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**A MODEL FOR THE PURCHASING FUNCTION  
IN TODAY'S BUSINESS ENVIRONMENT**

**Richard D. Toni  
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APPROVAL PAGE

A MODEL FOR THE PURCHASING FUNCTION  
IN TODAY'S BUSINESS ENVIRONMENT

This thesis is approved as a creditable and independent investigation by a candidate for the degree of Master in Business Administration, and is acceptable as meeting the thesis requirements for this degree, but without implying that the conclusion reached by the candidate are necessarily the conclusions of the major department.

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## INTRODUCTION

In today's business environment, mergers between large corporations and consolidations of business units within the same corporation are fairly commonplace. Cutter Biologicals, previously a division of Miles Laboratories, Inc., was merged into the Miles Pharmaceuticals Group on January 1, 1987.

The Miles Pharmaceuticals Group purchasing function will be used as a model for the development of a business plan in a post merger environment.

The Miles Pharmaceuticals Group, which is headquartered in West Haven, Connecticut, consists of three major operating divisions:

- Miles Pharmaceuticals
- Hollister-Stier
- Cutter Biologicals

Miles Pharmaceuticals is an operations group of Miles Laboratories, Inc., Elkhart, Indiana, a wholly-owned subsidiary of Bayer AG, Leverkusen,

West Germany. Miles Pharmaceuticals is the United States' pipeline for prescription drugs developed by Bayer AG. The division currently employs approximately 1400 people who develop, package, and distribute antibiotic, cardiovascular, antifungal, and other ethical drugs from its manufacturing site in West Haven, Connecticut.

Hollister-Stier was merged into Miles Pharmaceuticals in 1984 and is a world class producer of injectable allergens. Hollister-Stier, located in Spokane, Washington, is one of a handful of U.S. pharmaceutical companies that produce serum for allergy desensitization injections and is by far the largest. Hollister-Stier also owns and operates a 133 acre farm in Monmouth, Oregon which is the only agricultural farm in the U.S.A. strictly dedicated to the development of pollens for use in the manufacturing of allergen injectables. Hollister-Stier's main business is the development of allergenic serum by extracting proteins from plants, animals, and a variety of foods. The division employs approximately 350 people.



Cutter Biologicals, which was merged into Miles Pharmaceuticals in January, 1987, has a long history of world leadership in blood fractionation and plasma products and employs approximately 2100 people. Cutter manufactures products derived from blood plasma, blood collection, and storage products, as well as liquid nutrition products for hospitals, fluid filters, and control devices. Cutter currently has manufacturing sites in Berkeley and Covina, California and in Clayton, North Carolina.

The merger of Hollister-Stier and Cutter Biologicals into Miles Pharmaceuticals focused on strengthening the company's overall position in the hospital products market while also enhancing the business opportunities for each group, improving the productivity of their operations, and making optimum use of the resources in each organization.

The Merger of Cutter Biologicals and Miles Pharmaceuticals  
January, 1987

It is important to understand, for planning purposes, the magnitude and logistics of the recent merger of Cutter Biologicals into Miles Pharmaceuticals. At the

time of the merger, Cutter Biologicals had approximately five times the sales of Miles Pharmaceuticals and almost double the personnel. Cutter also had three fully operational plants in Berkeley and Covina, California, as well as Clayton, North Carolina. Hollister-Stier had been merged into Miles Pharmaceuticals in 1984. Hollister-Stier domestic sales were less than half of the pharmaceutical sales, with approximately half the people and only one operational plant. At that time, however, top management set the tone for future mergers by mandating West Haven (Pharmaceuticals) as headquarters for the group.

In September of 1986, top management announced the formation of a merger committee, task force committee, and twenty-six task force groups to study the synergies between the two companies with the following parameters:

- Headquarters would be located in West Haven.
- A plant manager concept would be adopted for each of the Cutter plants.
- Streamlining of personnel and functions were expected.
- The merger should be completed within a two year period.

