

# Impact of Procurement on Capital Envelopes LLC, Dubai

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## Abstract:

With a hike rivalry in the market forum, an increase in product offerings in the market is observed. This leads to a diminished product life cycles. It has therefore become essential for a industry to better operate their supply chain process. This leads to a better supply and demand process. In this present era it clearly shows that Information technology and their advancement plays a vital role in the forecasting of demand and supply changes prevailing in the market place

Recent best practices in the firm helps in the development of the supply chain management effectively and efficiently. These practices help the firms to identify the needs and requirements in the changing business environment. This supply chain management helps in the inventory management control according to the demand and supply trends of the market. The process of delivering the goods to the consumer at the right place requires a proper and an efficient supply chain management.

The ferocious competition in the globalized world leads to introduction of the new products which urges the customers to buy the product and the business enterprises are kindled to invest a huge amount in the supply chain. The development in the transportation and communication technologies urges the continuous improvement in the evolution of supply chain effectively. The procurement is the method of obtaining the goods and services according to the requisition through the approval of the invoice for the payment. It includes some of the functions like planning for purchase, determination of the standards, developing the specifications , supplier research and selection, value analysis, financing, negotiation of price, making the purchase, supply contract administration, inventory control and disposals.

**Keywords:** Procurement; Supply Chain; Standards; Value Chain; Bidding.

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## 1. INTRODUCTION

A high customer – focused mindset is created by a company with the help of demand – driven approach without sacrificing efficiency in the operations. Always the supply chain management concentrates on the intense collaboration between the supplier and the customers. This collaboration links the information system for the integrating business

process, organization structure across the companies that comprises the value chain. A high customer focused mindset is created by this collaboration.

The value chain cost can be reduced with the help of increase visibility throughout the value chain and a better management decision. This collaboration helps in providing the key people

throughout the value chain and provides best information for taking up decision. This can be achieved with the right tools, processes and a proper organizational structure.

Procurement department plays a vital role in the success of the global firms. Procurement is more important in a way that it handles company's expenses 60-70% of material cost. The few important roles of procurement include help in running production, help in companies drive for control and cost reduction through various strategies, it acts as a PR for companies, help in getting material for administration and other internal customers, sourcing material from other countries.

A skilled procurement organization develops the business intelligence that alerts it to early failures, warns of changing demand and signals the magnitude of potential interrupts. It also performs risk analysis and develops secondary and tertiary supply alternatives. These proactive steps not only minimize time and resources lost during interrupts, they also reduce the cost associated with such events by preplanning and negotiating before the crisis to eliminate price gauging during high-demand, low-supply scenarios. Procuring goods and services from the external suppliers be a crucial path for many projects. Often, the performance of the supplier will reflect on the performance of the overall project. Procurement manages information flow and supply chain risk that helps prevent margin erosion and minimizes impacts of supply chain interruptions.

## **2. FUNCTIONS**

Following are the main functions in a procurement department:-

- Analyzing and identifying the purchase requirements.
- Selecting appropriate suppliers, identifying the potential suppliers, quotations request, obtaining and analyzing the quotations received and finally selecting the right supplier.
- Regulating the right price
- Purchase order issuing
- Follow ups of delivery dates
- Logistics & supply chain management
- Receiving and accepting the goods that are received
- Approving supplier invoice for payment.

This study looks in detail into the Procurement functions of Capital Envelopes L.L.C. In this study I intend to focus on analyzing and improving the procurement process of Capital Envelopes LLC. It attempts to identify the bottlenecks in procurement procedures within organization and endeavors to improve the procurement process within the company so as to realize a system wherein speed, transparency, quality and economy become the hallmark of the organization. Finally methods to improve the process have been suggested.

## **3. COMPANY PROFILE**

Capital Envelopes is based in Dubai, U.A.E is the premier envelope solution provider. It concentrates mainly in the GCC and Middle East areas. It has an inimitable product range with a good combined significant production capacity which makes it the better envelope manufacturer in the locality. Capital Envelopes strategically manage its suppliers, to ensure consistent quality and supply. They source paper and raw materials from the leading suppliers to industry from around the world. Around 80-85% of the raw material is being imported. As it is approved by the AGCC

and the Arab League manufacturer its products can be imported to any AGCC or Arab League country, either duty free or with reduced imported tariffs.

