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IMPLEMENTATION OF PURCHASING PLANNING IN PROCUREMENT OF RAW MATERIALS AT INDUSTRIAL COMPANY: A STUDY ON LLC PETROKIMIA GRESIK, EAST JAVA, INDONESIA

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ABSTRACT

This study concentrated on the effective implementation of purchasing planning for industrial companies engaged in the procurement of raw materials in order to improve productivity and acceptance of raw materials on time. The purpose of this study was to explore the purchase planning and improve the accuracy in raw material procurement in PT. Petrokimia Gresik. This research employed a qualitative method with descriptive research approach. This study focuses on organizational structure, forms and records (documents), as well as systems and procedures in the procurement of goods at PT. Petrokimia Gresik. Primary data were obtained directly from research sources and direct observation. Secondary data in the form of forms, accounting records were also regarded. The data of this research were collected through observation, interview and documentation. SWOT Analysis was also employed to identify the opportunities and overcome obstacles found by PT. Petrokimia Gresik. SWOT analysis consisted of analysis on the strengths, weaknesses, opportunities (opportunities), and threats (threats). The SWOT Matrix then indicated the proper strategies that can be drawn from these four factors.

KEY WORDS

Purchasing planning, procurement, industrial companies.

Pujawan and Mahendrawati (2010) pinpointed the importance of all parties to be engaged including supplier, manufacturer, distributor, retailer, and customer in producing an inexpensive, high-quality, and fast-produced outcomes, which later on form a concept of Supply Chain Management (SCM). SCM constitutes a manager's global viewpoint to assess and predict prospective outcomes. In addition, it is such an effect of decision, which is not only establishing the company image, but also to expand the marketing range from suppliers and customers. To improve the value to the customers, it is of necessary to pay an intensive attention to the involvement of chain of value (Finch, Byron J., 2006). SCM model in the company is allowed to work collaboratively with other companies for supply of production needs. The main purpose of SCM is to initiate an on-time product distribution for the sake of customers' needs fulfilment, low-budget expenditure, time efficiency, and planning and distribution centralization.

The role of purchasing division is to arrange the goods' procurement and maintain favorable relationship with suppliers in order to ensure that all the chain supply are well organized as planned. The good chain supply and relationship are supposed to give a significant contribution to LLC. Petrokimia Gresik. There are two major risks found in the purchasing division, to name completeness of the goods' amount and lateness of goods' arrival. Those two mentioned risks are said to result in production delay.

This research was centralized on the implementation of effective purchasing planning at the industrial company for raw material procurement in order to improve productivity and time accuracy of goods' distribution. As the consequence, it is of urgency to the company to perform purchasing planning from which the company is allowed to improve the circulation pattern of production for balancing the needs of the company. In addition, the implementation of purchasing planning is aimed at maintaining company's stability upon the marketing needs.

LITERATURE REVIEW

Purchasing Planning. In a purchasing management book, there is postulated “purchasing planning refers to cycles of integration of holistic purchasing activities into the company’s planning system” (Scheuing, 1989).

The purchasing planning constitutes a formulation and implementation of purchasing strategies. The purchasing strategies, further, cover the sources, time, and life-cycle. The first pinpoints more on types and number of vendors to work with for goods’ procurement. The second one rather focuses more on when the goods would be received and number of goods’ volume the company would receive. Meanwhile, the last one concentrates on purchasing behaviors after the product is received by the consumers.

The Roles of Purchasing Planning for the Company. Purchasing planning is something inseparable from the company’s general planning system. If suppliers supply products that are not quite demanded using interesting numbers of goods and rational cost; the products are said to be have competitive prices in the market level. If the purchasing has been integrated in such a product planning; therefore, the fault that may occur during resource and cost allotment can be withdrawn.

In the purchasing management book, an idea from Scheuing is mentioned, postulating that to accurately achieve the goals and contribution, purchasing planning should be coordinated and integrated to the functional planning within company’s planning system. In essence, there are three main dimensions as follows:

1. *Quantity:* the total product units needed by marketing to fulfill the market demand in which a specific ‘bill of material’ is needed as a pre-requisite material for the purchase;
2. *Time:* decide the stipulated time and waiting period for the material; the schedule should be well measured o timely supply the materials needed.
3. *Money:* Every plan can be achieved if raw materials are timely distributed including the money which has been determined as the pre-requisite and the solution for any issues in achieving various work accomplishments.