The twenty-six task force groups, of which one group was Purchasing, were to review the functions and make recommendations to the task force committee for approval. The following issues were reviewed by each task force:

- Manpower/Staffing
- Site/Logistics/Location
- Systems - EPD/Communications
- Reports/Information
- Decision Process
- Structures: Reporting Responsibilities
- Unit Objectives
- Cost Savings
- Efficiency Improvements
- Verify/Simplify Systems
- Consolidate Functions
- Maintain and Increase the Growth of the Business

Each task force leader was expected to publish an agenda, state objectives, and make recommendations with completion dates. The Purchasing Task Force completed all phases of the merger by January 1, 1987.

The Miles Pharmaceuticals Purchasing Group

The group's purchasing organization, as a result of the Purchasing Task Force, is as follows:

<u>Business Unit</u>	<u>Personnel</u>
Miles Pharmaceuticals West Haven	1 - Group Manager 3 - Senior Buyers 2 - Purchasing Assistants <u>6</u> - Total
Cutter Biologicals Berkeley	1 - Director 2 - Buyers 1 - Associate Buyer 1 - Purchasing Assistant <u>5</u> - Total
Clayton	1 - Manager 2 - Buyers 2 - Purchasing Assistants <u>5</u> - Total
Covina	1 - Manager 1 - Buyer <u>2</u> - Total
Hollister-Stier Spokane	1 - Manager 2 - Buyers <u>3</u> - Total

1. The total personnel is twenty-one.

The director at Berkeley and the managers at Covina and Hollister-Stier have additional groups reporting to them; i.e., personnel, materials management.

## THE ENVIRONMENT

A multiplant company faces one additional organizational problem that does not concern most single-plant companies: To what extent should purchasing activity be centralized at the corporate level? In practice, virtually every firm answers this question differently. Some firms centralize the activity almost completely, doing the buying for all plants at a central headquarters office. Others decentralize the function entirely, giving each plant full authority to conduct all of its purchasing activities.<sup>1</sup>

Three major factors determine how feasible or desirable centralization of the purchasing function may be in a given situation:

1. Similarity of the classes of materials used in each of the plants.
2. Size of each individual plant purchasing department.
3. Distance separating the plants.<sup>2</sup>

<sup>1</sup>Purchasing and Materials Management, Fourth Edition, Donald W. Dobler, Lamar Lee, Jr., and David N. Burt, McGraw-Hill Book Co., page 527.

<sup>2</sup>Purchasing and Materials Management, page 532.

A review of each of these factors dictated that each plant maintain its own purchasing activity. The businesses were very different and complex and often required highly specialized buying at the plant site. Since buying was required at each site, it was determined that the authority would be centralized at the corporate level at West Haven. This centralization of authority would hold one person accountable to top management for proper performance of the group's purchasing activity. The purchasing managers at the plant site would report directly to their respective plant managers but functionally to the corporate group individual. By centralizing the authority and decentralizing the activity, it allows the group to reap the benefits offered by both approaches:

1. It places purchasing decision-making as close to the actual buy as possible.
2. It allows the corporate authority to monitor performance without actually becoming involved in day-to-day purchasing activities.
3. It allows the corporate authority's involvement in the acquisition of important materials.

4. It requires plant purchasing sites to maintain frequent liaison with the corporate authority. This approach would hopefully overcome the "we" versus "they" attitude that often exists between corporate and plant personnel. This approach is not unique and is consistent with current industry trends.

It is expected that the centralized authority will administer the mission statement and objectives for the group, as well as review and assess the objectives of each purchasing department.

#### The Plan

The central theme of the plan is to develop objectives that:

- Encourage participation at all plant sites.
- Are of primary importance to the corporation.
- Enhance personnel development.
- Establish a performance standard.

The plan should also include monitoring devices in order to assure that sound purchasing practices are being followed at all plant sites.