The mission statement is:

**“To be the regional market leader in envelopes industry, with the focus to continually improve quality, durability, and efficiency that result in customer and employee satisfaction“**

The company continuously strives to combine an innovative and creative mindset while using quality raw paper. During the years 2006-2010 Capital Envelopes experienced a growth rate of 22 % in terms of turnover growth. At present the production capacity of the company is 70 million units per month with plans to increase this by 20% in 2013 and 15% in the ensuing two years.

#### **4. STATEMENT OF THE PROBLEM:**

In today's world competition is fierce and everyone is focusing on their supply chains so as to raise the bar and meet the expectation of the customers. Here the study tries ways on how to improve the procurement process within the company so as to increase efficiency and productivity by 20% by the year 2013. In Capital Envelopes there are some bottlenecks faced which leads to the delay in the procurement process. Procurement process within an organization set the tone and exerts a great deal of influence on the customer- supplier relationship therefore the procurement practices of the organization should be reviewed.

#### **5. OBJECTIVE OF THE STUDY**

- To analyze delay in procurement of materials

- To analyze the efficiency of the procurement department of the organization.
- To undertake research using various techniques to understand the problem faced by the personnel of the procurement department.
- To suggest possible solutions for the procurement department after analyzing all the data available.
- To analyze the acceptability of E-procurement.

#### **6. RESEARCH METHODOLOGY**

The goal of the research process is to produce new knowledge so as to improve the process. The data has been collected after a detailed study of the procurement process at Capital Envelopes and from queries posted to the staff of the company. The data plays a vital role in preparing report and for analysis. In making this report, two types of data have been used.

##### **Primary Research**

Primary data is obtained through direct access. The questionnaire is prepared and the data is collected from the concerned person directly.

##### **Secondary Research**

It includes both external and internal data; internal data comprises of company manuals, annual reports, brochures.

External data are the information's which are gathered from the sources like articles, magazines, journals, website etc.

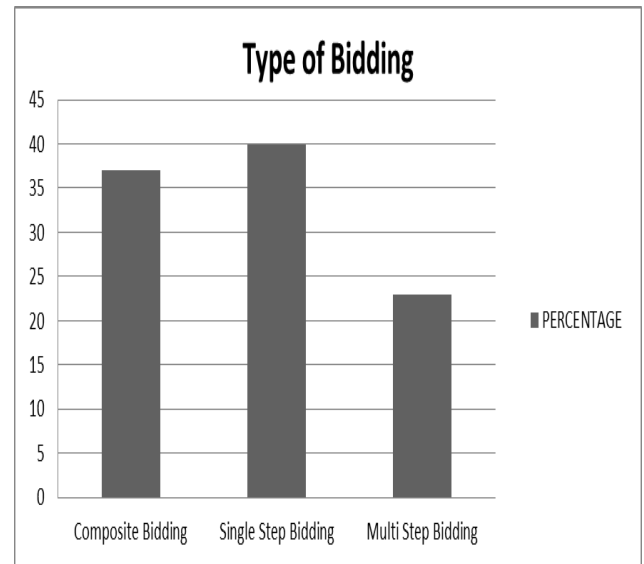
#### **7. ANALYSIS AND INTERPRETATION**

##### **7.1 Types of bidding used by the company**

The bidding process is one of the most vital events in a procurement process. The process in which the vendors are given an opportunity to identify customer's specifications. The ultimate goal of the bid process is to provide a better purchasing system that ensures visible, open and free competition among the firms

