

THE PURCHASING FUNCTION OF THREE  
MAJOR OIL COMPANIES IN  
THE UNITED STATES

By

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Scope of Study: The role of purchasing in the oil companies has been undergoing significant changes since the oil embargo in the 1970's. Three oil firms with headquarters relatively close together were selected to determine how they compare to each other in regard to the purchasing function and its influence in the organization. The responses to a mailed questionnaire and personal interviews were utilized to make this descriptive comparison. Some of the information gathered was not directly related to the objectives of the study, but it does provide further insight into each firm's policies and procedures.

Findings and Conclusions: There was some variation in the role of purchasing among the firms surveyed. This could very well be a result of the past staffing practices and range of control exercised by the purchasing function. Also, the technical and educational attributes of the staff have probably had an influence in the purchase of personal computers, chemicals, and other commodities/services in each firm. Further studies are needed to determine the significance of these factors in influencing the role of purchasing.

ADVISER'S APPROVAL



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## PREFACE

Purchasing has recently been gaining recognition as an important function within the organizational structures of both private business and government. Without an experienced, professional purchasing staff, firms are at the mercy of their suppliers, and some suppliers have no mercy. A prime example of this is the recent government findings of extreme prices being paid for items that should only cost \$12 as opposed to \$1200.

This study has presented findings from both a survey and personal interview with three top purchasing executives in the oil industry. Their organizational structures, policies, practices, and demographics have been reviewed and compared against each other. There has been no attempt to select winners and losers from this study. It is merely a tool that can be used by each executive to learn about his competition. Learning about the competition is one means of knowing where your organization stands and what it needs or does not need to make it more productive.

As previously stated, purchasing is starting to be recognized beyond the walls of the department. It is gaining more creditability while asking for more involvement in the decision-making process. This study shows that some



firms have taken steps to become more involved. For instance, one firm has moved to the materials management concept which encompasses a broader spectrum of asset management; another firm has incorporated the transportation department within the purchasing function; and, finally, one other firm has almost completely centralized all purchasing activities.

Besides this greater involvement, an increased emphasis on education has become apparent. Two firms have moved swiftly in this direction while the other, only recently, has followed suit. Other areas that show some distinguishing dissimilarities are the purchases of personal computers, chemicals and transportation. However, the firms surveyed do have common problems with their end-users and purchase relatively the same types of MRO requirements (with services being a primary exception).

Basically, this study is a review and audit of the competition. It can serve as an excellent means for determining in which direction the competition is going. However, it does not tell why they are going in that direction; that is for the reader to determine.

## TABLE OF CONTENTS

Chapter	Page
I. LITERATURE REVIEW . . . . .	1
A. Changing Business Environment . . . . .	1
B. Deregulation . . . . .	3
C. Reemphasis on Maintenance Buying . . . . .	5
II. OBJECTIVES AND METHODOLOGY . . . . .	12
III. BENEFITS AND LIMITATIONS . . . . .	15
IV. RESULTS AND ANALYSIS . . . . .	17
A. Organization and Personnel . . . . .	17
B. Vendor Evaluations . . . . .	27
C. Training . . . . .	29
D. Budget . . . . .	31
E. Chemical Purchasing . . . . .	31
F. Transportation . . . . .	34
G. Personal Computer Purchasing . . . . .	35
H. Open Discussion Questions . . . . .	39
I. Commodities/Services . . . . .	44
V. SUMMARY AND CONCLUSIONS . . . . .	46
A. Staffing . . . . .	46
B. Control . . . . .	51
A SELECTED BIBLIOGRAPHY . . . . .	54
APPENDIXES . . . . .	55
APPENDIX A - SURVEY INSTRUMENT - QUESTIONNAIRE . . . . .	56
APPENDIX B - QUESTIONNAIRE RESPONSES . . . . .	81
APPENDIX C - COMMODITIES/SERVICES PURCHASED . . . . .	91

## LIST OF TABLES

Table	Page
I. Sales Increases Required to Produce \$2 Million Additional Profit . . . . .	8
II. Age vs. Percentage of Buying Staff . . . . .	18
III. Education and Field of Study . . . . .	18
IV. Staffing Sources . . . . .	20
V. Formal Name . . . . .	21
VI. Materials Catalog . . . . .	22
VII. Organization Make-Up . . . . .	23
VIII. Expenditures . . . . .	24
IX. Centralization vs. Decentralization . . . . .	26
X. Field/Plant Delegation . . . . .	26
XI. Vendor Evaluations and Relations . . . . .	28
XII. Training and Professionalism . . . . .	30
XIII. 1984 Budget Expenditures . . . . .	31
XIV. Purchasing Changes . . . . .	32
XV. Chemical Purchasing . . . . .	33
XVI. Distributor and Foreign Supplier Purchases . . . . .	33
XVII. Transportation . . . . .	34
XVIII. Purchasing Involvement . . . . .	35
XIX. Purchase of PC's and Role of Purchasing . . . . .	36
XX. Factors in the Selection of Suppliers . . . . .	37

Table	Page
XXI. Factors in the Selection of PC's . . . . .	37
XXII. Questions for Discussion . . . . .	40

## CHAPTER I

### LITERATURE REVIEW

Over the past few years since the 1973 oil embargo, the purchasing function within the oil companies has been undergoing significant changes. This crisis has resulted in not only reemphasizing the advantages of long-term negotiated contracts and dependability of supply, but also the importance of having a sound, efficient purchasing organization. It has further resulted in the oil companies redefining the role of purchasing and, in some cases, total reorganization. Besides the oil embargo, other factors which may have had a bearing on changes in the purchasing function consist of a rapidly changing business environment, transportation deregulation, and a shift in emphasis on maintenance buying.

#### A. Changing Business Environment

Prior to 1973-74, there was no reason for chemical buyers to lose sleep over sources of supply because the world contained huge supplies of energy that were cheap and easily available. The oil embargo resulted in prices quadrupling, pipelines closing and major recession ensuing. This further resulted in an increased emphasis on

dependability of supply and negotiated contract.<sup>1</sup> It also caused a reemphasis of the purchasing function.

In a 1983 survey by CPI Purchasing, 36 percent of all chemical buyers responding said their companies were undergoing major structural changes with shifts in purchasing strategy and structures.<sup>2</sup> Since the oil industry is closely associated with the chemical industry, these major shifts in emphasis have a significant impact on it too.

In looking closer at this changing business environment, John F. O'Connor, Editorial Director of Purchasing magazine, lists three major challenges or problems that have cropped up over the past few years: (1) our entry into a supply-short world; (2) the rise of double-digit inflation; and (3) our losing battle against foreign competition. He further states that the only answer to these problems is working harder and closer with the most reliable suppliers.<sup>3</sup> This appears to fall right in line with other published articles about the importance of long-term vendor relations and an efficient professional purchasing staff.

According to CPI Purchasing, this emphasis on vendor relations and supply assurance will lead to more conservative purchasing policies. The use of contracts giving suppliers a certain percentage of the business over a specified period of time will probably be more common.<sup>4</sup> It also seems that management will not only expect more from

their purchasing staff, but will also critically rely on it to contribute to the bottom line by reducing costs. This is evident in the following statement by Fred Ferzatte, Vice President of Land O'Lakes Corporation:

In the 80's we will see an increased emphasis on purchasing's contribution to managing the cost of our company's products in order to make a positive contribution to our company's margin.<sup>5</sup>

Another facet of this changing business environment is the reduction in the supplier base. For example, in a study conducted by Dow Chemical, they estimate that 10 of the top 30 chemical suppliers will no longer exist in the year 2000.<sup>6</sup> Changes in raw material positions, process technologies, production economics and foreign competition will also be some of the forces altering the supplier's roster.<sup>7</sup> All of this seems to point to a greater role for purchasing. As to whether the oil companies have reacted and are set up for including their purchasing organizations in the decision-making process, is yet to be seen.

## B. Deregulation

Deregulation of the transportation industry has essentially resulted in reduced transportation costs through the use of competitive bidding and negotiation. Today, purchasing and transportation departments are looking at rates, routes, shipment consolidation, billing and performance in ways that historically were impossible or unexplored by all but a few companies.<sup>8</sup> The passage of the Act not only made purchasing managers and buyers more

conscious of transportation, but also more interested in working with traffic departments. One article in Purchasing World indicates that there are purchasing-traffic similarities in that traffic managers want to negotiate long-term commitments and use fewer carriers--just as purchasing managers now seek long-term commitments with suppliers along with a smaller supplier base.<sup>9</sup>

Two things seem to be happening within many companies that well may change the ability of purchasing people to take full advantage of the new opportunities for cost effective buying of freight activities: (1) a movement in many companies toward merging of the purchasing and traffic functions, and (2) the development of sophisticated computerized purchasing systems that can track, audit and assemble vast amounts of information about the freight buy.<sup>10</sup>

This movement to merge the purchasing and traffic functions is a direct result of deregulation. Deregulation requires far more highly developed negotiating and contracting skills than were previously required in the reviewing of published rates and tariffs. Advances in computerized systems and programs provide the skilled negotiator with the up-to-date information necessary for making a cost-effective freight buy. Furthermore, these skill requirements and advances in information gathering provide an ideal setting for the purchasing professional to do his thing. Rather than try to teach traffic people the



skills of negotiation and contract management, it would seem far more beneficial to merge the operations of both functions. In many companies, this is presently being undertaken.

### C. Reemphasis on Maintenance Buying

Over the years, the maintenance, repair and operations (MRO) buy has been neglected by the leading trade journals, purchasing publications and textbooks. An emphasis has been placed on the purchase of manufacturing supplies and Material Requirements Planning (MRP), which primarily affects production schedules. However, the relative importance of the MRO buy has grown tremendously in the past few years due to the slump in capital spending as well as the realization of the cost-cutting that can be accomplished by better control of the MRO buy.

The opportunities to save money have greatly expanded because of the previously mentioned changing business environment as well as computerization. The use of computers to order directly has assisted in reducing paperwork, leadtimes, safety-stock levels, etc., for the using firm. According to a CPI Purchasing poll of 500 purchasing managers in the chemical process industries,

MRO buyers will continue to contain or cut costs by sticking with or switching to distributors, demanding better service from these distributors, expanding the use of national contracts, and most importantly, by relying more on computers.<sup>11</sup>

The use of the computer as a purchasing tool has

increased the ability of the purchasing organization to get a handle on the MRO buy. By identifying various categories and groups of related materials, purchasing is able to consolidate their requirements and negotiate volume agreements with improved pricing. In the past this has not been possible due to the numerous number of items and transactions involved. Companies just did not have the manpower or resources to provide the up-to-date information required.