METHODS OF RESEARCH

This current research was descriptive research done using a qualitative approach. There had been some foci determined as follow:

- Organizational structure – this aimed at identifying tasks and responsibilities based on the specific discipline;
- Forms and records used in each of the procedures for company’s purchasing;
- Systems and procedures in purchasing for goods’ procurement implemented by LLC Petrokimia Gresik, East Java.

Interview and documentation were administered to collect the intended data.

RESULTS AND DISCUSSION

Company’s Internal Activities for Purchasing. LLC Petrokimia, had owned the raw materials which were accommodated in a storehouse for supernumerary stocks. Moreover, the company alone attempted to check the volume or quota. If the volume was considered excessive, therefore, the company would try to delay the purchase of raw materials. However, if the raw material availability was deemed less than the amount needed for fertilizer production, the company, furthermore, would purchase certain raw materials needed within a quantity of long-term needs. The annual Report from LLC Petrokimia Gresik stated that, “To make sure the availability of the stocks, the company has set a series of plans for aw materials’ and products’ procurements by means of multi-sources purchasing system in addition to making a long-termed signing to the manufacturer for specific products.”

After the necessary raw materials had sufficed, marketing planning would be measured based on the production capacity which would be possibly received. LLC. Petrokimia Gresik had been regarded to have a marketing strategy to increase the marketing targets for fertilizer

and non-fertilizer products under national and international scales. The planning sale in 2017 showed a 4% increase higher than that of 2016 (Annual Report of LLC Petrokimia Gresik, 2016). This was supposed to be a breakthrough to uplift the efficiency and productivity to reach the company's targets. It had to need a couple of stages to arrive at such expected final outcomes as well-organized administrative procedures, zero complaint, and smart ways of thinking.

With the well-organized administrative procedure, it was expected that the company's activities could run very well. All the activities should be recorded to rise a work transparency and to spot the root problem to be addressed. The process of recording the activities needed some supervisory procedures, such as data of company's transactions, finance, production, staff employment, raw materials' availability, promotion, and distribution.

During the production of fertilizer, the company had initiated plan for fertilized and non-fertilizer productions in the beginning of the year. The company was allowed to take a certain amount of raw materials needed for the production of one of the two. For example, Phonska fertilizer needed 6 min (in percentage) of nitrogen, 6 min (in percentage) of P₂O₅CS₂, and 6 min (in percentage) of K₂O, to produce as much as 30 min (in percentage) of the fertilizer. All the necessities for the fertilizer production would be fulfilled based on the collaborative work with the production and procurement parties in order to probe the spec best-fitted to the fertilizer or non-fertilizer productions.

To identify the arrival goods it needs, the company attempted to find out the distribution path from the home country of the distributor to the company in order to make sure the distance goods' shipment to occur. In event of conflict happening in the home country of the distributor, the company was allowed to find out another alternative from other countries only if the company had suppliers originated from conflicted countries. The expected span and shipment with the fastest speed could be occupied as the alternative to reach the company. The distance, further, could be set based on the specifications needed, whether or not they are available in Indonesia or in certain countries such as Jordan or Egypt. Such external condition was uncontrollable; nonetheless, still were we (the company) allowed to choose the countries with minimum risk of external conflicts and availability of goods the company needed. Those three aspects could be taken into account as a capital for the analysis of goods' arrival from the distributor to the company.

The fluctuation of Dollar currency and cost of global crude oil resulted in different prices of goods in one country from other ones. The goods' purchasing needed an offer from the vendor in certain country to set a comparison of price among other vendors. In accordance with Arif's statement, the company would like to purchase goods with the lowest price possible yet the products should be best-fitted to the predetermined specifications. The use of Cost and Freight (CFR) signified one of a couple of procedures in balancing the relationship between sale and purchase over goods' distribution. Therefore, CFR constituted a goods' loading by ship of which cost of shipment had been accomplished by the vendors to get in the targeted company. By then, the risk taker would be shifted from the vendor to the distributor. Therefore, the responsibility for goods safety would be guaranteed by the distributor until the goods were received by certain targeted company.

The efficient cost of expenditure would be implemented in such ways to suppress the cost that should be paid by the company. Cost efficiency was crucial for purchases as it was intended to supply products with certain quality. For example, for SP-36 production, some materials were only available and imported from other countries, such as Phosphate from Thailand, H₃PO₄ from Egypt, and H₂SO₄ from Jordan. To get best-quality products, the cost should be well-considered including taxation and interest rates, which might be varied among countries. LLC. Petrokimia Gresik had arranged a well-measured purchasing plan in the beginning of the year as shown in Table 2, which was supposed to reach goods production target within the following the year.