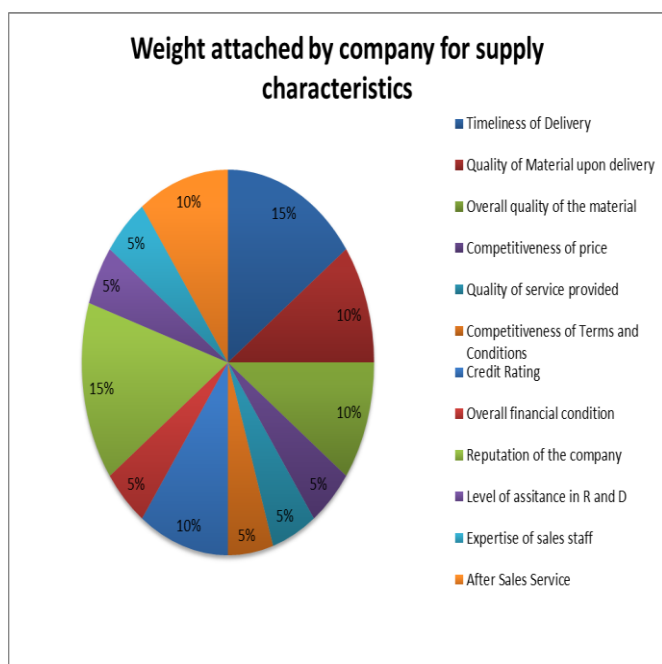
- **Composite Bidding:** This is used in case of contracts of less value. Here the technical and commercial documents are evaluated simultaneously. Two factors make up a composite bid a) Pre determined weight of items b) bid amount for each item respectively. Market importance is represented with the help of weight of each item to the overall product category. The bid amount is the price fixed by the individual supplier for the item. The composite bid is calculated by multiplying the item's weight by the item's bid price and summing across for all items in the product category.
- **Single stage Bidding:** This is used in case of contracts of average value. First the technical process is evaluated. If the technical proposal is accepted by purchasing and QC department, then it goes into the next phase of evaluation on commercial proposals. If the technical proposal is not acceptable then applicant is disqualified and the and that applicants commercial proposal is not evaluated.
- **Multi stage Bidding:** This is used for proposals of high value. Here it consists of two stage bidding. Multistage Bidding provides bidders a more time to resubmit their bids, this creates a practical competitive environment. Here first the unpriced technical proposals on the basis of performance specifications are subjected to technical and commercial

clarification and the adjustments to be followed by amended documents and finally technical and priced bids are submitted in the second stage.



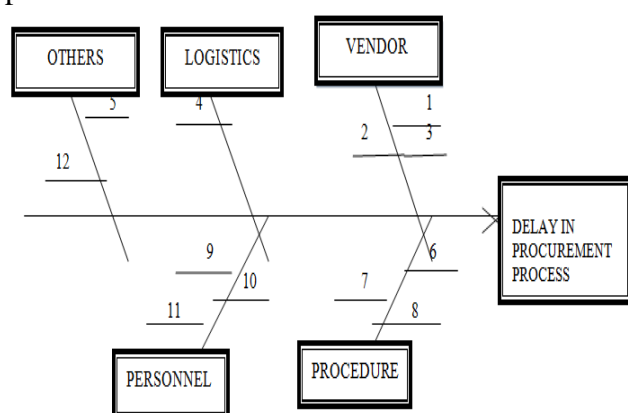
## 7.2 Problems faced in the bidding stage

The vendors who are in the Approved Supplier List of CE quote increasing rate or add inflexible contractual terms than what is relevant as they know that the probability of the job being awarded to them is higher and that they can profit from it. Vendors who are not in the ASL make a study on previous CE projects as well as on the relation of CE clients with CE and previous vendor relation with CE. If previous vendor experience was good then the new vendor will quote in the bidding stage. Previous vendors who bided but dint get the job in the RFQ stage will be reluctant to bid the next time around, assuming they don't receive job from previous bidding experience. There is a lot of man hours and expense that the vendor faces while bidding. The vendors will bid only if they are sure of getting the job. There is uncertainty always while trying to find the right supplier.



### 7.3 Cause Effect Diagram

The approach combines with a brainstorming. With the help of a fish bone diagram we can find out all the cause and sub causes that lead to the problem which in this case is delay in the procurement process Cause and Effect diagram which identifies the root causes in the delay in the procurement process:



The above diagram shows the factors such as procedure, personnel, vendor, logistics, others etc. which affect the overall problem at CE. Smaller arrows connect the sub-causes to major

causes. This data has been collected through observation and interview.