Somerby Dowst, Managing Editor of Purchasing magazine, has indicated that Purchasing Managers are consolidating their MRO requirements for maximum pricing leverage, stressing local sources to reduce transportation costs and inventories, standardizing on quality brands to trim in-use costs and using every method available to cut the paperwork. These steps to cost reduction are emerging as high-priority items across industry.<sup>12</sup>

A 1983 survey conducted by Purchasing magazine identified the following cost reduction areas: 95 percent of the respondents were looking at prices and terms; 77 percent were looking at inventory; 65 percent saw paperwork as an area of potential savings; 56 percent reviewed possibilities in transportation; 42 percent investigated savings from reduced downtime; and 26 percent were trying to shave labor costs. The various techniques for achieving reductions in these areas consisted of the following: 86 percent pooled requirements to get volume

discounts; 79 percent used local distributors as opposed to manufacturers; 60 percent standardized on proven quality brands; 56 percent gave suppliers more information about how MRO items were used; 46 percent began using modern equipment such as computers and word processors; 37 percent delegated contract releases to requisitions; and 19 percent set up consignment arrangements with suppliers.<sup>13</sup>

The above-mentioned areas and techniques illustrate the many facets of the MRO buy. Potential bottom line improvements are substantial. Lee and Dobler state that many publications and experts estimate that the average purchasing department is responsible for spending over half of every dollar its company receives as income from sales. They further state that every dollar saved in purchasing is a new dollar of profit. However, an additional dollar of income from sales is not a new dollar of profit because applicable expenses must be deducted from the sales dollar to determine the remaining profit.<sup>14</sup> This statement alone highlights the profit-making possibilities of the purchasing function. The following table by Lee and Dobler also illustrates the contributions to profit a dollar saved by purchasing can be:<sup>15</sup>

TABLE I  
SALES INCREASES REQUIRED TO PRODUCE  
\$2 MILLION ADDITIONAL PROFIT

At a gross profit margin of	A purchasing saving of \$2 million produces the same profit as a sales increase of
10%	\$ 20,000,000
8%	\$ 25,000,000
5%	\$ 40,000,000
3%	\$ 66,666,667
2%	\$100,000,000

Finally, Lee and Dobler state that additional profit from purchasing savings can normally be made without any kind of increase in expense. If an increase is required, it is usually for only one person to do analytical work. However, additional profit from increased sales volume usually includes both increases in expenses and the risk of capital. In essence, additional profits from sales include increased capital risk and increased management effort, while from purchasing it only entails increased management.<sup>16</sup>

From these illustrations and statements we get a clearer picture of the increased importance of the MRO purchasing function. However, the reemphasis on the MRO purchase is not new. According to James E. Poole, group president and chief executive officer of Gulf & Western Natural Resources Group, in good times purchasing scores a 3

or 4 on a 10-point rating scale of importance to the Company. During a recession, whatever purchasing does has an immediate impact on the corporate cash situation and thus the rating jumps to a 6 or 7.<sup>17</sup> Even though this importance appears to come in cycles, a company should realize that they are in a constantly changing business environment. They cannot afford to underestimate the importance of the purchasing function to the bottom line.

#### FOOTNOTES

<sup>1</sup>"Supply Worries Force Changes in Strategies," CPI Purchasing (March 1984), p. 70.

<sup>2</sup>"Restructuring the U.S. Chemical Industry," Purchasing (March 10, 1983), p. 41.

<sup>3</sup>John F. O'Connor, "Purchasing Outlook," Purchasing (November 5, 1981), p.37.

<sup>4</sup>"CPI Update," CPI Purchasing (July 1984), p. 73.

<sup>5</sup>Ibid.

<sup>6</sup>"Restructuring the U.S. Chemical Industry," Purchasing (March 10, 1983), p. 41.

<sup>7</sup>"There're Gonna Be Some Changes Made," Purchasing (March 10, 1983), p. 57.

<sup>8</sup>"Profiting From the New Freedom in Freight," Purchasing (April 14, 1983), p. 53.

<sup>9</sup>"Major Changes in Trucking Identified," Purchasing World (January 1984), p. 90.

<sup>10</sup>"A Look at the Future in Inbound Freight," Purchasing (April 14, 1983), p. 62.

<sup>11</sup>"Computer Lead to Better Buys on MRO Supplies," CPI Purchasing (February 1984), p. 65.

<sup>12</sup>Somerby Dowst, C.P.M., "Smart Buying Drives MRO Cost Down," Purchasing (May 12, 1983), p. 44-45.

<sup>13</sup>Ibid.

<sup>14</sup>Lamar Lee, Jr. and Donald W. Dobler, Purchasing and Materials Management: Text and Cases (McGraw-Hill, 1977), pp. 9-10.

<sup>15</sup>Ibid.

<sup>16</sup>Ibid.

<sup>17</sup>Thomas F. Dillon, C.P.M., "Now Is the Time to Prove Your Worth," Purchasing (October 7, 1982), p. 39.

## CHAPTER II

### OBJECTIVES AND METHODOLOGY

The above-mentioned factors have influenced the buying strategies of all major companies. However, the oil companies, in particular, have perhaps felt the effects even more. This paper is an attempt to compare and describe the purchasing structure and operational factors among three major oil companies. The objective is not to determine how the organizations have changed since the embargo, but how they are presently set up. What are the similarities and dissimilarities in operational style? What is the status of purchasing within the hierarchies of each firm? Is there a trend toward centralization or decentralization? Is there a push toward a more efficient professional staff that is better educated and knowledgeable of world affairs? As can be seen, the objective is to learn about the individual purchasing function within each firm and then compare it to the others under study.

Narrowing the scope of the study was necessary due to not only the limited information available in publications concerning the oil companies' purchasing organizations in 1973, but also to the wide geographical dispersion of the various headquarters. Identifying key individuals who were



knowledgable about the structures and policies in 1973 would have been difficult, if not impossible. The use of a structured questionnaire (see Appendix A), coupled with a personal interview for both clarification and further probing, would have been time-consuming and expensive if the scope had not been narrowed.

Besides these reasons, there are any number of problems that can be associated with obtaining information about one's competitors' internal structures and procedures. This is particularly true in this case when the one doing the study is employed by one of the competitors. However, the following three purchasing executives consented to participate in this study:

- (1) Jack Phillips, Director, Corporate Purchasing, Kerr-McGee Corporation, Oklahoma City, Oklahoma.
- (2) Pat McNeese, General Manager, Purchasing, Cities Service Oil & Gas Corporation, Subsidiary of Occidental Petroleum Corp., Tulsa, Oklahoma.
- (3) L. H. Hoelscher, Manager, Procurement & Materials Control, Phillips Petroleum Company, Bartlesville, Oklahoma.

The methodology used for this study consisted of the previously mentioned mail questionnaire and a follow-up personal interview. The questions selected for the questionnaire consist of those from previous surveys by various purchasing publications, as well as those developed specifically for this study. Simple yes/no, fill-in-the-

blank, and both categorical rating and comparative ranking scales were utilized in the question/answer format mailed to the three participating executives. The questions were reviewed, revised and reviewed again by various people prior to mailing out. The respondents were informed verbally about the questionnaire and its depth. Feedback was requested if there were any problems or questions about anything in the format. A date was also set for the personal interview, at which time the questionnaire would be reviewed and more in-depth discussion and analysis would take place.

### CHAPTER III

#### BENEFITS AND LIMITATIONS

The benefits of this study are that it can provide increased awareness to the oil companies surveyed of how their competitors have reacted since the embargo in regard to the purchasing function. An additional benefit is that answers to problem areas within their own organizational structure might be obtained and applied. For instance, the purchase of MRO requirements in one firm might be conducted in a decentralized setting, whereas in another firm it is centralized. The methods of both firms might be evaluated, with significant advantages realized by incorporating one method as opposed to another.

This study essentially provides a format for identifying each other's strengths and weaknesses. It allows each purchasing executive the opportunity to take a closer look at how they are presently set up and performing as compared to their competition. Perhaps the section in the questionnaire on Organization & Personnel will indicate a trend toward higher-educated buyers, with degrees in Engineering being of prime importance. The section on Administration may indicate that the majority of purchasing expenditures are by the field and plant locations rather

than Corporate Purchasing. This could signal a trend to more decentralization, rather than centralization. These are just a few examples of the conclusions a purchasing executive might make from this study. Whatever conclusions are made, this study will at least assist them in reviewing what their competition is doing in the field of purchasing, which may have had an impact on the opposing firm's recent successes and failures in improving their bottom line.

The limitations of this study are primarily one of scope. The extensiveness of the questionnaire, along with the time and cost constraints, required the study to limit itself to only three firms. If all three firms were of the same size in operations and assets, the study would be a lot more meaningful. However, in 1983 Phillips Petroleum Company was ranked as the eleventh largest oil company in total assets; Kerr-McGee was ranked twenty-ninth; and Cities Service was a wholly owned subsidiary of the thirteenth largest oil company, Occidental. The relative size of these firms in all probability has had an impact on how their purchasing organization has been set up. A future study should probably narrow the scope of the survey and expand the number of firms surveyed. By asking perhaps ten or fifteen questions only, a reasonable response rate might be realized along with more valuable information for comparing how firms of varying sizes are organized in relation to the purchasing function.

## CHAPTER IV

### RESULTS AND ANALYSIS

This chapter is a review and analysis of the major findings of the survey. Various tables are utilized to compare each company's response to either a specific question or category of questions. In order to clarify what each table represents, a brief explanation coupled with the probable implications are provided.

#### A. Organization and Personnel

In the areas of organization and personnel, the buyer demographics portion of the survey seems to indicate a high degree of variance in the age and education factors of the firms surveyed. For example, in looking at Tables II and III on the next page, Cities Service appears to have a relatively young but highly educated staff with a strong technical background in mechanical engineering. Kerr-McGee also appears to have a relatively young and highly educated staff, but with a strong business administration background as opposed to a technical orientation. In the case of Phillips Petroleum, the age and education attributes of its staff appear to vary substantially from the other two.

TABLE II  
AGE VS. PERCENTAGE OF BUYING STAFF

Company	Age Ranges			
	<u>26-35</u>	<u>36-45</u>	<u>46-55</u>	<u>56-65</u>
Cities	45%	22%	33%	0%
Kerr-McGee	30%	30%	25%	15%
Phillips	21%	21%	32%	26%

TABLE III  
EDUCATION AND FIELD OF STUDY

Percentage of Buyers with Degrees in			
	<u>Cities</u>	<u>Kerr-McGee</u>	<u>Phillips</u>
No college degree	23	11	58
Mechanical Engineering	22	0	11
Chemical Engineering	0	0	0
Business Administration	22	67	11
Education	0	0	0
Other Degree	33	22	37

For instance, 58 percent of the Phillips' buying staff is in the age range of 46-65 as opposed to Cities' 33 percent and Kerr-McGee's 40 percent. Furthermore, in the age group of 56-65, Phillips shows 26 percent of its staff in this range while Kerr-McGee shows only 15 percent and

Cities 0 percent. This would seem to indicate a highly experienced Phillips purchasing staff with a relatively large number of long-term employees.

In the area of education, Phillips seems somewhat deficient with 58 percent of its staff without college degrees as compared to Cities' 23 percent and Kerr-McGee's 11 percent. However, this could very well be a result of the larger percentage of buyers in the older age ranges. Thirty or forty years ago a college education was not a primary requisite for gaining employment in the purchasing organization. Many publications have indicated that purchasing was not always thought of as a professional occupation, but as more of a clerical function. Employees were often transferred in from other departments with no serious campus recruiting specifically for the purchasing organization. Of course, in the past purchasing was often a misunderstood asset and treated somewhat like a stepchild in comparison to the other organization functions. But, as previously stated, the oil embargo and a renewed emphasis on long-term supplier relations reemphasized the important role that purchasing plays in the profitability of a company. Not only is there now a requirement for a highly educated staff, but also an experienced, professional staff. It would seem that Phillips, at this time, has opted primarily for the second requirement.

Table IV seems to verify this somewhat in that only Cities has actively recruited on campuses for 11 percent of

its staff, while both Phillips and Kerr-McGee show 0 percent. The majority of employees for both Cities and Phillips come from within the company. Whereas, Kerr-McGee appears to be heavily involved in the recruitment of experienced employees in other companies with over 90% of their staff coming from elsewhere.

TABLE IV  
STAFFING SOURCES

	From Campuses	Within the Company	From Elsewhere
Cities	11%	78%	11%
Kerr-McGee	0%	10%	90%
Phillips	0%	90%	10%

In Table V we discover that the materials management concept has only taken hold with one company, Phillips.