The Implementation of Purchasing Plan at LLC. Petrokimia Gresik. There were some procedures implemented by LLC. Petrokimia Gresik described as follows:

- LLC. Petrokimia Gresik annually set a series of marketing plans as mandated by the

central government to all farmers in Indonesia. The plans determined the targeted amount of goods marketed to the consumers or farmers;

- To fulfill all the estimated numbers of goods, the company would implement a series of production plans to determine the exact total of goods to be distributed to the target market.
- In regard to the plans, the purchasing parties should arrange a design of purchasing planning for raw materials procurement to the suppliers with some types and specifications of raw materials.
- After the design is finalized based on the needs, the report will be handed in to the director to be examined and to see if the amount of raw materials is nearly running out. The report includes some points such as the exact time “when the marketing is executed”, ‘how weight is the raw materials needed (ton, kilograms, etc.)’, ‘when the materials are distributed’, and ‘how the price is determined (based on appraisal of each supplier)’
- After being agreed by the director, the purchasing division agrees a tender and performs an inquiry actions to the selected vendor (the one receiving the tender). Afterwards, negotiation is held to decide the amount of goods needed and the cost to pay. Then, after the agreement is reached from the two parties, contract letter issued.
- Right after the contract is signed and agreed, the purchase will be done by means of *CFR (Cost of freight)*. When goods are sent by the importer via ship, the importer should send the details of shipment by including a document describing shape and name of the ship, the type and the amount of goods and the estimated time or schedule of ship arrival at company’s harbor or other harbors.
- When the documents are regarded valid, LLC. Petrokimia Gresik will send *L/C (Letter of Credit)* to the distributing company.
- After the loading is over, the distributing party will send a document that explains the identity of goods shipped, such as, *B/L (Bill of Lading)*, *invoice*, *CoA*, and *CoO*. These documents are used when the ship has arrived at the harbor and the goods are loaded from the ship.
- After the goods are received, the company will have to accomplish all the requirements, including the customs duty. Finally, the company is allowed to distribute the goods to the storehouse of company’s production.

Purchasing Strategy. In determining strategy for purchasing, there were some aspects to consider including the time, resource and external condition of the company partner. LLC. Petrokimia Gresik had some stock of substitutional raw materials to use when the materials are running out. If the availability of this back up resource is also running out, the procurement staffs would make a purchase request to the supplier. The availability of the stock owned by the company needed an in-depth appraisal upon span consumed to get the goods in the harbor. In addition, the resource needed for production was quite massive that the company had to import the goods they needed from overseas. Problems arise within a collaborative work with other countries, such as disasters or conflicts. Currently, it is suggested that the company identify the current situation of the target country to avoid any obstacles from occurring during a transaction.

Supplier Selection for Purchasing at LLC. Petrokimia Gresik. The selection of suppliers for purchasing was done by tender. Tender contract was usually preferred as the company wished to simplify and accelerate the purchase and distribution process in order to eliminate the needs for company to pick up the goods.

Goods Distribution to LLC. Petrokimia Gresik. The goods distribution was executed by the distributor to LLC. Petrokimia Gresik by means of rent ship facilitated by the distributing company. This was because the ordered goods needed certain ship characteristics including the size of the ship, the width of the cargo is, the safety matters. Using rent ship allow the company to arrange the goods’ arrival. If the goods were urgently needed, fast ship would have been chosen.

CONCLUSION

There is a rule of purchasing for procurement at LLC. Petrokimia Gresik where all the needs should be well-organized. Therefore, the implementation of Purchasing Planning is said to significantly improve the accuracy of raw materials' purchasing for the company and to keep all the company's needs in balance.

In addition, the implemented purchasing planning by the company, in this case LLC. Petrokimia, has shown a good balance, which represented the company's ability to maintain the availability of the raw materials and to seek another alternative materials overseas when they run out of the materials.

SUGGESTIONS

The implementation of Purchasing Planning by LLC. Petrokimia Gresik for goods' procurement still concentrates on the international conditions, which infers that the materials provided by the overseas company has yet to be based on the national condition. It is of urgency for the company to reconsider local needs with purposes of keeping up with the market demand. Consequently, the needs of home country would be rather competitive in international market which will surely give significant contribution to foreign exchange supply.

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