The Mission

The mission of the Miles Pharmaceuticals' Purchasing Group is:

To obtain the lowest total long-term costs for Miles Pharmaceuticals' Group purchased goods and services through the effective application of professional purchasing principles, controls and practices and to keep management fully informed of changes in market conditions or other supply factors that might influence the welfare of the company.

In general management terms, this statement would encompass a number of basic objectives for every purchasing department.

1. To support company operations with an uninterrupted flow of materials.
2. To buy competitively and wisely.
3. To keep inventory investment losses at a practical minimum.
4. To develop reliable alternate sources of supply.
5. To develop good vendor relationships.
6. To train and develop highly competent personnel who are motivated to make the corporation as well as their department succeed.



7. To achieve maximum integration with the other departments of the firm.
8. To develop policies and procedures which permit accomplishment of the primary mission.<sup>3</sup>

<sup>3</sup>Purchasing and Materials Management, page 15.

## OBJECTIVES

In order to effectively administer the group's objectives, it was necessary to review a wide range of issues with each purchasing manager. These issues provided a good basis for communication and the development of a good rapport between the group manager and the purchasing manager at each location. This allows for a similar interpretation of performance issues, departmental goals and objectives, and encourages an exchange of views.

The actual issues reviewed were:

1. Assess manpower versus responsibilities at each purchasing location.
  - a. Current and planned staffing.
  - b. Determine/establish performance criteria:  
i.e., purchased dollars, purchase orders placed, number of requisitions processed, etc.  
Develop indicators for purchasing efficiency for each purchasing function.
    - Compare department's performance against itself.
    - Comparison of other departments within the group.

- c. Assess potential for buyer/materials planner consolidation (if applicable).
2. Investigate innovative/creative techniques for reducing total long-term costs for the department.
  - a. Take advantage of larger volume related leverage and other merger synergies.
  - b. Review the potential for systems contracting, special warehousing, increased vendor stocking arrangements, etc.
3. Review and assess major goals for the purchasing function at all plant sites.
  - a. Current and future major projects involvement.
4. Investigate communication links between all purchasing functions.
  - a. Include electronic "hook up" with major suppliers.
  - b. Review current/future automated systems; i.e., requisitionless purchasing, etc.
5. Continue to effectively maintain/support current business.
  - a. Review areas of concern, avoid/eliminate stockouts, manufacturing interruptions, etc.

6. Development of purchasing personnel.
  - a. Basic purchasing courses, if needed.
  - b. Advanced courses which enhance buying techniques.
  - c. Materials requirements planning - buyer/  
materials planner consolidation.
  - d. Develop/encourage "entrepreneurial attitude"  
at the buyer level for all purchasing locations.
    - "Elevate thinking" to aggressively pursue  
cost savings opportunities.
    - Encourage "profit center" attitude as  
opposed to just a "service attitude."
    - Encourage buyer flexibility and buyer  
communication between purchasing locations.
    - Encourage buyer exchange of ideas, concepts,  
and information.
7. Other Issues
  - a. Packaging and labeling development in relation  
to the purchasing function.
  - b. Corporate purchasing interaction; use of  
corporate contracts.
  - c. Site interactions.

d. Minority Business

- Small Disadvantaged Business Concerns
- Woman Owned
- Sheltered Workshops

The four major objectives of the purchasing group are as follows:

1. Strategic Purchasing Planning - establish a "strategic planning team" which will be responsible for the strategic purchasing planning of critical materials for each business unit as follows:
  - Monitor trends
  - Interpret trends
  - Identify needs
  - Develop supply options
  - Make recommendations
2. Establish a cost savings team which will:
  - Investigate "master contract" concept for production and non-production supplies.
  - Investigate volume related opportunities as a result of the merger.
  - Investigate innovative/creative techniques for lowering long-term costs.
  - Reduce costs while establishing security of supplies through negotiations.

