the negotiation approach may be preferable.

Right Quality

Specification benchmarks obtained from indents can be used to measure the quality of items. Indents come with drawings which are also useful for determining quality levels.

Right Time

The purchasing manager is responsible for reducing the lead time for purchasing items. This is usually facilitated by having prior knowledge of lead time information for all items and taking practical steps to reduce the time it takes to place the order until it arrives and becomes ready for use (i.e. the lead time). Provision should be made for emergency situations, such as an interruption to the delivery process due to floods or labour strikes. This implies making rushed purchases or buying more than necessary but this must be considered carefully and only in emergency situations.

Right Quantity

Guidelines provided by techniques such as economic order quantity, fixed-period or fixed-quantity options might be used to procure the right quantity of items. Equally important is the experience and knowledge of the purchasing manager. In making the purchase, the buyer should consider discounts, the price structure, the relationship with the supplier and the quality of items.

Right Place

This refers to the correct place to receive delivery. Terms and conditions of purchasing should clearly state the delivery address and the mode of delivery with other extras specified. Conditions such as FOB (Free on Board), CIF (Cost, Insurance and Freight) and FOR (Free on Rail) are usually offered by the suppliers as part of the terms and conditions of service.

Fundamental Objectives of Purchasing:

- i. Maintaining
- ii. Minimising
- iii. Preventing duplication
- iv. Maintaining proper quality standards
- v. Ensuring value for money in terms of obtaining lowest-price items of the highest quality and functionality
- vi. Helping to maintain the organisation's competitiveness by purchasing materials at reduced prices.

Materials Purchasing System

The costs of purchasing material may range from a few thousand to millions of pounds, depending on the nature of operations. To ensure ease of operation and accountability, formalised systems and procedures are made available to handle the vast complexity of procuring and purchasing items. Procedures normally involve starting the purchase process, choosing suppliers, placing orders, following up on the orders, and receiving the materials. The subsequent section will elaborate on the "material procurement cycle," from indenting to dealing with issues.

Indenting

Typing mistakes should be avoided when preparing purchase orders. All terms and conditions must be included in the purchase order and copies forwarded to the user, the store and the accounts departments. The process for preparing purchase orders can be lengthy but an indent can be prepared and will usually consist of the following:

- Name of the item
- Description of the item
- Item code (if it is a standard item)
- Quantity of the item
- Specifications
- Date/time by which the item is desired
- End user department's name and location where the item is desired or is to be delivered
- Indent originator's name (for coordinating delivery or for clarifications)
- Other related information, if the item is budgeted
- Signature of the authority for normal procurement, and/or signature of senior management personnel if it is not budgeted

Enquiry Stage

During this stage, the buyer's request or preliminary order is sent to the vendor for prices to be quoted for each item and returned to the buyer. The process consists of:

- Name of the item
- Description of the item
- Quantity of the item
- Duration for which the offer is to be valid
- Specifications
- Date/time by which the item is desired
- End user department's name and location where the item is desired or is to be delivered
- Standard terms and conditions which the company follows and expects its vendors to accept regarding insurance, warranty and guarantee, payment details, mode of transportation, point of transfer of goods from vendor to company, etc.

Offer Processing Stage

Incoming offers are compared with the buyer's own ideal benchmark listings, the expected terms and conditions and the pricing, on a fair and objective basis. The ideal offer may be transmitted to the vendor during the early stage, with details of the buyer's expectations.

Determining the best offer may be difficult because:

- i. Someone may have agreed to all terms and conditions but the price may be too high
 - ii. A vendor's price may appear quite low because he may have excluded certain extras such as cost of transportation and/or insurance
 - iii. Other vendors may quote low prices but may have imported the materials from a company or country which does not have a service centre in the UK or at the location of final delivery
- Since this stage is primarily for comparison purposes, the buyer may have to request a re-quote or recalculate the implications of the results of the cost factors until satisfactory results are obtained. Negotiating with vendors is another option to consider.

Ordering Systems

The Purchase Order (PO) is immediately drafted when the right supplier has been chosen. Given the legal nature of this document which is binding on both parties, it is critical to renegotiate and clarify issues until the terms and conditions are completely accepted by all parties entering into the agreement. Typing mistakes should be avoided and all terms and conditions included. The relevant departments, such as the user, stores, and accounts departments, should be sent copies of the final agreement. To

optimise purchase orders due to the complexities involved, according to certain criteria frequently-used and minimum-value items may be excluded.