TABLE V  
FORMAL NAME

---

Question:	What is the formal name of the Purchasing organization?
Answer:	Cities - Purchasing Department Kerr-McGee - Corporate Purchasing Department Phillips - Corporate Procurement & Materials Control

---

Lee and Dobler indicate that the materials management concept advocates the assignment of all major activities which contribute to materials' cost to a single materials management department. This includes the primary responsibilities which are generally found in the purchasing department, plus all other major procurement responsibilities, including inventory management, traffic, receiving, warehousing, surplus and salvage.<sup>1</sup> Besides the title, other aspects that verify the utilization of the materials management concept in Phillips can be seen in Tables VI and VII. Table VI indicates that Phillips is the only one with a materials catalog and standard stock number description for items in inventory. This appears to follow the concept of inventory management outlined by Lee and Dobler in that Phillips has taken the steps to assist in controlling the company's assets.

TABLE VI  
MATERIALS CATALOG

---

Question:	Is there a Company Materials Catalog used for identifying materials and equipment through the use of a standard numbering system with descriptions?
Answer:	Cities - No Kerr-McGee - No Phillips - Yes

---

Table VII adds to this conclusion in that Phillips has taken on many activities that the other two do not currently perform or it is done somewhere else in the company. In essence it looks like Phillips has gone farther toward the concept of materials management than the other two, but they still have not gone all of the way, since traffic, warehousing and receiving are still somewhat excluded.

TABLE VII  
ORGANIZATION MAKE-UP

Sections	Company		
	<u>Cities</u>	<u>Kerr-McGee</u>	<u>Phillips</u>
Surplus & Salvage	Yes	Yes	Yes
Pricing	Yes	No	Yes
Research	No	No	Yes
Expediting	Yes	No	Yes
Quality Control	No	No	Yes
Price Forecasting	No	Yes	No

In Table VIII, we see that Kerr-McGee has almost totally centralized the purchasing function as opposed to both Cities' and Phillips' approximate 50-50 split. From looking at this table, it would seem that Kerr-McGee has a highly efficient staff. They have half the staff size of Phillips, but over 50 percent more annual expenditures. However, it may be that the level of expenditures is not related to staffing size.

TABLE VIII  
EXPENDITURES

	Cities	Kerr-McGee	Phillips
Number of Employees in Corporate Purchasing	58	51	107
Annual Expenditures	\$60MM	\$750MM	\$490MM
Percentage of Purchases at Local Level	50%	10%	53%

Whatever the reason for the expenditure-staff variance above, there is one discrepancy that should be noted in the annual expenditures category. All three companies differ somewhat in the commodities and services they purchase. (See Appendix C). For example, Phillips purchases all MRO requirements with only a few services (e.g., mechanical equipment repairs, fabrications, etc.) included in their expenditures. Many other expenditures (e.g., automotive fleet, contract drilling labor, corporate travel, etc.) are purchased by the operating groups through a separate type of payment system that does not utilize the formal purchase order. Both Cities and Kerr-McGee not only purchase MRO, but also many other services and commodities that Phillips does not. For instance, Cities both administers and negotiates many contract labor agreements in conjunction with other services that would ordinarily be conducted by

the operating groups in Phillips. In essence, we are not comparing apples to apples in the areas of expenditures.

With this thought, one has to wonder why Corporate Purchasing is not involved in all negotiations and purchases of outside materials, labor and services. Similar to the need for purchasing savvy in the transportation buy, these other areas require the same purchasing techniques and know-how to procure efficiently and effectively. Cities appears to have taken some steps to incorporate these outside areas while Kerr-McGee seems to have totally committed their procurement function to the Purchasing department. Phillips has integrated the fewest outside purchasing areas.

In looking further at centralized versus decentralized purchasing, Table IX indicates that both Kerr-McGee and Cities think of themselves as being centralized while Phillips advocates a cross between both concepts.

In practicality, they all three are as Phillips advocates, a little of both. Even though 50 percent of the purchases are at the local level for both Cities and Phillips, this does not mean that there is not some control over that 50 percent. Blanket orders, negotiated at the corporate level, are often used to control these purchases. Table X indicates this even further by listing the purchase limitations imposed on the field and plant locations.

TABLE IX  
CENTRALIZATION VS. DECENTRALIZATION

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Question:	Is purchasing conducted on a centralized or decentralized basis?
Answer:	Cities - Centralized Kerr-McGee - Centralized Phillips - Centralized authority and control, decentralized functionally

---

TABLE X  
FIELD/PLANT DELEGATION

---

Company	System for Delegating Purchases to the Field/plant Level	Procurement Guide	Dollar Limitation
Cities	Yes	No	\$3,000
Kerr-McGee	Yes	No	\$ 100 (routine) \$1,000 (emergency)
Phillips	Yes	Yes	Unlimited - if listed in Procurement Guide; \$2,000-on unlisted items

---

Cities and Kerr-McGee use the previously-mentioned blanket order procedure for delegating to the field/plant levels while Phillips utilizes a Procurement Guide which lists the various commodities and vendors to use for those types of purchases. It is somewhat similar to an approved vendor list.

#### B. Vendor Evaluations

In Table XI, we find that only Phillips has both a formal program for evaluating vendor performance and a vendor approval list. This program consists of annual reviews of blanket orders and pricing agreements with both buyer and end-user input on the vendor's performance. Inquiries for competitive bids are then developed and forwarded to any number of qualified vendors, who in turn submit their written quotations for a specific material's or category of material's annual requirements. This qualification process or formal evaluation program consists initially of reviewing the vendor's past performance in relation to quality of materials, on-time deliveries, price history and service level. Besides this review of past performance, the firm's capabilities in meeting future requirements, plant capacity, financial stability, facilities, transportation fleet and staffing are also evaluated. It should be noted that even though Cities and Kerr-McGee have indicated that they do not have a formal system for vendor evaluation, they do perform many of these

same actions in their daily sourcing and selection of suppliers.

In looking further at Table XI, we see that all three firms do have a written company policy on gifts and vendor relations. However, because of the confidentiality of these policies, we will not be able to describe them in more detail. It is safe to say that these policies normally indicate what actions on the part of the buyer are acceptable in the receiving of gifts, entertainment or other perks that vendors are often so apt to offer. In many cases there is either a dollar limitation on these items or stringent guidelines requiring the buyer to not accept any gifts whatsoever in any shape or form.

TABLE XI  
VENDOR EVALUATIONS AND RELATIONS

Company	Formal Program	Formal Vendor Approval List	Written Company Policy on Gifts and Relations
Cities	No	No	Yes
Kerr-McGee	No	No	Yes
Phillips	Yes	Yes	Yes



### C. Training

Table XII indicates all three firms are without structured training programs. This would seem to indicate that on-the-job training is the most common method used by these firms to develop their buying staff. From this table it is also apparent that the staffs have pursued professional development through the attainment of Certified Purchasing Manager's (CPM) certification. This is a national program sponsored by the National Association of Purchasing Management (N.A.P.M.) and incorporates many of the characteristics of the Certified Public Accountant's (CPA) certification process. It consists of accumulating a specific minimum number of points through the completion and passing of a series of examinations, years of experience, education, seminars and other purchasing-related activities. Once the required points are obtained, the individual then fills out an application form and submits it to the N.A.P.M. for certification.

TABLE XII  
TRAINING AND PROFESSIONALISM

Type of Training	Company		
	<u>Cities</u>	<u>Kerr-McGee</u>	<u>Phillips</u>
No. of Employees with Certified Purchasing Management Certification	1-10	11-20	11-20
Structured Training Program	No	No	No
National Association of Purchasing Management Involvement	Yes	Yes	Yes
Certified Purchasing Management Certification Emphasis	No	Yes	Yes
Formal Certified Purchasing Management Training	No	Yes	Yes

In looking further at this table, it appears that only two firms, Kerr-McGee and Phillips, place an emphasis and provide formal training for this certification. The methods for accomplishing this are similar in that the staffs are allowed to attend various purchasing seminars at company expense to attain certification points. The firms also provide some formal in-house training which can qualify for points also. This basically consists of a lecture-handbook training session which reviews what material might be on the examinations.

### D. Budget

Table XIII shows that overall budget expenditures have increased for both Phillips and Cities Service while Kerr-McGee indicates no change from 1983.

One other aspect that should be noted is that both salary and computer expenditures have increased among all three companies.

TABLE XIII  
1984 BUDGET EXPENDITURES

Expenditures	Company		
	<u>Cities</u>	<u>Kerr-McGee</u>	<u>Phillips</u>
Salaries	I	I	I
Travel	I	N	D
Telephone	I	N	I
Training	N	N	I
Computers	I	I	I
Recruiting	D	N	NA
Consulting	N	N	NA
Overall	I	N	I

I=Increase, D=Decrease, N=No Change, NA=Not Applicable

### E. Chemical Purchasing

In Table XIV we see how purchasing has changed with respect to the chemical purchasing segment that has been prevalent in the oil industry since 1973.

From this table we can see that Cities and Kerr-McGee are similar in the types of changes that have taken place in the purchasing function with agreement in over 50 percent of the changes. As for Phillips, they are in agreement with both Cities and Kerr-McGee in approximately 28 percent of the changes.

TABLE XIV  
PURCHASING CHANGES

Type of Change	Company		
	<u>Cities</u>	<u>Kerr-McGee</u>	<u>Phillips</u>
More emphasis on supply assurance	No	No	Yes
Expect more help from supplier	No	Yes	No
More in tune w/business strategies	Yes	Yes	No
Increased emphasis on forecasting	Yes	Yes	No
Closer relations with own research and development staff	No	Yes	Yes
Closer relations with own production staff	Yes	Yes	Yes
Increase analysis of supplier's business strategies	No	Yes	No

Tables XV and XVI also provide information on the chemical purchasing aspects of the firms surveyed. In Table XV we see that all three firms purchase most of their chemicals by contract.

TABLE XV  
CHEMICAL PURCHASING

Company	Percentage of Chemicals Purchased by Contract
Cities Service	80.0
Kerr-McGee	100.0
Phillips Petroleum	65.0

In Table XVI, we can identify the percentage of purchases from both distributors and foreign suppliers. Cities Service buys the largest percentage from distributors at 61-80 percent, followed by Phillips at 21-40 percent and then Kerr-McGee at 0-20 percent. Phillips buys the most from foreign suppliers at a low 3-6 percent, while both Cities and Kerr-McGee purchase only 0-2 percent.

TABLE XVI  
DISTRIBUTOR AND FOREIGN  
SUPPLIER PURCHASES

Company	Percentage Purchased from Distributors	Percentage Purchased from Foreign Suppliers
Cities	61-80%	0-2%
Kerr-McGee	0-20%	0-2%
Phillips	21-40%	3-6%

## F. Transportation

In Table XVII we discover that only Cities Service has incorporated the transportation department within the purchasing function.

TABLE XVII  
TRANSPORTATION

---

Question:	Is the Transportation Department separate from the Purchasing function?
Answer:	Cities - No Kerr-McGee - Yes Phillips - Yes

---

This inclusion is probably the reason for the purchasing involvement indicated in Table XVIII.

TABLE XVIII  
PURCHASING INVOLVEMENT

Type of Involvement	Cities	Kerr-McGee	Phillips
Designation of inbound carrier	Yes	No	Yes
Designation of outbound carrier	Yes	No	No
Routing	Yes	No	Yes
Negotiation of Carrier Contracts	Yes	No	No
Designation of Method of Payment	Yes	No	Yes
Auditing of freight bill v. the purchase order	Yes	No	Yes
Filing damage claims, etc.	Yes	No	Yes

However, there are some exceptions in that the purchasing function within Phillips, even though the transportation department is separate, is heavily involved in freight matters. The transportation department does conduct the negotiation phase of the carrier contracts as well as handle all designations of outbound carriers. But Purchasing's involvement is very similar to that of Cities Service. On the other hand, Kerr-McGee's purchasing function is wholly separate and distinct from the transportation department.

#### G. Personal Computer Purchasing

In Table XIX, we can see the role of purchasing in the procurement of personal computers (PC's).

