Case Studies

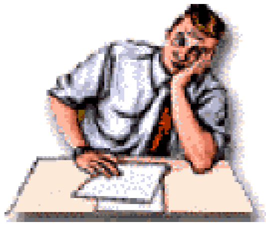
Case Study-Reckoner in Commodities

Ascomp Technologies

5 - Rajendra Place, 120304,
Padma Tower 1, New-Delhi-11008
Phone: 011-25762401, 25762402, 25762403
Website: www.ascomp.com

Business Overview

The client that we are referring to is in the edible oil extraction business. It is a subsidiary of the world's largest edible oil extraction organisation. The client has a Head office and the manufacturing unit is located 500 kilometres from the HO. Except for export related transactions, all activities are conducted at the Plant. Though the client should be referred to as a process industry, however in this document we are focussing more on the commodity business. The characteristic of this business is that it has very high volumes but very low margins. Therefore raw material procurement has to very tightly and effectively controlled. Similarly the sales of the finished goods have to be very well managed. The procurement of raw material (soya and mustard seeds) is a seasonal activity. The seeds are only available for 4 months in the year. Therefore the seeds have to be bought in the season and stocked for the entire remaining year.



Problem Area

Procurement of seeds.

1. Seeds are procured through brokers and local markets. Each market has its own unique charges besides the standard charges of sales tax. The purchase department must be able to calculate the net landed price of procurement from different sources before placing the order.
2. The seeds are delivered to the plant in bags. These bags are either provided to the seller or a corresponding number of bags are to be returned to the seller on delivery. Because of the volumes involved, it is not always feasible to count the actual number of bags being delivered. The bags account for a major inventory item (both in terms of value and quantity) and their accurate management was important for the company.
3. A single purchase order might require delivery staggered over several days and through multiple consignments. Reconciliation of quantity received against the PO was required. The sellers would tend to supply more than the required quantity and expect the organisation to clear his bills irrespective of the actual purchase order. Also since the rates of the seeds changed on a day to day basis (as specified by the Reuters commodity exchange), suppliers would play on this difference in cost by either oversupplying the seeds or by short supply. Some suppliers would tend to keep supplying the material even if the purchase order quantity was exhausted long back.
4. Freight terms would differ from order to order. In some orders it was to be paid by the seller and in some by the plant. In case of freight payable by the company, the freight amount had to be paid in cash and on delivery to the trucker. It would often happen that the company would pay the freight in cash while it was also paid to the supplier.
5. In case of short supply of seeds, the company wanted to deduct all charges (like bag filling, freight, loading etc.) correspondingly. It was not possible to calculate these deductions manually. For a single truck, the amount was not very large but cumulatively this deduction figure was quite significant.

Inspection of Seeds

1. Another unique aspect of the commodity business was that raw material was never rejected. All quantities received were always accepted. However depending on the quality parameters, certain deductions were made. The seeds were allowed some standard parameters like,moisture, dirt etc. If the value of these parameters were less than 7% by weight, full payment was made. If it exceeded 7%, a value deduction would be made. This is actually more complex than it looks. Trucks were unloaded directly in the silo from where the seeds were continuously fed into the processing plant. Once unloaded, there is no distinguishing between one consignment and another. A sample was drawn from the truck before it is unloaded and send to the lab. To ensure complete impartiality in the quality inspection, the organisation did not want the lab assistants to know the name of the supplier whose consignment was being inspected. The Purchase department would give the sample a unique number. The lab assistants would send the results to the purchase department. The purchase department would take the corresponding PO, check the terms and conditions and make the necessary deductions (if any) on the supplier's bill and send it to the finance department for payment

2. Loaded trucks were weighed on a weighbridge. The truck would be unloaded and it would be again weighed to arrive at the quantity of seeds received. This was a continuous and sequential process. This meant that before the empty truck could be weighed, several loaded trucks would also have been weighed. Since there were 200 trucks entering the plant in one single shift, this caused a lot of confusion and bickering between the trucker and the staff. Again to ensure complete impartiality, the management wanted the weight from the weighbridge to be automatically picked up and entered into the Goods Receipt document.

Payments and Collection

1. For supplier payments, the purchase department would make the necessary deduction after inspection results and send the details to the finance department. The finance department would check the payment terms with the Purchase department and make the payments to the supplier. Besides the tremendous amounts of duplicity that was being done by the various departments, there were too many problems with this system. The purchase department would sometimes match the wrong sample with a PO, the finance department would pay a wrong amount to the supplier or pay to the wrong supplier etc. The transaction volume was simply too much to be manually managed and the business margins were too low to permit any errors in calculations.

2. It would happen that a supplier had not made a complete delivery against one PO and would send material against another PO which could have been issued much later. An inaccurate method of recording terms and conditions meant that those terms meant for one PO were being used to pay against another PO for the same supplier. If the prices of raw material went up, the supplier would get another order and try to club his previous deliveries against the new PO.

3. Suppliers were all regular suppliers to the organisation. So each supplier could have several pending bills. Reconciliation of accounts for the supplier was a major task especially since payments were not being made exactly as per supplier bill but sometimes on an adhoc basis. This same problem existed for payment collection for the customers of the organisation.

The organisation also had other issues related to sales and production. Production, however, in a process plant is not very complicated. The organisation had very limited type of raw material so management of this was not very difficult. Tracking of general stores, spares and packaging material was of considerable importance. Issues related to Production were more with respect to consumption accounting. We have only taken a few key issues in this case study. As such all functional areas of Reckoner ERP was implemented in this organisation.

Reckoner Implementation

The first thing that was required was to integrate all departments of the organisation and achieve a complete process control. All purchase orders were to be raised in Reckoner. The Purchase order would contain all necessary details like charges, payment credit terms, no. of bags for packaging, quality parameters and the amount of excess quantity allowed. When the truck entered the plant, the gate operator would select the PO number in Reckoner and complete the gate entry document. A special utility was built to integrate the weighbridge with Reckoner. The Weighbridge operator would select the gate entry document. The weight of the loaded truck would be automatically picked up and entered in the GRIN document.

The receivable/payable report allowed online adjustments of supplier/customer payments against one or multiple invoices. The functionality was extended to adjust these payments on a FIFO basis since this was the norm the organisation was more comfortable with.