A typical purchase order contains the following:

- The order number, serial number and date of order
- The name and address of the ordering company
- Consignee's name and address
- General terms and conditions of order
- Description of goods, their specifications and quantities
- Supplier's quotation reference and any other correspondence or MOM (Minutes of Meeting)
- Pricing terms and billing terms
- Payment terms
- Delivery date and schedule
- Packing instructions
- Transport instructions
- Freight payment terms
- Insurance terms
- Warranty and guarantee term
- Cancellation provisions and damage relating to liquidity clauses
- Incoming inspection details and removal of rejections
- Bonus for early dispatch or zero rejections etc.
- Other special terms and conditions

An ordering system may vary depending on the methods used to arrive at the final document. When creating purchase orders, the following methods are usually considered:

Cash Purchase

The usual method of preparing purchase orders is sometimes not followed because it is too time-consuming or overly expensive. Instead, a senior executive makes available emergency cash to purchase items critical to the progress of the project from suppliers in the marketplace.

Tender System

This method of procurement is prevalent in the private sector. The objective of the tender system is mainly to encourage fair and competitive pricing and to discourage favouritism or nepotism in procuring items. Nepotism usually occurs when the terms and conditions or the specifications seem to favour one particular vendor. Loading is applied to eliminate nepotism by comparing all the advantages and disadvantages of purchasing a specific item from vendors in terms of cost and productivity. For instance, a machine that is more expensive may be many times more productive than a less costly one. Detailed specifications will ensure objectivity and eliminate any suspicion of nepotism.

There are three methods of tendering to choose from:

- i. Open tender
- ii. Limited tender
- iii. Single tender

Open Tender

The process begins with the publishing of Notice Inviting Tenders (NITS) in major newspapers and Trade Journals. The tenderers are expected to purchase the tender documents which contain the terms and conditions, as well as the specifications of the project. There is also an option to submit a technical or commercial bid during the process. Tenderers are expected to provide quotes and meet all contractual obligations or a certain minimum technical specification with regard to the terms and conditions. If any deviations occur in the quantity of supply or with the terms and conditions, this would have to be discussed to arrive at an agreeable solution.

Costly items with high technological content which require global tenders are financed by international financial institutions such as the IMF (International Monetary Fund). To ensure a smooth tender process, clear and simple language must be used for this type of tendering. In addition, a comprehensive checklist should be prepared before embarking on this global order.

The main problem presented by the open tender method is that of the 'rogue bidder' who quotes very low prices to win the contract only for him to attempt to renegotiate terms for an increase in payment once the buyers have committed a lot of investment to the project.

Limited Tender

This type of tender is designed to solve the 'rogue bidder' problem. It requires a limited number of bidders who meet certain predefined specifications. Precautions must be put in place so that genuine bidders are not disqualified or the criteria for qualification do not favour one particular bidder. Limited tenders produce reduced lead times.

Simple Tender

This type of tender is ideal for proprietary items but should be avoided to prevent unfair pricing or blackmail. It may, however, be useful when frequent repeat orders are required in order to reduce lead time during contract negotiations.

Rate and Running Contract

This type of contract is used by centralised procurement agencies or stores to buy items from one or more contracted sources. Items are normally procured for a fixed period at a fixed rate. A running contract is a type of rate contract which has a flexible period of validity of about $\pm 25\%$.

Having more than one source of supply ensures competitive pricing and prevents disappointment in the event of shortage of supplies. Other branches of a particular company may benefit from fixed-rate contracts by purchasing at the fixed rate when the company uses the centralised purchasing approach. This saves lead time and results in reduced pricing due to large orders across the organisation.

Subcontracting

Here, contracts are awarded at fixed rates to a few selected sources to supply items to the buyer. This method ensures that suppliers reserve capacity for the order and produce high-quality items at short notice.

System Contract

With this type of contract, the buyer allows the supplier to plan for the materials so that the supplier immediately supplies more items when the re-ordering period approaches. This frees up time for the buyer to concentrate on expensive and vital items. The buyer normally provides consumption specifications to the systems contractor.

The main disadvantage is that third parties may be privy to company information which could have serious security implications. Another disadvantage is that, since the buyer does not have control, it becomes difficult to regain control when the need arises. Defects in product quality may creep in and become unnoticeable after a long period.