TABLE XIX  
PURCHASE OF PC's AND ROLE OF PURCHASING

Role of Purchasing	Cities	Kerr-McGee	Phillips
Evaluate products	No	No	No
Select products	No	No	No
Issue the purchase order	Yes	Yes	Yes
Locate potential suppliers	Yes	Yes	No
Evaluate suppliers	Yes	Yes	Yes
Select suppliers	Yes	Yes	No

It would appear that the evaluation and selection of products is left solely to the discretion of the operating department or the information services branch of the firms surveyed. Both Cities and Kerr-McGee differ with Phillips in that their Purchasing Departments also perform the functions of locating and selecting suppliers.

Tables XX and XXI identify the relative importance of the factors to be considered in the selection of suppliers and PC's.



TABLE XX

FACTORS IN THE SELECTION OF SUPPLIERS  
 (Ranked by order of importance with  
 1 being the most important, 2 the  
 next important factor, etc., up to 7)

Factors	Cities	Kerr-McGee	Phillips	Avg.
Service available	3	1	5	3.0
Financial stability	1	4	2	2.3
Price	5	2	7	4.7
Training buyers to use products	6	3	6	5.0
Reputation	4	6	4	4.7
Familiarity w/product	2	5	3	3.3
Other - compatibility of products with present equipment	-	-	1	.3

TABLE XXI

FACTORS IN THE SELECTION OF PC's  
 (Ranked by order of importance with  
 1 being the most important, 2 the  
 next important factor, etc., up to 10)

Factors	Cities	Kerr-McGee	Phillips	Avg.
Reputation of maker	4	10	5	6.3
Peripheral equipment available	7	9	3	6.3
Ability to network with other computers	2	1	6	3.0
Price	9	2	10	7.0
Storage capacity	8	6	8	7.3
Innovative features	10	5	9	8.0
Compatibility	1	4	1	2.0
Memory capacity and expandability	3	3	7	4.3
Range of software	6	8	2	5.3
Brand name	5	7	4	5.3

In the preceding Table XX, we can look at the averages of each factor to determine the relative importance of each one. With the exception of Phillips' "other" factor, compatability of products with present equipment, it appears that the financial stability and services available from the supplier rank as the most important factors in the selection of suppliers. Financial stability would seem to indicate a desire for an established firm with a proven track record. The second factor indicates that the supplier must be both technically and people-oriented with the ability to provide a variety of services. These services probably include trouble-shooting, keeping the firm abreast of current technology, recommending systems and applications and providing training of personnel. This last service is of minimal importance due to it also being one of the factors rated very low by all the firms.

Besides the above factors, one other factor that is of importance is the one selected by Phillips as number one, compatibility. One has to only look at Table XXI to realize its importance. If the PC is not compatible with the present equipment, then both the supplier and PC cannot be considered without a great expense. This is particularly true since the PC's cost is minor in relation to the main frame and other peripheral equipment. The ability to network with other computers follows this same line of reasoning.

In looking further at Table XXI, it appears that Cities and Phillips are in relative agreement on many of the factors, while Kerr-McGee is just the opposite on many of them. The most notable difference is the price factor, where the two firms rank it very low in importance while Kerr-McGee ranks it number two. There does not appear to be any significant reason for these variations in answers, unless it is once again due to the technical and business orientation of the staffs. Since both Cities and Kerr-McGee evaluate and select suppliers, you would think they might be in agreement on many of the factors, as opposed to the previously mentioned findings. However, in talking with Phillips direct, it was found that they conferred with their computer division for the answers to these questions on PC's. That might very well be the reason for their similarity in answers with the technically oriented Cities' staff.

#### H. Open Discussion Questions

In pages 89 and 90 of Appendix B we can see the various responses to the open discussion questions listed in the following Table XXII.

TABLE XXII  
QUESTIONS FOR DISCUSSION

- 
1. Where do you see purchasing going in the next 5-10 years?
  2. What are your three biggest problems?
  3. Would there be any advantages/disadvantages in some of the oil companies' purchasing organizations communicating with each other?
  4. Do you have any purchasing emphasis groups or committees for certain commodities?
  5. What is your definition of centralized and decentralized purchasing?
- 

The responses for question one indicate that purchasing will have an even greater role in company operations in the years ahead, particularly when material shortages exist. According to Cities, some ways this might occur consist of greater integration into operations by the placing of coordinators at field units as well as the networking by computers to centralized units. Kerr-McGee, on the other hand, looks at purchasing contributing and becoming more involved in corporate planning, strategy, etc. As for Phillips, they see purchasing's role as being influenced by the economy and thus during times of material shortages, receiving more authority and responsibility for controlling the firm's materials cost.

For question two, the most common problem among the three firms appears to be the maintenance of a sound, favorable relationship with the user units. The compliance of corporate procurement policy and procedures as well as maintaining effective communication and coordination seem to be an overriding concern. It would seem that the level of delegation of authority exercised by the firm would have a direct impact on this problem. For instance, the greater the delegation and the broader the guidelines, the more the firm has to monitor user units' compliance. This would seem less of a problem for Kerr-McGee due to their centralized structure, than for Cities and Phillips.

Some additional problems identified by Cities consist of integrating into middle management and keeping the staff current and creative for change. As stated previously, these problems are probably reflective of purchasing's increased role in the firm's management structure. Kerr-McGee indicates that the recruiting and retaining of top personnel and the control of buyer actions are also problems. It would seem that the first problem is primarily a result of their past staffing practices which emphasized recruitment outside the company. The second problem is probably due to the increased importance of the buyer's actions in controlling costs, particularly with the centralized structure that exists at Kerr-McGee. This structure requires greater involvement by the buyer in day-to-day transactions and provides him the opportunity to

make decisions that can significantly impact the bottom line. Phillips' problems are all associated with the user units. The confinement and maintenance of purchasing activities within the purchasing organization, as well as the receiving of sufficient lead times are problems associated with the previously mentioned primary problem among the firms surveyed, the maintenance of a sound, favorable relationship with the user units. Where extensive delegation of authority exists, it is imperative that the firm monitors the user units' activities and ensures their compliance with the guidelines. Any deviation from these guidelines or policies and procedures could quite possibly undermine purchasing's authority and control.

For question three, Cities and Phillips saw some advantages in looking at each other's problems and systems, particularly since many of the problems are similar and in the same environment. Kerr-McGee indicated that there might be some legal implications in doing so and Phillips noted some disadvantages if the discussions involved comparing prices or joining together in negotiating with a specific vendor. The disclosure of each other's pricing from the same vendors would definitely have some legal implications, as well as raise ethical questions. However, a discussion of each other's problems and their approaches for solving them could be very beneficial to each one of them.

Question four was an attempt to determine if the firms had any groups or committees that routinely reviewed and

monitored specific commodities or categories of commodities. This is an approach utilized by many firms to keep abreast of the rapidly changing business environment of critically required materials and their suppliers. It seems that chemicals are the major commodities emphasized under such a program, and this may primarily be due to the high percentage of total procurement dollars spent on this area. All three firms indicated that they have such groups or committees, with Phillips also indicating that a purchasing analysis group routinely selects commodities or markets for study.

The responses to question five were similar, with all three firms defining centralization and decentralization in almost exact terms. Cities stated that centralized purchasing exists when all formal purchase orders and contracts are negotiated and administered from a central location and staff. Kerr-McGee indicates that centralization exists whenever all procurement matters are controlled by a Corporate Control Group that sets policy for the procurement function and purchasing personnel. Phillips defines centralized purchasing as where the authority and activity is in one organization at one location only. As for decentralization, Cities failed to respond and both Kerr-McGee and Phillips indicated that it was where the authority is scattered to more than one organization and/or location and buying personnel report to operations. This structure in reality has been revised somewhat with

authority vested in one organization and one location, but subsequently a portion of it is selectively delegated to other locations and organizations as required to meet the overall needs of the company. This last statement was advocated by Phillips as being the true picture of their centralized-decentralized structure. In essence, authority is at the corporate level, while functional responsibility is at the local field level or user units.

### I. Commodities/Services

In Appendix 3, the identification of various commodities/services purchased and not purchased by the purchasing organizations in each firm can be seen. This appendix also provides a comparison of the various manufacturers for selected items that each firm purchases from. It would appear that both Cities and Kerr-McGee are involved in more purchasing areas than Phillips. Kerr-McGee, quite possibly because of its centralization, is actively involved in the procurement of drilling, inspection and oil well services, as well as the purchase of both feedstocks and gas. These areas are outside the domain of both Phillips' and Cities' procurement branches and are assigned to the operating groups. However, Cities, along with Kerr-McGee, is actively involved in the rental of office and computing equipment as well as repairs of computing equipment.



#### FOOTNOTES

<sup>1</sup>Thomas F. Dillion, C.P.M., "Now Is the Time to Prove Your Worth," Purchasing (October 7, 1982), p. 39.

## CHAPTER V

### SUMMARY AND CONCLUSIONS

The previous chapter provides some useful insights and implications of how the firms surveyed are organized in respect to the purchasing function. Similarities and dissimilarities are enumerable. However, whether it be their perceptions of the important factors to consider when selecting a personal computer, the purchasing changes relative to the chemical segment, integration of the transportation function, or any of the other major comparative areas, there is one thing for certain, each firm has their own distinctive role in the organization. Two factors which have contributed substantially to this role are the staffing practices and range of control.

#### A. Staffing

The findings appear to indicate that the staffing of the purchasing function varies substantially among the firms surveyed. For instance, in the area of education, approximately 58 percent of the buying staff in Phillips has no college degree as compared to 23 percent for Cities and 11 percent for Kerr-McGee. Furthermore, Cities Service has opted for the more technically oriented employee with a

degree in engineering a prerequisite. Kerr-McGee is at the opposite end of the continuum with an emphasis on the recruitment of the business-oriented individual with a degree in business. As for Phillips, they differ from the other two in that their recruitment is not aimed at any specific type of college degree, if at all.

In looking at this education variance, one could assume that age might have had a bearing on this finding, particularly in relation to Phillips. With over 58 percent of its staff in the age range of 46-65 as compared to Cities' 33 percent and Kerr-McGee's 40 percent, it would seem that Phillips has opted for experience rather than education in their staffing. The previous chapter provided some possible explanations for this finding. However, another area that might have influenced both of these factors is the source of staffing. For instance, Cities is the only firm among the three that recruits directly from the college campuses (approximately 11 percent of their staff). Furthermore, along with Phillips, the major source of Cities' staff is from within the company. This may be one reason why Phillips shows no inclination for a particular field of education. Their concept of promotion from within may have limited them to what was available in the personnel pool. Therefore, rather than an emphasis on education, it was those employees with both a past satisfactory performance and the capability to become a buyer that were selected. As for Cities, they probably

specified strict educational disciplines that would be considered for promotion into the buying function. This then resulted in the higher educational findings for them. Kerr-McGee, on the other hand, obtained over 90 percent of its staff from outside the company. Since they do not recruit from the college campuses, this would seem to imply the hiring away of experienced, educated employees from other firms.

Each of the above-mentioned sources has their own advantages and disadvantages. By recruiting directly from the college campuses, a firm can select a recruit that matches their educational and technical requirements. It also allows them to train and shape the recruit's working behavior to fit their own corporate mold, rather than that of some other firm. The disadvantage, though, is that the new recruit has no previous work experience to draw from and may not perform as expected. This inexperience increases purchasing's risk of negatively affecting the bottom line due to the recruit's potential poor performance, particularly in the more critical buying assignments.

This inexperience is also what makes the recruitment from within the company probably more superior to the other sources. This type of recruitment provides the firm an opportunity to observe and evaluate the potential recruit prior to actually selecting him for the job, thus reducing the risk of failure. However, one possible disadvantage to this source is that it limits a firm to what it already has

in the employee pool. As previously stated, this may have been what happened to Phillips years ago. Rather than go outside the company, the firm promoted capable people from within, whether they had a college degree or not.

