International Journal of Trade & Commerce-IIARTC
July-December 2017, Volume 6, No. 2 pp. 523-529

UGC Approved Journal in Social Science Category; Journal No. 48636
COSMOS (Germany) JIF: 5.135; ISRA JIF: 4.816; NAAS Rating 3.55; ISI JIF: 3.721

A Study of Policies of Management of Material in McDonalds and Taj Hotel

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Abstract

The material management concept advocates integrating all major activities, which contribute material cost to a single department. In this concept the material management department is responsible for purchasing, inventory control, stores and other related activities. Many times in corporate activity, there is compartmentalization of basic management functions concerned with materials. The purchasing department operates separately and other areas like stores and inventory control operate independently. This creates conflicting objectives from the overall organizational point of view e.g. purchasing department may prefer to buy large quantities on discount without considering the warehousing and carrying costs. The primary goal of materials management is to obtain materials at lowest price alongwith consideration of consistency in quality and supply. Another Goal is to maintain a minimum inventory of materials so that minimum working capital is blocked in inventory. The objective here is to ensure availability of raw material without adversely affecting the smooth flow of production. At the same time, quality of raw materials must be consistent and above all minimum funds should be blocked in all sorts of inventories. The task of material management is not only important but is a complex one. It requires integration of various departments where inventories are used, produced or kept. This is why usually it is advantageous to have integrated materials management systems.
Keywords: *Corporate Policies, Inventory/Stock levels, Lead Time, Integrated Materials Management Systems.*

PAPER/ARTICLE INFO
RECEIVED ON: 16/09/2017
ACCEPTED ON: 03/11/2017

Reference to this paper should be made as follows:

Arvind Kumar Yadav (2017), "A Study of Policies of Management of Material in Mcdonalds and Taj Hotel", *Int. J. of Trade and Commerce-IIARTC*, Vol. 6, No. 2, pp. 523-529

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1. INTRODUCTION

Polices are statements or decisions made and communicated by the top management of an organization, which applies to a set of circumstances and they can be applied repetitively. They serve as guidelines, which can be used consistently in taking decisions throughout the organization for matters that are repetitive in nature. The matters should be consistent and clear so that scope of misinterpretation is minimized. Policies are sort of decisions taken in advance for repetitive situations, hence policies should be capable of being implemented without further reference to higher management. They are kind of standing decisions in various areas of operations. Material Management Policies enable to top management to take considered decisions regarding basic questions of continuing importance that confront the various functions. These considered decisions i.e. policies eliminate the need for hasty, spur of the moment decisions. Sound policies take care of the routine repetitive decisions and allow the manger to concentrate on exceptional issues. These policies serve as means by which responsibility and authority are delegated and hence it fixes accountability for decisions taken. The effective use of sound policies improves the quality of decisions making. There is less friction or dispute. This helps people in the departments to work as a team.

Corporate Policies are laid down so as to achieve corporate goals of the organization. In this sense, corporate policies are derived from corporate objectives. The top management expects all departments to work towards the achievement of corporate objective. Corporate policies are broader and from these are derived specific policies consisting of rules which guide various departments. Thus, the objective and policies of materials management are also derived from corporate goals and policies. If the materials management policy is clearly defined it helps to identify prerogative of material management and avoids confusion, spells out authority and responsibility. It facilitates uniform and consistent action in various activities. Policies help to standardize procedures and systems leading to greater efficiency.

2. OBJECTIVES OF THE STUDY

The objectives of the study is to identify the material management policies in chain hotel industry specially McDonalds and Taj Hotel.