3. Establish an electronic communications team which will:
  - Investigate enhancements to the current automated purchasing system.
  - Investigate state-of-the-art automatic purchasing systems.
  - Investigate potential for direct vendor electronic hook-up.
  - Investigate "remote" site electronic purchasing.
4. Establish a common performance criteria.
  - Investigate trend analysis for each purchasing location.

Objective 1 - Strategic Purchasing Planning

"The very survival of the organization may be affected by the presence or absence of a viable strategic material plan. Under the myopic approach of traditional reactive purchasing, the firm may awaken one day to a world in which sources of supply capable of meeting its requirements are unavailable.<sup>4</sup> This certainly underscores the importance of having

<sup>4</sup>Proactive Procurement, The Key to Increased Profits, Productivity, and Quality, David N. Burt, Prentice-Hall, Inc. page 7.

a strategic materials plan. It is important, however, to distinguish between procurement planning and strategic planning." As practiced today, the distinction between procurement planning and strategic planning is simply one of the certainty and the timeframe associated with the material requirements. Procurement planning assists buyers in day-to-day purchasing work focusing on short-term problems for which parameters are known. Strategic planning deals with potential long-term needs that are less certain and more complex in nature - needs that may have a significant impact on a firm's long-range profitability.

The unique characteristics of strategic materials planning is its focus on the impact that changes in the external environment might have on the firm's material needs and procurement policy. The activity involves both economic and technical investigations.<sup>5</sup>

At a macro level strategic purchasing planning requires purchasing personnel to:

- Monitor their environment.
- Forecast and anticipate changes in the environment.

<sup>5</sup>Purchasing and Materials Management, page 460.

- Share purchasing related information with suppliers and managers within their own firm.
- Identify the firm's competitive advantages and disadvantages relative to its suppliers.

At a micro level, strategic purchasing requires the identification of critical materials, an evaluation of possible supply disruptions for each critical material, and the development of plans for all identifiable problems. These plans must be well thought-out and developed in advance of all foreseeable shortages.

Areas that deserve particular attention include the suppliers general growth plans, future design capability in relevant areas, the role of purchasing in the suppliers strategic planning, potential for future production capacity and financial ability to support such growth.<sup>6</sup>

The planning team will consist of one purchasing manager and one buyer from each of the individual plant sites. The team will be expected to make recommendations to the group and subsequently to top

<sup>6</sup>Proactive Procurement, page 204-205.



management concerning immediate and long-term strategies. The planning team will meet frequently (quarterly) and issue status reports to the entire group (all purchasing management). Planning team members will be rotated to other teams (cost savings, communications) every two years. Rotation of team members will give the participants a broader view of the company's objectives and increase the individual's visibility to management. The time schedule for the issuance of the strategic plans is as follows:

1. Meet as frequently as necessary in order to issue a one to two year strategic material plan by January 1, 1988.
2. Meet as frequently as necessary in order to issue a three year to five year strategic materials plan by June 30, 1988.
3. Meet quarterly after June 30, 1989 to review status of plans, alter plans if necessary, continue to make recommendations, and assess the value of the initial plans.

Objective 2 - Cost Savings

Historically, purchasing departments have been viewed as service departments or cost centers. As a service department, purchasing's function was to support the manufacturing and sales departments. These departments were given the primary responsibility for profit generation. The cost center approach viewed purchasing as a function which was responsible to manage and control purchase expenditures for materials, components, and services. Purchasing was also expected to keep its administrative costs under control.<sup>7</sup>

For the average firm, however, purchasing is responsible for spending over half of every dollar the firm receives as income from sales and other sources. More dollars are spent for purchases of materials and services than for all other expense items combined, including expenses for wages, taxes, dividends, and depreciation.<sup>8</sup>

The 1982 Census of Manufacturers reported the following concerning purchasing expenditures.<sup>9</sup>

<sup>7</sup>Midwest Purchasing Management, April 1987, "Magnifying the Bottom Line", Larry Guinpiro, page 6.

