

Negotiation

Order typing

Expediting

Bell clerkery -

Handling rejected material

Inventory control

Employee store

Sales scrap -

Sub construction -

OUTLINE OF PURCHASING

*2nd  
Spec. Note*

Purchases - 43¢ of every sales dollar.

Sales - 1947 - One billion, three hundred-thirty one million  
(\$1,331,000,000)

Purchases - 1947 - Five hundred-seventy two million  
(\$572,000,000)

Purchasing operation entirely centralized until very recently.

General Organization Announcement, July 1947, ordered decentralization.

The Purchasing Department has both line and staff  
responsibility.

Line - responsible for the purchases of those commodities  
which are common to more than one works, of standard nature, and on which  
a definite advantage exists from grouped purchases. This includes  
approximately 350 major items or classifications of commodities. Balance  
of items, which are largely special, or are peculiar to one department,  
division or group are purchased locally by those groups.

Staff - to develop all purchasing policy and announce  
such policy to the officers responsible for its execution including  
(a) advice as to best sources of supply, (b) allocations, purchased under

through the Purchasing Department material specialists, arrive at the

lowest dependable costs for each part.

## HISTORY

When the General Electric Company was first formed, good purchasing was accomplished in a straightforward manner from a centralized Purchasing Department. As the second, and the third, and other plants were added, the problem became more complex. However, the basic products were about the same, — copper, steel, castings, insulating materials, etc. so that highly centralized purchasing continued and was practical and profitable. Later, with the development of the company into two departments (Apparatus and Lamp) an entirely new family of materials — glass, tungsten, nickel, fine wire parts, etc. were required. A separate Purchasing Department was established for this specialized job, having its headquarters at Cleveland. Systems were established and men were trained for this unique type of business. The head of purchasing for the Lamp Department reported functionally to the head of purchasing for the Company. The purchasing organization for the Apparatus Department continued at Schenectady and was successively the responsibility of the Vice-President in Charge of Engineering, then the Vice-President in Charge of Manufacturing, ~~for the entire Company.~~

As the Company further developed, a third member, the Appliance and Merchandise Department was established. Their purchasing organization followed the pattern of the Lamp Department. Their specialized materials were bought on the spot, by their own buyers. Many large volume items such as steel, bearings, gears, resistance wire, etc. were now used in common by this new Department and the Apparatus Department. The buyers of the two units purchased many of such requirements jointly in order to receive the benefits of large scale purchase. More recently, the Company has developed into other departments — the Electronics Department, the Air Conditioning Department, etc. Building upon the experience gained, purchasing departments were established in these plants to provide their requirements of specialized materials. Because of this constant growth, the management saw a need for unification of purchasing policy and better control of purchasing. Accordingly, the Purchasing Agent for the Company was elected a Vice-President in 1941 with overall responsibility for the purchasing activities of the General Electric Company and its affiliates. Since that time, the Company has grown enormously and the policy of buying

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specialized materials on the spot have been extended in all Departments.

In line with the company's policy of drawing clear lines of responsibility and authority and of establishing clearly defined staff and line responsibilities, organization announcement ~~was~~ was issued by Mr. ~~G. E.~~ Wilson in July of this year. ~~This announcement is, in effect, the operating charter for purchasing throughout the company and affiliates. We will now discuss the operation under this "charter" and particularly the way it affects the operating buyers.~~

## RESPONSIBILITY

In general, this instruction charged the Vice-President in Charge of Purchasing with two responsibilities. The one, a line operation and the other, a staff operation. With reference to line responsibilities, this instruction states in part "The Vice-President in Charge of Purchasing will continue the negotiation on execution of company contracts for material, equipment, components, and supplies, and outside services relating thereto, when such contractual arrangements are advantageous to the Company". It further states that ~~(he) will arrange with interesting Company officers to have the operating department assume full responsibility for ordering, scheduling and expediting their entire requirements regardless of where the purchasing contract was executed.~~

With reference to staff responsibility, the announcement states in part "The Vice-President in Charge of Purchasing, as a member of the President Staff will utilize the service of specialists in the field of purchasing to perform the following functions:

- (a) Develop all purchasing policy and announce such policy to the officers responsible for its execution. (Give) advice as to best sources of supply; allocation of supply purchased under terms of company contracts; market conditions, trends, and forecasts; new products and processes; prices; price trends and forecasts; contract terms; personnel; and methods.
- (b) Accumulate - data on all phases of purchasing activity (including) detailed statistics on purchases, commitments, inventories, prices, purchasing units, operating costs, etc."

~~In analyzing the above responsibilities, a moment of re-  
view is worthwhile.~~ As Mr. R. J. Cordiner so ably expresses it,  
"The staff conceives, plans and teaches -- the line executes"  
He further provides the background for this established policy  
when he states "The Company must exhaust the possibilities of  
combining the strength and opportunity of a large institution  
with the social virtue ~~of~~ the intimacy on relationships possible  
in smaller organizations. // General Electric is - determined to  
see - that its bigness, of itself, makes extra contributions --".

The implementation of these policies will be explained under  
the headings of "Line Operation" and "Staff Operation".

### LINE OPERATION

To secure the benefits of large scale purchasing and  
quantity buying without losing the benefits of fast, decisive,  
on-the-spot action, all materials and services have been reviewed.  
Those which are used in several plants and on which a distinct  
purchasing advantage is available because of the combining of  
purchases, are listed in purchasing instruction l.l. Negotiations  
for the purchase of these items will be handled by the Purchasing  
Department. Other items will be bought at the operating level  
by the using department. The Purchasing Department supplies  
vendors' names, prices, terms and other necessary information to  
the operating purchasing unit covering items it negotiates, by  
two methods. The first is the ordering direction system and  
the second is the request for ordering directions routine.  
Purchasing Department buyers periodically negotiate contracts  
for purchase of such materials as are sufficiently stable as to  
price, or basis of price, and supplier. Ordering directions,  
which provide the information required by the using purchasing  
unit, are issued to all operating purchasing units who require  
the material. They are maintained in current status by the  
Purchasing Department buyers. The using departments, in placing  
orders for the material, need only draw the ordering direction  
from the file and issue the order based upon the terms stated.

The second method covers materials which fluctuate too  
widely either as to cost, or supply, or supplier, to be covered  
by any advance negotiation. The operating unit sends to the  
Purchasing Department, a request for ordering directions which  
is returned, with the necessary ordering information, after  
suitable negotiations have been completed for the purchase of  
the particular lot of the material, by the Purchasing Department  
buyers.

Good Cost reduction work improves the product  
and increases supplier dependability

Suppliers (or our selves) not under cost pressure too often puts the job on some old machines operated by some near pensioners. The quality of dimensions & quality of the product vary all over the map.

### Purchase Cost Reduction group

To spearhead <sup>assist</sup> encourage, coordinate material and parts cost reduction work thruout the all departments - apparatus, Electronics, Appliances & radio and lamp.

Select products from the various departments and, by applying the newest methods & processes <sup>suggested</sup> by vendors thru the purchasing department material specialists arrive at the lowest dependable costs for each part.

When they know the job must be competitive - they call in equipment men - ~~expand~~ <sup>use</sup> their best brains in planning, often suggest ~~minor~~ acceptable changes which allow lower cost manufacturing and end up with up to date high class equipment and alert personell.

The result is a product that comes in dependably and each part is just like the next.