3. ROLE PLAYED BY INTEGRATED MATERIALS DEPARTMENT

Role played by integrated material department are as follows:

- **Procurement at the Right Time:** The main aim of materials management is to get raw materials and other supplies at the right time. This requires sending of shortage report by the store and ordering by the purchase section, clearing of goods by docks, railways or road transport, checking and receiving materials by the stores. So it is a whole lot of activities, which are involved and the combined setup brings about greater co-ordination and sense to responsibility to procure goods at the right time. Separate functioning of these sections may lead to blaming on each other relating the order for delay in procurements.
- **Lead Time and Stock Levels:** Lead-time may tend to differ with time due to changing condition. This may necessitate adjusting the maximum-minimum levels on stock control cards/software. A common department head rather than a separate purchase officer may effectively tackle these kind of problems.

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Approved Journal in Social Science Category; Journal No. 48636

- **Cost Reduction And Productivity:** Material Management also aims to increase the productivity of materials, which can be bidding, negotiations and also by value analysis, standardization, bulk ordering, reducing investments and carrying cost by optimum level of inventory, avoiding wastage, obsolescence, etc. All these things are difficult to coordinate and some of them pull in opposite direction eg. benefits of bulk ordering and maintaining a low inventory. A common departmental head will take these decisions more efficiently.
- **Price and Quantity:** The price depends on the quantity bought. If the decisions regarding quantity rests with another department, it work as a impediment. In a combined department the departmental head can negotiate the price on the basis of all factors considered together.
- **Unutilized Materials:** It is easier for a common department head to spot surplus material and dispose it accordingly.
- **Handling Receipts:** The work of materials or stores procurement is smoothened when the stores and purchase sections are common eg. if they are separate, a case of stores getting unloading advice at the last moment may create problems.
- **Optimum Inventory Turnover:** Inventory turnover rate is obtained by dividing the annual sales by the average monthly stock. This indicates the speed at which the materials come in and go out of stores. Ideally, the inventory turnover should be high which means there is rapid movement of materials. This turnover rate can be better manipulated in the integrated department.

4. IMPORTANT AREAS OF MATERIAL MANAGEMENT POLICIES

Material management policies should be formulated in the following areas:

- **Organisation Policies:** The acceptance of integrated material management department is a major policy decisions. Policies regarding internal, delegation of authority, relations with other department, co-ordination of material management function, identifying training needs etc. need to be established. Development of policy manual is also important.
- **Purchasing Policy:** Clear Policies should be laid down regarding sources of supplies, quotations, negotiations, quality, quantity, price, personal buying, reciprocity, make or buy decisions etc.
- **Inventory Control and Stores:** Clear rules and procedures must be established for receipt, inspection, storing, issue, physical stocktaking, surplus and obsolete material disposal etc. Clear policies in these areas will help in keeping inventory at desired levels. The policies also ensure proper accounting, minimum leadtime, reduce wastage and pilferage etc.

5. THE MATERIAL MANAGEMENT POLICY IN THE HOTEL INDUSTRY

The purchasing policy governs the food service operations purchasing activity. It is not necessary for a purchase policy to be a written document. In many small operations, it may be a verbal set of rules, which all employees are required to follow. Food service operations formulate their purchasing policy as per their need, hence purchasing policies of various establishment are different though the basic elements may be common. In the study it was found that large operations have precise, written policies. These policies consist of rules, which are direct and clear so that they assist the buyer in taking a good decision. The policies should especially serve as a guide for taking correct and effective decisions in critical situations and in case of any confusion.

Some important areas, which the purchasing policies covers are as follows:

- **Quantity Limits:** The amount of item a purchase manger can buy is restricted to a certain limit. In case, the amount of materials to be bought crosses this limit, prior permission is essential.
- **Price limits:** A range of price is generally recommended specially for products purchased in large quantities. If the price rises beyond this limit, a re-evaluation is normally done.
- **Gifts from Suppliers:** Large organizations have strict rules regarding accepting gifts from suppliers. Acceptance of gifts leads to a psychological pressure to purchase goods from suppliers extending favours.
- **Sample Acceptance:** Generally establishments, as a policy matter accept samples only when they are sincerely considering purchasing the product. Few companies prefer purchasing the sample.
- **Deciding Suppliers:** Most establishments have an approved supplier list. This is very important since it may restrict the buyer's authority and ensure that suppliers are upto required standards. This also takes care of undue pressures the purchasing manager faces due to lack of such an approved list.
- **Personal Purchases:** Employees are often tempted to take advantage of the establishment's purchasing power. They might want to buy products of their personal use at these wholesale prices. These kinds of purchasing may be offered to employees on special occasions but regular practice can lead to gross mismanagement. Employees may start giving more attention to their personal purchase rather than their work.
- **Acceptance of Discounts:** The purchase policy should include guidelines one availing discounts. Quantity discounts, cash discounts and promotional discounts are available on purchases. **Quantity discounts** are given an volume purchases. Buyers need to make a balanced decision. Volume purchase may give the advantage of lower price but large volumes of inventory will block cash, need more storage space, cause pilferage, wastage, over-use and spoilage. Buyers need to keep in mind the maximum inventory level while taking the decisions. Cash discounts are extended for making payments on delivery. **Cash discounts** can be availed considering the cash flow situation in smaller food services operations. Generally large operation pay invoices by cheques at regular and do not practice cash on delivery. In the case of promotional discounts, products are supplied at heavily discounted rates allowing the operator considerable savings. Supplied products are featured on the menu or offered as part of service for a specified period of time by the food service operation. It is important that the Food Service Operations wishes to be associated with the product the decision should not be made just to save money. A very successful example of this kind of association is McDonald's and Coca Cola.
- **Local Suppliers:** Most establishments support local suppliers and in the large run atleast some local purchasing is a beneficial strategy.
- **Reciprocity:** This means purchasing from suppliers who in turn purchase from you. These reciprocal arrangements are sometimes established at the top level as a matter of policy sector undertaking reciprocity policy is adopted.

In case of the hospitality industry reciprocity may be interpreted to mean-if the supplier does something special, he gets reference over other suppliers. In the food business, suppliers' preference can bring very less business as compared to the volume of purchases. And this is basically an uneconomic activity lacking open completion. Hospitality operations generally do not indulge in reciprocal arrangements.

- **Written Ethical Guidelines:** The materials management policy includes written ethical guidelines by the purchasers. The guidelines pertain to potential ethical dilemmas. This may be a part of buyer's job description.
- **Controlling Products:** In small hospitality operations, the buyer generally takes the responsibility to items until used. In larger hospitality operations, the responsibilities may be split to exercise control e.g., in a hotel often the receiving clerk is part of the account department. This serves as a control on the purchaser.
- **Quality Standards:** Establishing quality standards is also a policy decisions. The persons with ordering responsibilities has to see that he is adhering to the quality. Buyers in case of hospitality operations do not have final say regarding quality standards.

6. MATERIAL MANAGEMENT POLICY OF MCDONALD'S

6.1 McDonald's: A Global Phenomenon

The McDonald's Corporation was created in 1955 when Ray Kroc opened his first restaurant in Des Plaines, Illinois. Within four years in 1959 the 100th McDonald's restaurant was opened in Chicago, USA. Today McDonald's is the world's largest food service system with more than 30,000 restaurants in more than 120 countries across 6 continents serving 52 million people each day. McDonald's is one of the world's most well known and valuable brands and holds a leading share in the globally branded quick service restaurant segment of the informal eating out market in virtually every country in which they do business. Business Week alongwith Interbrand rated the McDonald's brand name as the ninth most valuable in the world estimating its brand value at $ 25.3 billion. Most standalone McDonald's restaurants offer both counter service and drive-through service, with indoor and sometimes outdoor seating. To accommodate the current trend for high quality coffee and the popularity of coffee shops in general, McDonald's introduced McCafes. The McCafe concept is a café-style accompaniment to McDonald's restaurants. Some locations are connected to gas stations/ convenience stores while others called McDonald's Express have limited seating and/or menu or may be located in a shopping mall. McStop is a location targeted at truckers. Specially themed restaurants also exist e.g. there is a McDonald's with a 24 carat (100%) gold chandelier in Victoria, British Columbia.