<sup>8</sup>Purchasing and Materials Management, page 10-11.

<sup>9</sup>Midwest Purchasing Management, page 7.

All Manufacturing Groups	- 49%
Electric and Electrical Parts	- 43%
Machinery (except electrical)	- 45%
Instruments and Related Products	- 60%

The fact that purchasing is responsible for spending over half of most companies total dollars highlights the profit making possibilities of the purchasing function. Every dollar saved in purchasing is equivalent to a new dollar of profit. An additional dollar of income from sales, however, is not a new dollar of profit; applicable expenses must be deducted from the sales dollar to determine the remaining profit.<sup>10</sup>

The responsibilities of the cost savings team will include but not be limited to:

1. Take advantage of any volume related leverage created by the merger.
2. Review opportunities for multiplant systems contracting or vendor stocking arrangements.
3. Review opportunities associated with "sole sourcing" for the group.
4. Cost benefits associated with long term contracts.

<sup>10</sup>Purchasing and Materials Management, page 20-21.

5. Review/investigate opportunities for lowering inventory investment.
6. Establish/negotiate master contracts for the group where feasible.

The cost savings team will consist of one purchasing manager and one buyer from each of the remaining sites. Cost savings team members will be rotated to other teams (strategic planning, communications) every two years.

The primary task of the cost savings team will be to reduce the groups total expenditures by 3%-4% in the first two years and by a minimum of 1% every year thereafter. This represents a difficult task since each purchasing department has its own savings program and because of the difference in the classes of materials purchased by each of the plants.

It should also be mentioned that the cost savings, strategic planning, and electronic communication teams will have to work in tandem since each may impact the other.

Cost Savings Goal

1. 0-2 years                      3-4% of total expenditures
2. 2-5 years                      1% of total expenditures

The cost savings team will issue reports quarterly and make recommendations to the group.

Objective 3 - Electronic Communications

It will be the responsibility of the electronics communications team to review/investigate enhancements to the Miles corporate automated purchasing system. This team will be responsible for keeping the system current and up-to-date with the industry. The electronics communications team will also investigate the potential for "hook-up" systems with major suppliers. The electronics communications team is expected to work closely with the planning and savings teams.

The electronic communications team will consist of one purchasing manager and one buyer from each plant site. The electronic communications team members will be rotated to other teams (cost savings, planning) every two years.

The duties of the electronic communication team will then be to:

1. Keep the current automated purchasing system, state-of-the-art.
2. Investigate new systems and techniques for vendor communications links.
3. Assist plant sites with problems. Make recommendations.
4. Investigate and make recommendations concerning innovative ideas; i.e., requisitionless purchasing.

The electronic communications team will convene quarterly as required and issue status reports to the group.

Objective 4 - Performance Criteria - Trend Analysis

Management recognizes the need for an accurate means of measuring the performance of today's purchasing function. When you consider that more than fifty percent of each dollar of sale is spent on the acquisition of goods and services, an intelligent organization knows it must have a way of measuring just how efficiently that money is being spent.

A good measurement system can lead to better decision making, since it can identify variances

from planned results, and alert management that investigation and possibly corrective actions need to be taken.

A measuring system makes activities visible and identifies successful completion of goals and objectives. With visibility comes better communications with other departments in the organization. Budgets, long-range strategic planning, and team effort can be enhanced when management can see results, or results can be monitored accurately.