The objectives of the system contract include:

- Simplification of ordering procedures
- Improving stocking of repetitively used materials
- Reducing administrative expenses
- Maintaining adequately controlled service levels
- Improving profitability of both buyer and seller and, at the same time, inspiring a more confident relationship between them.

Stockless Purchase

The buyer informs the vendor about quantities of items to purchase and the supplier constructs a supply facility on the site to provide the consumer with as many items as he wants based on agreed rates which are slightly higher due to the vendor installing stock facilities on-site. The main advantage is the zero lead time with minor or no paperwork for the buyer. The disadvantage of this system is the tendency for the vendor to monopolise business, which could lead to price hikes.

Blanket Order

Blanket orders are used to purchase low-price items or MRO (Maintenance, Repair, Operations) items. The order is usually time-dependent and it must cover periods of up to a year for a fixed price or use other pricing mechanisms. The advantage of such a system is that it avoids price increases associated

with repeated ordering. It places servicing responsibility on the supplier and frees up time for the buyer to undertake more critical work.

Seasonal Buying

Some items are produced only seasonally and therefore have to be purchased ahead of time; alternatively, due to shortage of storage space, the buyer is currently unable to keep stocks of some of these items. This approach is also adopted when prices are expected to become unstable at the time when the buyer may be ready to purchase them to use.

Receipt of Materials, Transportation and Inspection

Where planning and the commitment to deliver items are not strictly adhered to, it becomes critically important to chase or follow up the orders. Tax and insurance forms must be obtained and completed while the goods are in transit. This also calls for regular coordination between all concerned parties to ensure orders are delivered in the right conditions and on time.

Incoming items are inspected for quality verification. The quality of an item is defined in terms of:

- Dimensions and/or weight
- Physical and/or chemical properties
- Design and/or performance characteristics
- Surface textures
- Aesthetic values
- Packaging characteristics
- Defectives allowable
- Service and/or operating characteristics

Quality can be measurable or unmeasurable. Agreed universal standards should be used in determining the quality of an item and there should be no ambiguity in the item specification. Items could be unambiguously described using:

- i. Colour
- ii. Surface finishes
- iii. Lacquer or varnish
- iv. Thickness or size

To ensure quality procurement, organisations should:

- i. Set quality standards
- ii. Compare performance of products with standards
- iii. Take action to correct defects
- iv. Provide plans for continuous improvement

Communication channels to concerned parties can be improved through regular quality inspection.

Material Procurement Cycle

When items pass quality checks, they are dispatched to the warehouses or stores for storage. The end-use department may request the item following store system procedures. All stages in the material purchasing system can be classified as a “Material Procurement Cycle” as shown in Figure 9.2.

Figure 9.2 shows this Material Procurement Cycle from indenting materials to issues with the items.

Fig 9.2



Material procurement cycle Warehouses or Stores

Stores and warehouses are critical components of the whole construction project. The use department interacts with the stores on a daily basis to request materials. Having a store or warehouse prevents undue interruption to the flow of work on the site. Since items stocked at the stores cost a lot of money, they are often regarded as capital assets or money.

Function and Objectives of Stores

The general definition of a store is simply a place where materials are kept to be used later during the course of construction. A store can be defined as a place for:

- Receiving raw materials, components, tools, equipment and other items and accounting for them
- Providing adequate and proper storage and preservation of the various items
- Meeting the demands of the user departments by proper issuing and accounting for the consumption
- Minimising obsolescence, surplus and scrap through proper codification, preservation and handling
- Highlighting stock accumulation, discrepancies and abnormal consumption and evolving effective control measures
- Ensuring good housekeeping so that material handling, preservation, stocking, receipt and issuing can be done adequately
- Assisting in verification and providing supporting information for effective purchase action

Location and Layout of Stores

The options available to choose from include centralised, decentralised or a mixture of the two depending on a range of factors. Centralised stores are used when there are several projects occurring in different places. Decentralised stores are normally sited close to the project site. There may also be more than one decentralised store specialising in providing different types of components (e.g., items with electrical or mechanical aspects). Sometimes a mixed concept of centralised and decentralised types may be employed depending on the nature of the project and site location.