This is the order in which the fish bone analysis was done

- First we need to list the factors that are related to the topic . We should list the possible causes for the delay in procurement process.
- We should determine if it is possible to group certain factors.
- We need to right the topic on the right side and draw a backbone arrow from the left side to the right. We need to draw vertical arrows that connect the factors to the main backbone arrow.

The major factors that cause this delay in CE are:-  
**Vendor**

- False information about the availability of material from vendor
- Vendor does not maintain stock
- Vendor supplying wrong brand and is not very prompt

**Logistics**

- Lack of coordination

**Other**

- Incapability of subcontractor:
- Government regulations:

**Procedure**

- Incorrect or vague material description
- Delay in quotation from vendor
- Delay in PO for each vendor

**Personnel**

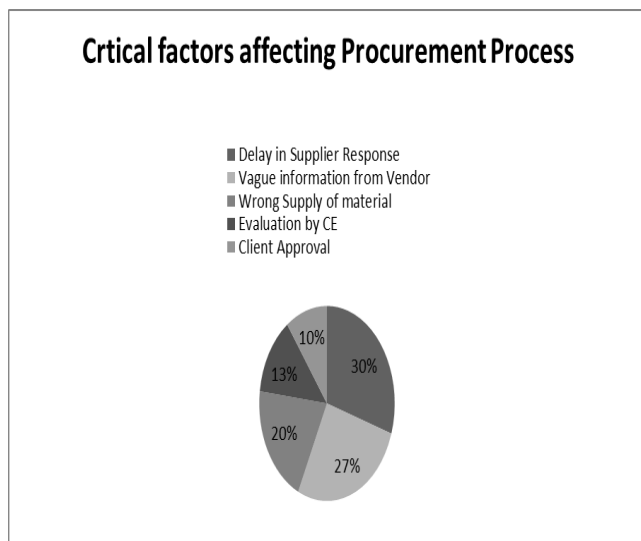
- Focus on short term achievement
- Rejecting material stating potential problem
- Problems faced with PCS

As mentioned before it is a good tool for organizing and documenting the causes of the



problem in all the areas. It stimulates ideas during problem solving meeting. It focuses on the subject solely and indicates how far the discussion has progressed. It encourages gathering of data. After a brainstorming session the above fishbone diagram has been plotted.

#### 7.4 Critical factors affecting the procurement process



The main critical factors are:-

- Delay in supplier response:
- Vague information
- Wrong supply of material
- Evaluation by Capital Envelopes
- Client Approval

The main cause of delay is due to the delay in response from the suppliers side which accounts for 30%. It has been noticed that 27% of the delay is due to the vague information provided by the vendor as they are not aware of the requisition process. 20% of the delay is caused due to the vendor supplying the wrong kind of material. 13% is due to evaluation process by CE which needs to be worked upon. It is seen that client approval method contributes to the delay in the procurement process and is quite important too.

#### 8. CONCLUSION AND RECOMMENDATION

- Procurement should be carried out in an open and free manner.
- We have to choose bids on the basis of accurate specification of material and price and the lowest bid should be awarded the contract.
- Bids chosen should be on the basis of evaluation of price, qualification, experience, equipment, facilities and other important factors too.
- Procedure of authority's acquisition and disposal should instill confidence in acquisition process and there should be public access to procurement information at all times.
- Purchase department should focus more on conducting online purchase through inter local agreement with Vendors in ASL for items.
- The purchasing department should develop system technology such as electronic data interchange and internet linkage to communicate.
- The company should focus on improving their relation with their Vendors to increase prompt delivery of goods and decrease supply of material with wrong specification to the maximum extent.
- Logistics should focus more on supply chain integration to avoid the delay in receiving material. For this we need to concentrate on Supplier Operational Management and Value management.
- We should try to use more of E-Procurement as this leads to paperless documentation which increases time and decreases unwanted expenses and lessens manpower used. This therefore decreases

the time spent on the completing the procedure.

- The ERP system used here is not up to the mark and has to be changed.
- Requisition that is incomplete should be returned with a request for supporting information or documentation. The requisition should not be processed until all the necessary documents are attached. There should be a minimum of three requisition bids.

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