It is also possible that a good measurement system can lead to better motivation on the part of purchasing management and its employees by aiding in the setting of realistic objectives and accurate means of measuring the fulfillment of these objectives.<sup>11</sup>

Some activities, like production or capital investment projects, lend themselves to quantitative measurement. In these areas measurement of results may be developed quite easily and simply. However, in other portions of the organization, like purchasing, evaluation is more qualitative and subjective and therefore more difficult. In determining what to evaluate... it is important to understand that no single criterion

<sup>11</sup>Measuring Purchasing Efficiency/TREND PAL 33, A Professional Development Committee Package Program from the Program Aids Library of the National Association of Purchasing Management, Inc., Copyright 1986 by NAPM.

or combination of criteria can be the complete answer on individual or departmental performance. Instead, they are at best good directional indicators that require subjective management adjustment to account for the changing circumstances - both within the firm and outside it - that impact on performance.<sup>12</sup>

The TREND management system was developed by Victor H. Poller nearly two decades ago. The name is an acronym for Total Recognition of Environmental and Numerical Development. Trend analysis is a way of seeing how efficient a purchasing function is from one year to the next in terms of cost of operation, how well it uses its resources, etc. By plotting results on an annual basis, a "TREND" can be seen which is valuable in setting objectives for the department.<sup>13</sup>

The measurement criteria listed below will be used as a basis for discussion with the group members. The group will determine the final criteria used.

<sup>12</sup> AMA Management Handbook, Second Edition, William K. Fallon, Amacon, Copyright 1983.

<sup>13</sup> Measuring Purchasing Efficiency/TREND PAL 33, A Professional Development Committee Package Program from the Program Aids Library of the National Association of Purchasing Management, Inc., Copyright 1986 by NAPM.



Factors

1. Dollar Purchases for Year (Millions)
2. Dollar Sales per Year (Millions)
3.  $\frac{\text{Dollar Purchases}}{\text{Dollar Sales}}$
4. Number of Purchase Orders
5.  $\frac{\text{Purchasing Employees}}{\text{Total Employees}}$
6. Number of Purchasing Employees
7. Dollars Spend per Purchasing Employee (Millions)
8. Number of Purchasing Requisitions
9.  $\frac{\text{Purchasing Employees}}{\text{Number of Purchase Orders}}$
10.  $\frac{\text{Purchasing Employees}}{\text{Dollar Purchases for Year}}$
11. Dollars Saved Purchasing per Person (Thousands)
12. Number of Purchase Requisitions Processed per Person

The following is a trend analysis for the West Haven Purchasing Department from 1981 to 1986.

No.	Factor	Year					
		1	2	3	4	5	6
1.	Dollar Purchases for Year (Millions)	20.0	25.3	28.9	57.4	66.2	75.0
2.	Dollar Sales per Year (Millions)	22.6	32.8	38.9	48.9	65.4	83.3
3.	$\frac{\text{Dollar Purchases}}{\text{Dollar Sales}}$ (%)	88.5	77.1	74.3	117.4	101.2	90.0
4.	Number of Purchase Orders	4890	5403	5668	6375	6574	7000
5.	$\frac{\text{Purchasing Employees}}{\text{Total Employees}}$	$\frac{1}{150}$	$\frac{1}{150}$	$\frac{1}{163}$	$\frac{1}{167}$	$\frac{1}{188}$	$\frac{1}{192}$
6.	Number of Purchasing Employees	5	5	5	6	6	6
7.	Dollars Spent per Purchasing Employee (Millions)	4.0	5.06	5.78	9.56	11.03	12.5
8.	Number of Purchase Requisitions	5169	5868	6444	7104	7332	7760
9.	$\frac{\text{Purchasing Employees}}{\text{Number of Purchase Orders}}$	$\frac{1}{978}$	$\frac{1}{1080}$	$\frac{1}{1134}$	$\frac{1}{1063}$	$\frac{1}{1096}$	$\frac{1}{1167}$
10.	$\frac{\text{Purchasing Employees}}{\text{Dollar Purchases for Year}}$	$\frac{1}{4.0}$	$\frac{1}{5.06}$	$\frac{1}{5.78}$	$\frac{1}{9.56}$	$\frac{1}{11.03}$	$\frac{1}{12.5}$
11.	Dollars Saved Purchasing per Person (Thousands)	50.0	65.0	80.0	79.16	100.0	133.34
12.	Number of Purchase Requisitions Processed per Person	$\frac{1}{1033}$	$\frac{1}{1174}$	$\frac{1}{1288}$	$\frac{1}{1184}$	$\frac{1}{1222}$	$\frac{1}{1293}$

Trend analysis provides valuable information that will be used to measure the efficiency of each purchasing location in general terms. This will allow for comparisons within the group, as well as with published industry trends.