Factors that determine the choice of centralised or decentralised stores are as follows:

- i. Fast-moving items: these items require a decentralised store since they are fast-moving
- ii. Cost of item: centralised stores are more suitable for storing very expensive items provided they are not fast-moving
- iii. Special storage facilities: centralised stores are also suitable for items requiring special storage facilities to avoid the high cost of storage
- iv. Commonality of requirement of item: when many projects are underway and require the same type of item, it is best to keep the items in a centralised store
- v. Transport cost: decentralised stores close to the site are ideal for receiving items with high transportation costs
- vi. Cost aspects: all associated costs of purchasing materials should be duly considered before determining the type of storage to use
- vii. Life of the item: ideally store on site (decentralised store) to prevent likely delays in transit

Location Determinants of Stores

- i. Nearness to work site with the central store keeping high-value items

- ii. Environmental consideration, locating certain items that may pollute the surroundings away from residential communities
- iii. Ready availability of transport infrastructure
- iv. Facility should be flexible enough to expand and provide a good working environment
- v. Cost of transport and actual storage at the selected location must be carefully evaluated
- vi. Frequently used items are best stored close to the site to reduce travel distance to procure them
- vii. For projects involving deadly substances, there must be health facilities close by

General Criteria for Layout of Stores

- i. The design should allow easy identification of items
- ii. Stored items should be easy to retrieve from the facility
- iii. Design of the layout should allow free movement of people and equipment
- iv. Layout should facilitate preservation of materials from dust, moisture, chemicals etc.
- v. Excellent lighting system
- vi. Layout must make provision for effective fire-fighting
- vii. Space should be available for toilets, maintenance and repair areas, safe wiring systems etc.
- viii. The most economic layout should be arrived at after extensive analysis of alternative designs; height of store must provide sufficient space to aid vertical movement
- ix. All major functional areas should be properly marked out and labelled. Areas for bulk storage, inspection section and receiving bay should all be clearly identified.
- x. Racks, pigeon holes and bins are suitable for individual items
- xi. It is advisable to fix racks to walls. Alternatively, you may use revolving racks with castors
- xii. Secure locking systems should be provided for expensive items
- xiii. Ideally, trucks and lorries should be parked against the wall of the receiving bay to allow easy loading and unloading of items using suitable ramps
- xiv. Large doors and sufficiently-spaced columns are preferable
- xv. High-security measures should be in place
- xvi. Security personnel should be present to prevent theft, and the store facility should be close to a police station
- xvii. Excellent communication between departments concerned with storage issues should be encouraged for seamless operations
- xviii. Training should be provided to personnel on how to use fire-fighting equipment effectively

Preservation of Stores Material

Preservation to improve profits involves the following procedures:

- i. Economic aspects: if the cost of preserving materials is close to the cost of purchasing them, it would be advisable to discard that particular method of preservation. The cost of preserving or not preserving should be adequately weighted.
- ii. Period of idleness of the part: short- and long-term methods exist for determining the idleness of parts
- iii. Condition of the spare part or material: effort should not be wasted on preserving materials that will not last long or may have deteriorated beyond repair and would cost more to preserve
- iv. Effectiveness of preserving method: when the method provides only a marginal improvement in the life of the material, it will not be economical to preserve it.

Some preservation techniques

- i. Greasing bearings and placing them in grease proof paper
- ii. Keeping expensive instruments in their boxes with moisture-absorbing silica
- iii. Keeping electronic equipments and cards in static bags to prevent damage from electric shock charges; using anti-charge belts when handling electronic components
- iv. Using French chalk to dust rubber materials
- v. Dipping sintered bush bearings in warm oil for 24 hours per year
- vi. Keeping all valves open to prevent corrosion due to metal-to-metal contact
- vii. Ensuring that electrodes are not removed
- viii. Stocking grinding wheels vertical and keeping them apart with separators
- ix. Protecting machined faces of components with grease
- x. Protecting carbon steel exchangers by filling them with oil, water or gas
- xi. Placing switchgear components in plastic bags
- xii. Cleaning, oiling and greasing bearings and storing them in suitable places
- xiii. Using double-coat Ensis fluids to clean and protect steel wire
- xiv. Protecting highly corrosive copper and its alloys
- xv. Using fresh water to clean silver and lead parts
- xvi. Labelling corrosive chemicals and storing incompatible chemicals separately
- xvii. Keeping cylinders containing hydrogen, oxygen and other gases on shock-absorbing coil pads and away from heat
- xviii. Protecting vegetable oils and paints from light, moisture and air
- xix. Protecting wood from termites by coating it with anti-termite varnish
- xx. Separating glass sheets from one another with plastic or paper and vertically stacking them
- xxi. Warming batteries before use and not storing them in warm or humid conditions
- xxii. Protecting cloth and paper from termites, rodents, ants and moisture
- xxiii. Protecting rubber products from harsh weather such as heat, sunlight etc., and from oil, dust and water