However, often there are times when a firm does not have anyone qualified in the pool. Either the educational and/or technical requirements cannot be met or there is just no one that has the skills and personal attributes necessary to fill the vacancy. Rather than increase the risk of failure, a firm must go outside to recruit that individual that can do the job. Apparently, this is what Kerr-McGee has done. The advantage to this method is that the firm usually gains an individual with experience and knowledge in the field of purchasing, as well as the educational and/or technical background necessary for the job. Another advantage is the new ideas and concepts the recruit brings with him from the other firm which may be of value. One disadvantage to this method is that there is no assurance that the recruit will perform as expected and be satisfied in his new work surroundings. Of course, that is a possibility for all the sources.

In looking at the above sources of staffing, one must keep in mind an even greater potential problem, the dissatisfaction and non-recognition of the current employees who support the purchasing function. If the employees perceive a lack of recognition and not much opportunity for advancement, then there is a good possibility that their

performance will suffer as well as exhibit increasing signs of dissatisfaction with their jobs. In the case of Kerr-McGee, there is a high probability of dissatisfaction among its support personnel due to the high percentage of recruits from outside the company. This is probably an area that should be reviewed by management so as to ascertain what needs to be done to lower this percentage somewhat. As for Phillips, if they decide to make education a more important factor in their staffing requirements, they need to be careful about going outside the company at the risk of disappointing their present support personnel. To reduce this tension, they need to establish and post the educational requirements for their staff. This way, every employee knows the minimum qualifications for the job and if an assignment opens up, it minimizes the dissatisfaction of the employees. Cities Service appears to have accomplished this the most effectively by setting these minimal qualifications. If you do not have an engineering degree, then you have very little chance of acquiring a buying assignment in Cities.

The staffing practices reviewed above have probably had an impact on the role of purchasing in each of these firms. They have also influenced the range of control exhibited by each firm. For example, if the staff had the technical expertise required for a highly complex purchase, then there would not really be a need for the firm to go outside the purchasing department to negotiate and procure the material

and/or service. This is what Cities has attempted to do in employing a highly technical staff. Another example would be if the purchasing staff was perceived as being highly professional and well-educated with a degree of sophistication. Apparently, Kerr-McGee has attempted to accomplish this. In effect, the perceptions of the operating groups in relation to the capabilities of purchasing plays an important part in determining purchasing's role in the organization. However, the range of control needs to be reviewed before a final conclusion can be made.

#### B. Control

It appears from the findings that the range of control exercised by each firm is different. For example, Kerr-McGee perceives itself as being centralized and there is every indication that they are. Whether it be the limited delegation of authority (i.e., limitation of \$100 for routine purchases and \$1,000 for emergencies) to the field and plant personnel, the pricing of each purchase order in the MRO buy, or the vast number of commodities and services they are responsible for in relation to the other two firms, Kerr-McGee looks and acts the part in initiating, administering, and controlling all aspects of purchasing in their organization.

Cities also thinks of itself as being centralized. They do purchase many of the services and commodities that

Kerr-McGee does; however, they allow a higher dollar figure on delegated purchases and utilize a concept similar to Phillips in the MRO buy. This concept is based on predetermined pricing from the negotiation and finalization of blanket orders or annual pricing agreements. Many of the purchases are then conducted by the field or plant personnel without the use of a formal written purchase order. From this concept, Cities does not appear to be as stringent as Kerr-McGee.

In the case of Phillips, they think of themselves as being centralized in authority and control but decentralized in function. This concept is probably what the other two more closely resemble, particularly Cities Service. However, Phillips does have a narrower range of control due to the lesser number of commodities and services they purchase. This narrow base is somewhat offset by their incorporation of the materials management concept which involves them in the warehousing, inventory control, and transportation areas. Of course, this would seem a natural transition for Phillips due to their past experience in administering a materials catalog and standard stock numbering system with descriptions.

In effect, though, it appears that both Cities and Kerr-McGee exert greater control over the purchasing function than Phillips. The technical expertise of Cities and the educational advantages of Kerr-McGee may be the reasons for this finding. Furthermore, both of these assets



may influence the perceptions of purchasing by the operating groups. This, in turn, affects the role of purchasing in the organization.

Further research is needed in the area of determining what factors affect the role of purchasing. From the data examined in this study, there is a good indication that a firm's past staffing practices influence the range of control exercised by the purchasing function, which, in turn, has an impact on this role. In looking at this role, one must recognize that the problem is not really one of losing complete control, but of determining where the control stops. The factors that influence the three firms surveyed may indeed be the same factors that affect the entire oil industry.

It would seem that the above area for research could easily be expanded to include determining the extent of centralization and decentralization of purchasing as well as the benefits and limitations of the materials management concept as opposed to the departmental purchasing approach. These other areas are interrelated with the range of control exercised by the purchasing function. By finding out more about these areas, particularly why one concept is selected over another, we can more readily identify the factors which influence purchasing's range of control. This in turn, as previously stated, provides a better understanding of the role purchasing plays in the organization.

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## APPENDIXES

## APPENDIX A

### SURVEY INSTRUMENT - QUESTIONNAIRE

I. ORGANIZATION & PERSONNEL

1. Is there a defined purchasing charter?

Yes \_\_\_\_\_ No \_\_\_\_\_

2a. Is purchasing conducted on a centralized or decentralized basis? (Check one)

Centralized \_\_\_\_\_  
Decentralized \_\_\_\_\_  
Other \_\_\_\_\_

2b. If other, explain: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. What is the formal name for the purchasing organization?

\_\_\_\_\_

4. What is the total number of employees in the Corporate Purchasing organization?

\_\_\_\_\_

5. How many employees are classified as "buyers" in Corporate Purchasing?

\_\_\_\_\_

6. How many of these "buyers" have a four-year college degree?

\_\_\_\_\_

7. How many of these "buyers" have a graduate degree?

\_\_\_\_\_

8. Indicate the number of buyers with college degrees in the following fields of study:

Mechanical Engineering \_\_\_\_\_  
Chemical Engineering \_\_\_\_\_  
Business \_\_\_\_\_  
Education \_\_\_\_\_  
Other \_\_\_\_\_

9. What percentage of buyers enter the Corporate Purchasing organization from the following sources?

Campuses \_\_\_\_\_ %  
 Within the Company \_\_\_\_\_ %  
 From elsewhere \_\_\_\_\_ %

10. What is the demographic makeup of the "buyers" in the Corporate Purchasing organization?

Ages 18-25 _____ % of total buyers	Women _____ % of total buyers
Ages 26-35 _____ % of total buyers	Blacks _____ % of total buyers
Ages 36-45 _____ % of total buyers	Indian _____ % of total buyers
Ages 46-55 _____ % of total buyers	White male _____ % of total buyers
Ages 56-65 _____ % of total buyers	

11. To whom does the Corporate Purchasing Manager/Vice President report?

(Title) \_\_\_\_\_

12. Is there any job rotation among the buyers?

Yes \_\_\_\_\_ No \_\_\_\_\_

13. Are supplier invoices reviewed and the correct pricing verified by the Corporate Purchasing group?

Yes \_\_\_\_\_ No \_\_\_\_\_

14. How many employees in Corporate Purchasing are assigned the task of verifying the prices charged by the suppliers? (Check one)

0-3 \_\_\_\_\_  
 4-6 \_\_\_\_\_  
 7-10 \_\_\_\_\_  
 Over 10 \_\_\_\_\_

15. Are invoices for materials and services price-checked against price lists, blanket orders, or pricing agreements?

Yes \_\_\_\_\_ No \_\_\_\_\_

16. Is there a grading system used by the people involved in this price verification task?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 17a. Is there a purchasing research section in corporate Purchasing?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 17b. If yes, how many employees are there in this section?  
(Check one)

0-3 \_\_\_\_\_  
4-7 \_\_\_\_\_  
8-10 \_\_\_\_\_  
Over 10 \_\_\_\_\_

- 17c. If yes, what was the annual savings by this section in 1983?

\_\_\_\_\_

- 18a. Is price forecasting done by anyone in Corporate Purchasing?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 18b. If yes, how many employees are there in this section?  
(Check one)

0-3 \_\_\_\_\_  
4-7 \_\_\_\_\_  
8-10 \_\_\_\_\_  
Over 10 \_\_\_\_\_

- 19a. Is there a program for the identification and disposal or use of surplus equipment and materials?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 19b. If yes, how many people assist in performing this function?

0-3 \_\_\_\_\_  
4-7 \_\_\_\_\_  
8-10 \_\_\_\_\_  
Over 10 \_\_\_\_\_

- 20a. Is there an Expediting section in Corporate Purchasing?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 20b. If yes, how many employees are there in this section?

0-3 \_\_\_\_\_  
4-7 \_\_\_\_\_  
8-10 \_\_\_\_\_  
Over 10 \_\_\_\_\_

21a. Is there a Quality Control section within Corporate Purchasing?

Yes \_\_\_\_\_ No \_\_\_\_\_

21b. If no, where is it at in your company? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

22. Is there any type of Quality Control Procedures manual used in the Company?

Yes \_\_\_\_\_ No \_\_\_\_\_



## II. ADMINISTRATION

1. What was Corporate Purchasing's annual purchases in 1983 for MRO supplies?

\_\_\_\_\_

2. What percentage of these annual purchases are purchased at the local plant levels?

\_\_\_\_\_ %

3. What percentage of these annual purchases are purchased from minority, small-disadvantaged, or women-owned businesses?

\_\_\_\_\_ %

- 4a. Does your company have any vendor stocking programs?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 4b. If yes, are the plant locations tied into the vendor's computer system?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 4c. Are CRT's used in this program?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 4d. Are telephone hookups or facsimile machines used in this program?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 5a. Is consignment used very extensively in your company?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 5b. If yes, explain why: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 6a. How many purchase orders are issued annually by Corporate Purchasing?

\_\_\_\_\_

- 6b. How many purchase orders are issued by the plant or field locations?

\_\_\_\_\_

7. Are there any evergreen contracts?

Yes \_\_\_\_\_ No \_\_\_\_\_

8. What is the percentage of total purchases spent on blanket orders?

\_\_\_\_\_ %

9. What is your management's biggest demand right now?  
(Check one)

Pursue cost reduction/control \_\_\_\_\_  
Assure supply \_\_\_\_\_  
Maintain low inventory goals \_\_\_\_\_  
Assure on-time deliveries \_\_\_\_\_  
Push for quality \_\_\_\_\_  
Other \_\_\_\_\_  
If other, specify \_\_\_\_\_

- 10a. Are there computer-generated reports providing vendor and/or commodity statistics?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 10b. If yes, are these statistics accessible to the buyers via CRT's?

Yes \_\_\_\_\_ No \_\_\_\_\_

11. Is there a company materials catalog used for identifying materials and equipment through the use of a standard numbering system with descriptions?

Yes \_\_\_\_\_ No \_\_\_\_\_

12. Does Corporate Purchasing handle the international movement of dry cargo?

Yes \_\_\_\_\_ No \_\_\_\_\_

13. Does Corporate Purchasing handle the international movement of household goods?

Yes \_\_\_\_\_ No \_\_\_\_\_

14. Is the receipt-by-exception system used for paying invoices?

Yes \_\_\_\_\_ No \_\_\_\_\_

15. Indicate one of the following for each expenditure category below in regard to your 1984 Budget:

I = Increase  
D = Decrease  
N = No Change

a) Salaries	_____
b) Travel	_____
c) Telephone	_____
d) Training	_____
e) Computers	_____
f) Recruiting	_____
g) Consulting	_____
h) Overall	_____

### III. PLANT RELATIONS & ORGANIZATION

1a. Do buyers visit the field and plant locations on a regular basis?