These and similar criteria, which can be shown in tabular or graph form generally indicate past performance. However, after several years of data accumulation, future targets could be developed as a means of evaluation. Again, they should not be used in a void as absolute measures. They are an aid in evaluating workload and performance and in forming sound judgement about the general situation inside and outside the firm.<sup>14</sup>

#### Controlling Factors for the Group

It is important to understand that the major objectives for the group are self-auditing because of the requirement for status reports, deadlines for publication, etc. The corporate unit will have the responsibility for monitoring the four (4) primary objectives of the group.

The corporate unit will also be responsible for monitoring the performance of the individual purchasing departments. This will be accomplished by:

<sup>14</sup>AMA Management Handbook, Second Edition, William K. Fallon, Amacon, Copyright 1983.

- Requiring each purchasing department to submit departmental goals and objectives.
- The issuance of a policy manual by the corporate unit.
- A corporate audit.

Each purchasing department within the group will be required to submit departmental goals and objectives annually. These departmental objectives will be reviewed, as well as progression toward group objectives, at semi-annual purchasing meetings held at corporate headquarters. Each objective submitted will have assumptions and a brief action plan.

1987 OBJECTIVES  
PURCHASING DEPARTMENT

The 1987 objectives for the West Haven Purchasing Department will serve as a guide to assist the various purchasing departments. They are as follows:

1. Assure the timely and successful introduction and promotion of all new and existing products for the Miles Pharmaceuticals Group; i.e., Cipro™, Baypress®, Nimotop®, Gamimune-N®, Hollister-Stier dermatologicals, etc.
2. Achieve cost improvements for production and non-production materials, equipment, supplies, and services in excess of \$1,200,000.
3. Assure that all equipment, supplies, and services be available, in a timely manner, for the expansion of the West Haven facility; i.e., Pharma Research Center, tablet department expansion, etc.
4. Assure that desired inventory levels for raw and packaging materials are maintained.
5. Effectively interface the current automated purchasing system module into the AMAPS system.
6. Continue to develop the Purchasing staff in materials requirements planning and advanced purchasing techniques.

7. Continue to develop and implement effective packaging and labeling systems for the group.

#### 1987 ASSUMPTIONS

##### PURCHASING DEPARTMENT

1. Market forecast communicated in a timely manner to allow for the efficient development of packaging and labeling and the subsequent ordering of all required materials.
2. No significant reduction in sales volume.
3. That all equipment and non-production materials, supplies, and services requirements be determined with sufficient lead times for procurement.
4. That desired inventory levels are achievable based on product mix, vendor cooperation, and minimum order requirements.
5. AMAPS (Advanced Manufacturing Accounting Production System) training will occur in a timely manner.
6. Funds will be available for continued education.
7. That desired systems will be acceptable to all responsible levels of management.

#### 1987 ACTION PLAN

##### PURCHASING DEPARTMENT

1. Assure the timely and successful introduction and promotion of all new and existing products for the Miles Pharmaceuticals Group; i.e., Cipro™,

Baypress®, Nimotop®, Gamimune-N®, Hollister-Stier dermatologicals, etc.

Action: Direct, plan, develop, order and expedite the requirements necessary to allow for the timely delivery of production and non-production materials with the various operating departments.

2. Achieve cost improvements for production and non-production materials, equipment, supplies, and services in excess of \$1,200,000.

Action: Continue competitive bidding, procedures for production and non-production materials, supplies, and services. Substitute, eliminate, or combine materials within the Miles Pharmaceuticals Group.