Stores Systems and Procedures

Store systems consist of three main components: receipt, issue and documentation. Since a huge volume of data is circulated during checking, controlling and providing feedback, it is important to design the store management system in such a way that procedures enable timely communication for effective decision-making.

Management of Receipts

Receipts or input into stores may originate from internal or external sources. Procedures for receipt are sometimes initiated long before materials from the vendor are received by the stores. Stores and purchase procedures may operate under two different departments but proper coordination between these two entities will ensure problems are averted.

Chronological record-keeping of details should be followed to ensure ease of transaction. The work involved in effective record-keeping includes:

- (a) Determination of requirements
- (b) Initiating purchase orders
- (c) Following up on purchase orders to expedite supplies
- (d) Scheduling arrival of materials
- (e) Receiving the materials physically and planning for their storage
- (f) Performing quantity and quality inspections
- (g) Checking input documents such as invoices, lorry receipts and other invoices etc.
- (h) Keeping records of accepted or rejected materials
- (i) Endorsing the suppliers' bills and quantities and forwarding for payment
- (j) Provisional goods inwards in case of the need for later inspection
- (k) Final goods inwards for final acceptance of goods
- (l) Informing indenting departments of arrival of goods
- (m) Sending paperwork to purchase/accounts for payment
- (n) Updating insurance paperwork for latest goods arrival
- (o) In case of demurrages, arranging for insurance company visits

All concerned parties must be informed of all procedures. Other functions include the following:

- (a) Regularising miscellaneous items such as samples and cash purchases by raising receipt notes
- (b) Completing record-keeping formalities for returnable items and items received from feeder shops for later internal or external consumption
- (c) Keeping records of scrap received
- (d) Keeping records of other bulk material supply items which may not be physically received or stored in the warehouse, such as fuel oil etc.

Issue Control

Issues concern either the consuming departments or outsider suppliers. They usually involve making requests for an action to be taken. There are two types of issues: control of issues based on scheduling of projects or issues relating to delegation of authority. In this unit, we will be dealing with issues relating to scheduling of projects. With regard to issue control, we are interested in the issue of the right material, the right quantity and the right personnel at the right place and time with an authorised person taking charge of proceedings. Accurate records should be kept of all proceedings relating to issues. The right quantities of materials are calculated on planned schedules of activities and issued to each phase of the project at the right time. The issues to be made are communicated to all concerned departments to make them aware of the latest developments. Consumption is automatically controlled as a result of specific details contained in an issue order with limits on the number of material store personnel allowed to issue to the end-user department. Emphasis should be placed on the storekeeper's records of changes in inventory as work progresses to ensure work is not halted due to shortage of materials. Separate accounts should be created for one-time items. Bulk materials to be issued should be weighed or countered with the appropriate instrument. To ensure accurate measurement, equipment should be calibrated frequently. Emergency issues should be dealt with via procedures to keep track of these types of issues.

Store Documentation

All documents should be labelled with systematic numbering and correctly categorised for easy retrieval. Other methods of documentation apart from the issue and receipt documentation include:

- (a) Intra stores transfer voucher
- (b) List of slow-moving, fast-moving or obsolete items
- (c) Scrap disposal
- (d) Rejection notes
- (e) Acceptance notes
- (f) Delivery notes
- (g) Travel requisitions
- (h) Tour and expense reports
- (i) Indents
- (j) Codification methodology
- (k) Material requirement planning

Due to the demanding nature and high value placed on the proper management of information, it is necessary to make use of specialised software on computerised systems to store updated documents and reduce the cost of processing these documents.

Further Reading:

- ✓ Keoki Sears, Glenn A. Sears, Richard H. Clough (2008), *Construction Project Management: A Practical Guide to Field Construction*
- ✓ Frank Harris, Ronald McCaffer (2013), *Modern Construction Management*