Yes \_\_\_\_\_ No \_\_\_\_\_

1b. If yes, how often? (Check one)

Monthly \_\_\_\_\_  
Semiannual \_\_\_\_\_  
Annual \_\_\_\_\_  
Other \_\_\_\_\_

1c. If no, why? (Check one)

Budge restrictions \_\_\_\_\_  
Management disapproval \_\_\_\_\_  
No need to \_\_\_\_\_  
Other \_\_\_\_\_

2a. How does Corporate Purchasing go about selling itself to the plant locations? (Check more than one if applicable)

Regular plant visits \_\_\_\_\_  
Newsletter \_\_\_\_\_  
Conferences \_\_\_\_\_  
Other \_\_\_\_\_

2b. If other, explain: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. How many plant warehouses are there?

\_\_\_\_\_

4. Are there any consolidated warehouses to service more than one plant?

Yes \_\_\_\_\_ No \_\_\_\_\_

5a. Is there a system for delegating purchases of certain commodities and services to the plant level?

Yes \_\_\_\_\_ No \_\_\_\_\_

5b. If yes, what is the formal name of the system?

\_\_\_\_\_

- 5c. If yes, what is the dollar limitation per purchase, if any?

\_\_\_\_\_

- 5d. If yes, is there any type of procurement guide listing what vendors to purchase from for selected items?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 6a. If the plant purchases materials/services outside of the guidelines or from the wrong vendor, is there a system for reporting these discrepancies back to the plant?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 6b. If yes, how often are these deviations reported back to the plant?

\_\_\_\_\_

- 7a. Is expediting done at the plant level?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 7b. If yes, what determines whether an order is expedited at the plant level or the corporate level? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. List the two major plant purchasing organizations:  
(Also indicate location)

a) \_\_\_\_\_  
b) \_\_\_\_\_

9. How many people are there in each organization?

a) \_\_\_\_\_  
b) \_\_\_\_\_

10. Do they report directly to Corporate Purchasing?

Yes \_\_\_\_\_ No \_\_\_\_\_

11. How many buyers are there in each plant purchasing organization?

a) \_\_\_\_\_  
b) \_\_\_\_\_

12. What is the total number of items stocked at each organization?

- a) \_\_\_\_\_
- b) \_\_\_\_\_

13. How many transactions annually are there at each organization?

- a) \_\_\_\_\_
- b) \_\_\_\_\_

14. What are the total dollar purchases for each organization?

- a) \_\_\_\_\_
- b) \_\_\_\_\_

#### IV. TRAINING & PROFESSIONALISM

- 1a. Does Corporate Purchasing have a structured training program for buyers or potential buyers?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 1b. If yes, how many employees are in the training program at this time?

\_\_\_\_\_

2. Is your company involved in local chapters of the National Association of Purchasing Managers (NAPM)?

Yes \_\_\_\_\_ No \_\_\_\_\_

3. Does the Company provide formal training for the Certified Purchasing Manager (CPM) exam?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. How many employees in Corporate Purchasing are Certified Purchasing Managers (CPM's)? (Check one)

None \_\_\_\_\_  
1-10 \_\_\_\_\_  
11-20 \_\_\_\_\_  
21-30 \_\_\_\_\_  
Over 30 \_\_\_\_\_

5. How many employees at the plant or field locations are CPM's?

None \_\_\_\_\_  
1-10 \_\_\_\_\_  
11-20 \_\_\_\_\_  
21-30 \_\_\_\_\_  
Over 30 \_\_\_\_\_

6. Is there an emphasis placed on becoming a CPM?

Yes \_\_\_\_\_ No \_\_\_\_\_

7. Is it advantageous for an employee to have a CPM in regard to possible advancement?

Yes \_\_\_\_\_ No \_\_\_\_\_

V. VENDOR EVALUATIONS & RELATIONS

1. Is there a formalized program for evaluating vendors' performance?

Yes \_\_\_\_ No \_\_\_\_

2. At what level are these evaluations conducted? (Check more than one if applicable)

Plant level \_\_\_\_  
Regional level \_\_\_\_  
Corporate level \_\_\_\_

3. Are there any standardized written evaluation forms used in this evaluation review?

Yes \_\_\_\_ No \_\_\_\_

4. Are buyers assigned to review and scrutinize specific vendors in a vendor account program?

Yes \_\_\_\_ No \_\_\_\_

- 5a. Is there a formal written vendor approval list?

Yes \_\_\_\_ No \_\_\_\_

- 5b. If yes, how often is it updated?

Daily \_\_\_\_  
Monthly \_\_\_\_  
Annually \_\_\_\_  
Other \_\_\_\_

6. Are there formal face-to-face service reviews with vendors?

Yes \_\_\_\_ No \_\_\_\_

7. Is there a written company policy on gifts and vendor relations?

Yes \_\_\_\_ No \_\_\_\_



## VI. COMMODITIES & PURCHASE HISTORY

1. Place a check mark by the following items in which Corporate Purchasing does the procurement of:

### Services

_____	Advertising and publicity
_____	Bulldozing, grading and ditching
_____	Drilling
_____	Laundry and travel service
_____	Contractual labor
_____	Reproduction services
_____	Utilities
_____	Weed and pest service
_____	Inspection service
_____	Laboratory fees
_____	Oil well services
_____	Marine transportation
_____	Airline transportation for employee travel
_____	Motel/Hotel reservations

### Rentals

_____	Office equipment
_____	Two-way radio equipment
_____	Automobile and other types of transportation equipment (including Hertz, Avis, etc.)
_____	Communication circuits and equipment
_____	Computing equipment

### Repairs

_____	Building and facilities
_____	Office equipment
_____	Two-way radio equipment
_____	Computing equipment maintenance

### Products

_____	Crude Oil
_____	Feedstocks
_____	Gas
_____	Exchange of fertilizers and hydrocarbons
_____	Refined
_____	LPG

2. For each of the following categories, place a check mark beside each manufacturer that your company is familiar with and is currently purchasing from. For "Other," specify the manufacturer.

Ball Valves

Apollo \_\_\_\_\_  
 Hills-McCanna \_\_\_\_\_  
 Jamesbury \_\_\_\_\_  
 WKM \_\_\_\_\_  
 Worchester \_\_\_\_\_  
 Other \_\_\_\_\_

Bronze Valves

Crane \_\_\_\_\_  
 Jenkins \_\_\_\_\_  
 Kitz \_\_\_\_\_  
 Powell \_\_\_\_\_  
 Stockham \_\_\_\_\_  
 Other \_\_\_\_\_

Hand Tools

Craftsman \_\_\_\_\_  
 Proto \_\_\_\_\_  
 Ridgid \_\_\_\_\_  
 Snap-On \_\_\_\_\_  
 Williams \_\_\_\_\_  
 Other \_\_\_\_\_

Fire Hose

B. F. Goodrich \_\_\_\_\_  
 Boston \_\_\_\_\_  
 Goodall \_\_\_\_\_  
 Imperial \_\_\_\_\_  
 National \_\_\_\_\_  
 Other \_\_\_\_\_

Chemicals-Process

Betz \_\_\_\_\_  
 Exxon \_\_\_\_\_  
 Nalco \_\_\_\_\_  
 Petrolite \_\_\_\_\_  
 Other \_\_\_\_\_  
 Other \_\_\_\_\_

Fire Extinguishers

Ansul \_\_\_\_\_  
 Badger \_\_\_\_\_  
 General \_\_\_\_\_  
 Other \_\_\_\_\_  
 Other \_\_\_\_\_  
 Other \_\_\_\_\_

Steam Traps

Armstrong \_\_\_\_\_  
 Bestobell \_\_\_\_\_  
 Nicholson \_\_\_\_\_  
 Sarco \_\_\_\_\_  
 Yarway \_\_\_\_\_  
 Other \_\_\_\_\_

Tube Fittings

Bi-Lok \_\_\_\_\_  
 Gyrolok \_\_\_\_\_  
 Parker CPI \_\_\_\_\_  
 Swagelok \_\_\_\_\_  
 Tylok \_\_\_\_\_  
 Other \_\_\_\_\_

V-Belts

B. F. Goodrich \_\_\_\_\_  
 Dayco \_\_\_\_\_  
 Dodge \_\_\_\_\_  
 Gates \_\_\_\_\_  
 Uniroyal \_\_\_\_\_  
 Other \_\_\_\_\_

Chemicals-Water Treatment

Betz \_\_\_\_\_  
 Calgon \_\_\_\_\_  
 Hercules \_\_\_\_\_  
 Nalco \_\_\_\_\_  
 Petrolite \_\_\_\_\_  
 Other \_\_\_\_\_

Chemicals-Oil Treating

Baker Oil Treating \_\_\_\_\_  
 Nalco \_\_\_\_\_  
 N. L. Treating \_\_\_\_\_  
 Petrolite \_\_\_\_\_  
 Other \_\_\_\_\_  
 Other \_\_\_\_\_

Filter Elements

Baldwin \_\_\_\_\_  
 Dollinger \_\_\_\_\_  
 Engine Life \_\_\_\_\_  
 Peco \_\_\_\_\_  
 Other \_\_\_\_\_  
 Other \_\_\_\_\_

Pressure Gauges

Ashcroft	_____
Jerguson	_____
Marsh	_____
Penberthy	_____
U.S. Gauge	_____
Other	_____

Safety Goggles

Allsafe	_____
Encon	_____
MSA	_____
Uvex	_____
Other	_____
Other	_____

Needle Valves

American Meter	_____
Anderson-	_____
Greenwood	_____
Hoke	_____
Marsh	_____
Other	_____
Other	_____

Safety Gloves

Best	_____
Boss	_____
Edmont-Wilson	_____
Norton	_____
Other	_____
Other	_____

Synthetic Lubricants

Anderol	_____
Exxon	_____
Fyrquel	_____
Molub-Alloy	_____
Sun	_____
Other	_____

Control Valves

Fisher	_____
Masoneilon	_____
Other	_____
Other	_____
Other	_____
Other	_____

VII. TRAFFIC & FREIGHT

1a. Does the company have a transportation department?

Yes \_\_\_\_\_ No \_\_\_\_\_

1b. If yes, is it responsible for inbound as well as outbound freight?

Yes \_\_\_\_\_ No \_\_\_\_\_

2a. Does Corporate Purchasing get involved in freight matters?

Yes \_\_\_\_\_ No \_\_\_\_\_

2b. If yes, where does Corporate Purchasing get involved in freight? (Check more than one if applicable)

	Yes	No
Designation of inbound carrier	_____	_____
Designation of outbound carrier	_____	_____
Routing	_____	_____
Negotiation of carrier contracts	_____	_____
Designation of method of payment	_____	_____
Auditing of freight bill v. the purchase order	_____	_____
Filing damage claims, etc.	_____	_____

3. Does Corporate Purchasing have a member who specializes in freight matters?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. When it gets down to giving instructions about freight, do your company's purchase orders (check more than one if applicable):

	Yes	No
Indicate method of shipment	_____	_____
Tell what method of payment will be used (i.e., prepaid, collect, allowed)	_____	_____
Designate the carrier to be used	_____	_____

5. Which of the following types of payment is most commonly recommended by purchasing for small shipments less than 100 lbs.?

Collect \_\_\_\_\_  
Prepaid \_\_\_\_\_  
Allowed \_\_\_\_\_

6. Which of the following types of payment is most commonly recommended by purchasing for large shipments over 100 lbs.?

Collect \_\_\_\_\_  
 Prepaid \_\_\_\_\_  
 Allowed \_\_\_\_\_

7. When the shipment comes in, who has the responsibility for reconciling the freight bill against the purchase order?

	Yes	No
Traffic/transportation department	_____	_____
Shared between traffic and purchasing	_____	_____
Accounting	_____	_____
Shared between accounting and purchasing	_____	_____
Purchasing	_____	_____
Shared between accounting and transportation	_____	_____
Receiving	_____	_____
Handled by an outside firm	_____	_____
Handled by the field offices	_____	_____

- 8a. Since deregulation of most modes of freight shipping, has your company taken advantage of the easier rules for negotiating agreements on volume and point-to-point shipments?