3. Assure that all equipment, supplies, and services be available, in a timely manner, for the expansion of the West Haven facility; i.e., Pharma Research Center, tablet department expansion, etc.

Action: Effectively communicate lead times, coordinate, order, and expedite requirements as requested.

4. Assure that desired inventory levels for raw and packaging materials are maintained.

Action: Continue to investigate innovative techniques in order to reduce inventories with the assistance of in-plant and supplier personnel.

5. Effectively interface the current automated purchasing system module into the AMAPS system.  
Action: Develop and train Purchasing personnel on a continuing basis.
6. Continue to develop the Purchasing staff in materials requirements planning and advanced purchasing techniques.  
Action: Funds will be available for continued education.
7. Continue to develop and implement effective packaging and labeling systems for the group.  
Action: Investigate innovative systems which reduce potential labeling errors (i.e., computer controlled labeling) and increase the efficiency of the manufacturing operation.



## POLICY MANUAL/CORPORATE AUDIT

It will be the responsibility of the corporate unit (authority) to issue a policy manual and perform periodic audits of the various purchasing departments.

The manual is intended to formalize the policies and organizational concepts upon which all purchasing practices and procedures are based throughout the group. It is to serve as a primary reference and provide guiding principles within which those charged with purchasing responsibility can function to accomplish the objectives of the corporation. It identifies and defines the essential areas of purchasing responsibilities, enhances mutual cooperation among all purchasing departments, and assists other departments and the relationships that exist between themselves and purchasing. It clearly defines a professional standard of conduct, limits of authority, competitive bidding policies and legal and regulation requirements for purchasing personnel.

It is also the responsibility of the corporate unit to periodically audit the individual purchasing

sites. The purpose of the audit is to verify that sound purchasing practices are followed and that they are consistent with corporate goals. Improved communications, cooperation and sharing of ideas are gains that will result from a sound audit.

Generally the audit will consist of reviewing significant expenditures of production and non-production materials, including spot checking purchase orders for any deviations from established policy and procedures.

A more detailed review and appraisal would include but not be limited to the following:

1. Sourcing Policies
2. Compliance with Purchasing Policies and Procedures
3. Use of Group/Corporate Contracts
4. Handling of Rejections
5. Standard U.S. Actual Costs
6. Use of Blanket Orders
7. General Confidentiality and Security
8. Bid Requests/Surveys
9. Authorization Levels
10. System Controls
11. Periodic Reports to/from Purchasing

12. Buying by Non-Purchasing Personnel
13. Vendor Relations
14. Review of Job Descriptions
15. Forms Review - Purchase Order, Purchase Requisition, Standard Shipping Order, etc.
16. Review "Trend" Analysis Data as Submitted

## SUMMARY

The Miles Pharmaceuticals group consists of three very distinct operating businesses:

- Miles Pharmaceuticals
- Cutter Biologicals
- Hollister-Stier

The group currently has five operating plants, each with their own purchasing department. The challenge is to formulate a plan that would encourage participation among the various departments toward common objectives and establish a uniform performance standard.

Three of the group's objectives,

- strategic planning
- cost savings
- electronic communications

require team participation at the buyer level. This will give buyers a sense of involvement in working toward group objectives, and, hopefully, avoid a "we" versus "they" attitude. Rotation of team members will give the participants a "broader" view of the company and its objectives. This concept

will also give management the opportunity to assess the potential of the individuals involved.

The establishment of a standard performance measurement will assist in setting future objectives for the group, as well as for each individual purchasing department. Each purchasing manager can compare his/her department's performance to other departments within the group, as well as to published industry trends in general. The corporate unit can also assess the performance of individual departments within the group.

The corporate unit will use three "controlling" factors to monitor the activity of the individual purchasing departments. They are:

- the evaluation and assessment of each department's annual goals and objectives
- the issuance of a policy and procedures manual
- periodic corporate audits.

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