Yes \_\_\_\_\_ No \_\_\_\_\_

- 8b. If yes, how significant has your company's involvement been?

(Degree of Involvement)	Yes	No
Heavy	_____	_____
Moderate to heavy	_____	_____
Small amount	_____	_____
Exploratory stage	_____	_____
No evaluation	_____	_____

- 9a. Is Corporate Purchasing taking an active part in this activity?

Yes \_\_\_\_\_ No \_\_\_\_\_

9b. If yes, in what way is purchasing taking an active part?

(Activity)	Yes	No
Investigating rates, routes and modes	_____	_____
Investigating rate breaks and consolidation possibilities	_____	_____
Negotiating inbound agreements	_____	_____
Consolidating inbound shipments	_____	_____
Negotiating inbound and outbound agreements	_____	_____
Consolidation of inbound and outbound shipments	_____	_____

10. If your company has not been active in this area in the past, do you see it becoming more involved in the future?

Yes \_\_\_\_\_ No \_\_\_\_\_

11a. Do you have freight-related purchasing problems?

Yes \_\_\_\_\_ No \_\_\_\_\_

11b. If yes, rank in the order of the most serious, your freight-related purchasing problems.

(Problems)	*Range of Seriousness				
	1	2	3	4	5
Poor on-time service	_____	_____	_____	_____	_____
Escalating costs	_____	_____	_____	_____	_____
Loss of damage	_____	_____	_____	_____	_____
Overcharges	_____	_____	_____	_____	_____
Lack of carrier cooperation	_____	_____	_____	_____	_____
Vendor cooperation in using designated carriers	_____	_____	_____	_____	_____
Finding suitable carriers	_____	_____	_____	_____	_____
Instituting suitable internal controls over freight management	_____	_____	_____	_____	_____

\*Check off five (5) for the most serious, four for the next, etc.

12. How many motor carriers have contracts with Corporate Purchasing?

\_\_\_\_\_

13a. Are there any contracts with air freight companies?

Yes \_\_\_\_\_ No \_\_\_\_\_

13b. If yes, how many carriers?

---

# VIII. CHEMICAL PURCHASING

1. Indicate the ways in which you think chemical purchasing is changing at your company: (Check off any that apply)

More emphasis on supply assurance	_____
Expect more help from supplier	_____
More in tune with business strategies	_____
Increased emphasis on forecasting	_____
Closer relations with own research and development staff	_____
Closer relations with own production staff	_____
Increased analysis of supplier's business strategies	_____

2. What percentage of your company's chemical purchases are covered by contract?

\_\_\_\_\_

3. In the next 12 months will you be expanding or reducing the number of suppliers you buy from (for chemicals already purchased)? (Check which one)

Increasing	_____
Decreasing	_____

4. What percentage of your company's total chemical buys are from distributors? (Check which one)

0-20%	_____
21-40%	_____
41-60%	_____
61-80%	_____
81-100%	_____

5. Do you expect this percentage to hold steady, increase or decrease in 1985? (Check which one)

Hold steady	_____
Increase	_____
Decrease	_____

6. What percentage of your total chemical purchases is from foreign suppliers?

0-2%	_____
3-6%	_____
7-10%	_____
Over 10%	_____



7. Do you plan to increase, decrease or hold steady the percentage of your total chemical purchases from foreign sources? (Check which one)

Increase \_\_\_\_\_  
Decrease \_\_\_\_\_  
Hold steady \_\_\_\_\_

## IX. PERSONAL COMPUTERS

1. Is your company buying personal computers?

Yes \_\_\_\_ No \_\_\_\_

2a. Is Corporate Purchasing actively involved in buying personal computers?

Yes \_\_\_\_ No \_\_\_\_

2b. If yes, please indicate the role(s) Corporate Purchasing plays in buying personal computers: (Check more than one if applicable)

____ Evaluate products	____ Locate potential suppliers
____ Select products	____ Evaluate suppliers
____ Issue the purchase order	____ Select suppliers

3. Do you work with other departments to evaluate products?

Yes \_\_\_\_ No \_\_\_\_

4. How do you choose suppliers? Please rank these factors in order of importance to you (1 being most important factor, 2 next important factor, etc.):

____ Service available	____ Training available
____ Financial stability	____ Reputation
____ Price	____ Familiarity with product
____ Other _____	

5. In evaluating and choosing personal computers, what factors get your greatest attention? Please rank these factors in order of their importance to you:

____ Reputation of maker	____ Compatibility
____ Peripheral equip. available	____ Memory capacity and expandability
____ Ability to network with other computers	____ Range of software available
____ Price	____ Brand name familiarity
____ Storage capacity	____ Other _____
____ Innovative features	

6. Is your company standardizing its purchases of personal computers?

Yes \_\_\_\_ No \_\_\_\_

7. How much do you estimate your company will spend on personal computers in 1984? \_\_\_\_\_ How many units? \_\_\_\_\_
8. For which departments are you buying personal computers? Please check the appropriate departments:

_____ Sales & Marketing	_____ Engineering
_____ Financial & Accounting	_____ Personnel
_____ Manufacturing	_____ Purchasing
_____ Other _____	

9. How do you buy? Check more than one if applicable.

_____ Direct from the manufacturer
_____ From distributors
_____ Computer stores
_____ Other _____

X. GENERAL DISCUSSION

1. Where do you see purchasing going in the next 5-10 years?

---

---

---

2. What are your three biggest problems?

---

---

---

3. Would there be any advantages/disadvantages in some of the oil companies' purchasing organizations communicating with each other?

---

---

---

4. Do you have any purchasing emphasis groups or committees for certain commodities?

---

---

---

5. What is your definition of centralized and decentralized purchasing?

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## APPENDIX B

### QUESTIONNAIRE RESPONSES

COMPANY RESPONSE

<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
(Organization & Personnel)			
1	Yes	Yes	Yes
2(a)	Centralized	Centralized	Other
2(b)	---	---	Centralized authority & control, decentralized functionally
3	Purchasing Department	Corporate Purchasing Dept.	Corporate Procurement & Materials Control
4	58	51	107
5	9	27	19
6	7	24	11
7	2	3	0
8 Mechanical Engineer	2	0	2
Chemical Engineer	0	0	0
Business	2	18	2
Education	0	0	0
Other	3	6	7
9 Campuses	11%	0%	0%
Within the Company	78%	10%	90%
From Elsewhere	11%	90%	10%
10 Ages 18-25	0%	0%	0%
Ages 26-35	45%	30%	21%
Ages 36-45	22%	30%	21%
Ages 46-55	33%	25%	32%
Ages 56-65	0%	15%	26%
Women	11%	11%	10.5%
Blacks	0%	0%	0%
Indian	0%	0%	10.5%
White Male	89%	89%	79%
11	Senior Vice President, Employee Relations & Services	Corporate Executive Vice President	Vice President, Corporate Services
12	Yes	Yes	Yes
13	Yes	No	Yes
14	4-6	0-3	7-10

<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
15	Yes	Yes	Yes
16	No	No	Yes
17(a)	No	No	Yes
17(b)	---	---	4-7
17(c)	---	---	\$1.7 million
18(a)	No	Yes	No
18(b)	---	47	---
19(a)	Yes	Yes	Yes
19(b)	4-7	0-3	Over 10
20(a)	Yes	No	Yes
20(b)	0-3	---	8-10
21(a)	No	No	Yes
21(b)	Engineering	Operations	---
22	Yes	Yes	Yes
(Administration)			
1	\$60 million*	\$750 million**	\$490 million
2	50%	10%	53%
3	Unknown	10%	2%
4(a)	No	Yes	Yes
4(b)	---	Yes	No
4(c)	---	Yes	No
4(d)	---	Yes	Yes
5(a)	No	No	No
5(b)	---	---	---
6(a)	10,000	100,000	70,787
6(b)	0	10,000	581,838***

\* Does not include any services.

\*\* Includes services and feedstocks.

\*\*\* This is the number of field invoices processed; there may be more than one invoice per order.

<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
7	Yes	Yes	No
8	No Response	50%	23%
9	Pursue cost reduction/control	Pursue cost reduction/control	Push for quality
10(a)	Yes	No	Yes
10(b)	No	---	No
11	No	No	Yes
12	No	No	No
13	No	No	No
14	No	No	Yes
15 Salaries	I	I	I
Travel	I	N	D
Telephone	I	N	I
Training	N	N	I
Computers	I	I	I
Recruiting	D	N	NA
Consulting	N	N	NA
Overall	I	N	I
(Plant Relations & Organization)			
1(a)	Yes	Yes	Yes
1(b)	Annual	Semiannual	Other
1(c)	---	---	---
2(a)	Regular plant visits conferences, others	Regular plant visits	Regular plant visits, conferences
2(b)	Purchasing conducts training sessions for operations. Buyers and management partici- pate on project teams.	---	---
3	7	27	32
4	Yes	Yes	No
5(a)	Yes	Yes	Yes



<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
5(b)	Payments below \$3,000	Local Purchase Orders	Division Confirming Order Number (DCON)
5(c)	Master Service Agreement \$3,000 on materials	\$100 - routine \$1000 - emergencies	Unlimited for listed items (unless specified in remarks column); \$2000 for unlisted items
5(d)	No	No	Yes
6(a)	Yes	Yes	Yes
6(b)	Each time	Each time	Quarterly
7(a)	No	Yes	Yes
7(b)	---	All orders are routinely and initially expedited at plant level.	All engineering construction, export, spare parts initiated by spare parts section, operation orders exceeding \$5000, and orders requiring progress payments are expedited by Corporate Purchasing.
8-14	No Response	No Response	No Response
(Training & Professionalism)			
1(a)	No	No	No
1(b)	---	---	---
2	Yes	Yes	Yes
3	No	Yes	Yes
4	1-10	11-20	11-20
5	None	None	1-10
6	No	Yes	Yes
7	No	Yes	Yes
(Vendor Evaluations & Relations)			
1	No	No	Yes

<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
2	---	---	Corporate level and Plant level
3	No	No	No
4	No	No	No
5(a)	No	No	Yes
5(b)	---	---	Other
6	No	Yes	No
7	Yes	Yes	Yes

(Commodities & Purchase History)

See pages \_\_\_\_ for each company's responses.

(Traffic & Freight)

1(a)	Yes	Yes	Yes
1(b)	Yes	Yes	Yes
2(a)	Yes	No	Yes
2(b) Designation of Inbound Carrier	Yes	---	Yes
Designation of Outbound Carrier	Yes	---	No
Routing	Yes	---	Yes
Negotiation of method of payment	Yes	---	No
Designation of method of payment	Yes	---	Yes
Auditing of freight bill v. the purchase order	Yes	---	Yes
Filing damage claims, etc.	Yes	---	Yes
3	Yes	No	No
4 Indicate method of shipment	Yes	Yes	Yes
Tell what method of payment will be used	Yes	Yes	Yes
Designate the carrier to be used	Yes	Yes	Yes
5	Prepaid	Prepaid	Prepaid
6	Prepaid	Prepaid	Collect

<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
7	Shared between Traffic and Purchasing	Traffic/Transportation	Purchasing
8(a)	Yes	Yes	Yes
8(b)	Moderate to Heavy	Heavy	Heavy
9(a)	Yes	No	No
9(b)	All activities	---	---
10	---	---	---
11(a)	Yes	Yes	No
11(b)	No Response	No Response	---
12	4	0	3
13(a)	Yes	Yes	Yes
13(b)	No Response	No Response	2
(Chemical Purchasing)			
1 More emphasis	No	No	Yes
Expect more help	No	Yes	No
More in tune	Yes	Yes	No
Increased emphasis	Yes	Yes	No
Closer relations (R&D)	No	Yes	Yes
Closer relations (Production)	Yes	Yes	Yes
Increased analysis	No	Yes	No
2	80%	100%	65%
3	Decreasing	Increasing	Other (Both increasing in some and decreasing in others)
4	61-80%	0-20%	21-40%
5	Hold steady	Hold steady	Hold steady
6	0-2%	0-2%	3-6%
7	Hold steady	Hold steady	Hold steady

<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
(Personal Computers)			
1	Yes	Yes	Yes
2(a)	Yes	Yes	Yes
2(b) Evaluate products	No	No	No
Select products	No	No	No
Issue the P.O.	Yes	Yes	Yes
Locate potential suppliers	Yes	No	No
Evaluate suppliers	Yes	Yes	Yes
Select suppliers	Yes	Yes	No
3	Yes	Yes	Yes
4 Service available	3	1	5
Financial stability	1	4	2
Price	5	2	7
Other _____	--	--	1 <u>Compatibility</u>
Training	6	3	6
Reputation	4	6	4
Familiarity with product	2	5	3
5 Reputation of maker	4	10	5
Peripheral equipment	7	9	3
Ability to network	2	1	6
Price	9	2	10
Storage capacity	8	6	8
Innovative features	10	5	9
Compatibility	1	4	1
Memory capacity	3	3	7
Range of software	6	8	2
Brand name	5	7	4
6	Yes	No	Yes
7	\$1,000,000	Not Available	\$2,900,000
	100 Units	Not Available	425 Units
8 Sales & marketing	No	Yes	Yes
Financial & accounting	No	Yes	Yes

<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
Manufacturing	Yes	Yes	Yes
Engineering	Yes	Yes	Yes
Personnel	No	No	Yes
Purchasing	Yes	No	Yes
Other	No	No	Yes - Chemicals, Refining, Exploration
9 Direct-Manufacturing	No	Yes	Yes
Distributors	Yes	Yes	Yes
Computer stores	Yes	No	Yes
Other	No	No	No
(General Discussion)			
1	Purchasing will be integrated into operations by placing coordinators at field units and networking by computers to centralized units. Purchasing will gain corporate stature and become a management element. There will also be a move toward materials management.	Purchasing will play an even greater role in corporate planning, strategy, etc.	This will be greatly influenced by the economy - in boomtimes where material shortages might exist, the purchasing function will be emphasized more by management; in normal times, purchasing systems and personnel will be upgraded at a moderate pace.
2	(1) Communication & coordination with user units, (2) integrating into middle management, (3) keeping staff current and creative for change.	(1) Recruiting & retaining top personnel, (2) control of buyer actions, (3) enforcement of corporate policy and procedures.	(1) Confining or maintaining purchasing activities within the purchasing organization, (2) maintaining adherence to purchasing guidelines on delegated purchases, (3) receiving sufficient lead-times

<u>QUESTIONS</u>	<u>CITIES SERVICE</u>	<u>KERR-McGEE</u>	<u>PHILLIPS PETROLEUM</u>
			to get delivery effected, consistent with the realities of the market place.
3	A great advantage since we are solving the same problems in the same environment.	There could possibly be legal implications.	There would be advantages on matters of systems, methods and concepts, but disadvantages if discussions involved comparing prices or joining together in negotiating with a specific vendor.
4	Yes	Yes	Commodities are assigned to individual buyers for procurement and market surveillance. A purchasing analysis group is routinely assigned or permitted to study selected commodities or markets.
5	Centralized purchasing exists when all formal purchase orders and contracts are negotiated and administered from a central location and staff.	<p>Centralization exists whenever all procurement matters are controlled by a Corporate Control Group that sets policy for the procurement function and purchasing personnel.</p> <p>Decentralization is when each entity of a company controls purchasing and buying personnel report to operations, etc.</p>	<p>Centralized purchasing is where the authority and activity is in one organization at one location only.</p> <p>Decentralized purchasing is where the authority is scattered to more than one organization and/or locations.</p> <p>A mutation (somewhat) is where authority is vested in one organization and one location, but subsequently a portion of it is selectively delegated to other locations and organizations as required to meet the overall needs of the company.</p>

APPENDIX C

COMMODITIES/SERVICES PURCHASED

## VI. COMMODITIES & PURCHASE HISTORY

1. Place a check mark by the following items in which Corporate Purchasing does the procurement of:

### Services

<u>          </u>	Advertising and publicity
<u>          </u>	Bulldozing, grading and ditching
<u>    K    </u>	Drilling
<u>          </u>	Laundry and travel service
<u>          </u>	Contractual labor
<u>          </u>	Reproduction services
<u>          </u>	Utilities
<u>          </u>	Weed and pest service
<u>  C,K   </u>	Inspection service
<u>          </u>	Laboratory fees
<u>    K    </u>	Oil well services
<u>          </u>	Marine transportation
<u>          </u>	Airline transportation for employee travel
<u>    K    </u>	Motel/Hotel reservations

### Rentals

<u>  C,K   </u>	Office equipment
<u>          </u>	Two-way radio equipment
<u>          </u>	Automobile and other types of transportation equipment (including Hertz, Avis, etc.)
<u>          </u>	Communication circuits and equipment
<u>  C,K   </u>	Computing equipment

### Repairs

<u>          </u>	Building and facilities
<u>          </u>	Office equipment
<u>          </u>	Two-way radio equipment
<u>    C    </u>	Computing equipment maintenance

### Products

<u>          </u>	Crude Oil
<u>    K    </u>	Feedstocks
<u>    K    </u>	Gas
<u>          </u>	Exchange of fertilizers and hydrocarbons
<u>          </u>	Refined
<u>          </u>	LPG

2. For each of the following categories, place a check mark beside each manufacturer that your company is familiar with and is currently purchasing from. For "Other," specify the manufacturer.



Ball Valves

Apollo	<u>C,K,P</u>
Hills-McCanna	<u>C,K,P</u>
Jamesbury	<u>C,K,P</u>
WKM	<u>C,K,P</u>
Worcester	<u>C,K,P</u>
Other _____	_____

Bronze Valves

Crane	<u>C,K,P</u>
Jenkins	<u>C,P</u>
Kitz	<u>P</u>
Powell	<u>C,K,P</u>
Stockham	<u>C,K,P</u>
Other _____	_____

Hand Tools

Craftsman	<u>C,K</u>
Proto	<u>C,K,P</u>
Ridgid	<u>C,K,P</u>
Snap-On	<u>C,K,P</u>
Williams	<u>K,P</u>
Other _____	_____

Fire Hose

B. F. Goodrich	<u>K</u>
Boston	<u>K,P</u>
Goodall	<u>K</u>
Imperial	_____
National	<u>K</u>
Other _____	_____

Chemicals-Process

Betz	<u>C,K,P</u>
Exxon	<u>C,K</u>
Nalco	<u>C,K,P</u>
Petrolite	<u>C,K</u>
Other _____	<u>P</u>
Other _____	_____

Fire Extinguishers

Ansul	<u>C,K,P</u>
Badger	_____
General	<u>C,K,P</u>
Other _____	_____
Other _____	_____
Other _____	_____

Steam Traps

Armstrong	<u>C,P</u>
Bestobell	<u>C,P</u>
Nicholson	<u>C,K</u>
Sarco	<u>C,K,P</u>
Yarway	<u>C,K,P</u>
Other _____	_____

Tube Fittings

Bi-Lok	_____
Gyrollok	<u>P</u>
Parker CPI	<u>C,P</u>
Swagelok	<u>C,K,P</u>
Tylok	<u>K</u>
Other _____	_____

V-Belts

B. F. Goodrich	<u>C,K</u>
Dayco	<u>C,K,P</u>
Dodge	<u>C,K</u>
Gates	<u>C,K,P</u>
Uniroyal	<u>C,K</u>
Other _____	_____

Chemicals-Water Treatment

Betz	<u>C,K,P</u>
Calgon	<u>C,K</u>
Hercules	<u>C,K</u>
Nalco	<u>C,K,P</u>
Petrolite	<u>C,K</u>
Other _____	_____

Chemicals-Oil Treating

Baker Oil Treating	<u>C,K,P</u>
Nalco	<u>C,K,P</u>
N. L. Treating	<u>C,K,P</u>
Petrolite	<u>C,K,P</u>
Other _____	_____
Other _____	_____

Filter Elements

Baldwin	<u>C,K,P</u>
Dollinger	<u>C,P</u>
Engine Life	<u>C,P</u>
Peco	<u>C,P</u>
Other _____	_____
Other _____	_____

Pressure Gauges

Ashcroft	<u>C, K, P</u>
Jerguson	<u>C, K, P</u>
Marsh	<u>C, K, P</u>
Penberthy	<u>C, K, P</u>
U.S. Gauge	<u>C, P</u>
Other _____	_____

Safety Goggles

Allsafe	<u>K, P</u>
Encon	<u>K, P</u>
MSA	<u>C, K, P</u>
Uvex	<u>K, P</u>
Other _____	_____
Other _____	_____

Needle Valves

American Meter	<u>C, K, P</u>
Anderson-	
Greenwood	<u>C, P</u>
Hoke	<u>C, P</u>
Marsh	<u>C, K, P</u>
Other _____	_____
Other _____	_____

Safety Gloves

Best	<u>K, P</u>
Boss	<u>K</u>
Edmont-Wilson	<u>K, P</u>
Norton	_____
Other _____	_____
Other _____	_____

Synthetic Lubricants

Anderol	<u>C, P</u>
Exxon	_____
Fyrquel	_____
Molub-Alloy	_____
Sun	_____
Other _____	_____

Control Valves

Fisher	<u>C, K, P</u>
Masoneilon	<u>C, K, P</u>
Other _____	_____
Other _____	_____
Other _____	_____
Other _____	_____

C = Cities Service  
 K = Kerr-McGee  
 P = Phillips Petroleum

## VITA

Randy Layne Standridge

Candidate for the Degree of

Master of Business Administration

Report: THE PURCHASING FUNCTION OF THREE MAJOR OIL  
COMPANIES IN THE UNITED STATES: A DESCRIPTIVE  
ANALYSIS

Major Field: Business Administration

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Personal Data: Born in Bartlesville, Oklahoma,  
November 14, 1954, the son of Odell and Mary Lou  
Standridge. Married to Connie J. Craighead on  
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Education: Graduated from Sooner High School,  
Bartlesville, Oklahoma, in May, 1973; received  
the Certificate in Mid-Management from the City  
College of Chicago in December, 1976; received  
the Bachelor of Science degree from Oklahoma  
State University with a major in Business  
Administration in December, 1978; currently  
completing requirements for Master of Science  
degree in Business Administration at Oklahoma  
State University.

Professional Experience: Stock Control and Accounting  
Specialist, United States Army, 1973-1975; Section  
Chief, Technical Warehouse, United States Army,  
1975-1976; Purchasing Analyst, Phillips Petroleum  
Company, 1979-1981; Purchasing Research Analyst,  
Phillips Petroleum Company 1981-1984; Utility  
Buyer, Phillips Petroleum Company, 1984 to  
present.

Honors: Honor Graduate, Stock Control and Accounting,  
U.S. Army Quartermaster School, Ft. Lee, Virginia,  
1976; Distinguished Graduate, Communications and  
Electronic Repair Parts, U.S. Army Quartermaster  
School, 1976; Dean's Honor Roll, Oklahoma State

University, 1977-1978; Certified Purchasing  
Manager, National Association of Purchasing  
Management, 1983.