6.2 McDonald's in India

McDonald's opened its first restaurant in India on Oct. 13, 1996 and India was the 95th Country it entered. Now-in-India it has more than 113 outlets and is expanding rapidly. McDonald's in India is run under 50-50 joint-venture partnerships between McDonald's corporation and two Indian businesses. Hardcastle Restaurants Private Ltd., a company owned by Amit Jatia owns and manages McDonald's restaurants in the west. In the north, McDonald's restaurants are owned and managed by Connaught Plaza Restaurants Pvt. Ltd., a company owned by Vikram Bakshi. After signing joint-venture agreements with McDonald's in April 1995, Amit Jatia and Vikram Bakshi trained extensively along with their Indian Management team in McDonald's restaurants in Indonesia and the USA before opening the first McDonald's restaurant in India.

6.3 McDonald's Policies Regarding Materials Management

- McDonald's India sources most of its suppliers (approx. 95%) from local suppliers, though worldwide McDonald's franchisees sources only 30-40% of their requirements locally.
- McDonald's adheres completely to the Indian Government's regulations on food, health and hygiene.
- Suppliers are also required to adhere to Indian government's regulations on food, health and hygiene.
- McDonald's committed to providing quality products while supporting other India businesses.
- Hazard Analysis Critical Control Point (HACCP) verification is done atleast twice a year.
- McDonald's follows the policy of developing single suppliers for major products.
- McDonald's trains its crewmembers extensively on all food safety and food handling processes.
- Policy to use products and supplies on "first-in, first-out" basis to ensure freshness.
- The integrated materials management concept has a numbers of advantage and it contributes to cost reduction and enhances the productivity of the establishment. There are a number of activities pertaining to the materials manager in the hospitality industry like formulation stores and inventory etc. Material managing policies are important to guide the day-today work of the function and sound policies go a long way in achieving the objectives and goals of the material management department by contributing to the organizational success.

7. MATERIAL MANAGEMENT POLICIES OF THE TAJ GROUP (IHCL)

The Indian hotels company and its subsidiaries collectively known as Taj Hotel Resort and Palaces is recognized as one of Asia's largest and finest hotel company. It is part of the Tata Group of Companies, India's premier business house. The first Taj Hotel was opened on Dec. 16, 1903 by Jamshedji Nusserwanji Tata at Mumbai- Taj Mahal Palace & Tower, Mumbai.

Today the Taj chain has presence at 52 destinations in 12 countries on 5 continents with 77 hotels, 6 private islands, 12 resorts & spas, 7 authentic palaces, 3 personal jets and two luxury yachts. Taj in recent years has acquired many reputed properties abroad.

7.1 Taj Group's Policies Regarding Materials Management

- Taj Hotels purchase only some items like perishables from local suppliers.
- Most items are procured from suppliers approved at the central level from metros.
- Taj believes in helping the weaker sections of the society e.g., by helping them to develop as Taj suppliers.
- Taj requires its suppliers to abide by all applicable laws and regulations.
- They have a policy of fixed time payment to suppliers generally every 30 days
- Taj has a policy of receiving no gifts from the suppliers. It the supplier tries to pass on gifts it may make the contract void.
- They have a policy of accepting samples and returning them after job completion.
- Most jobs are done in-house and only essential once are outsourced, though this may vary from one hotel to another.
- Taj has a policy to have separate department for purchase and stores.

8. CONCLUSION

Following are the conclusions of this research:

- Purchase activity should be implemented in every hotel industry. Every hotel should determine appropriate inventory levels and order size for various types of items. Ordering document is also a very important document hence prepared in advance.
- Formal and Informal activities are very important activities for every hotel industry, so every hotel has implemented it positively.
- There has been a fixed time payment policy for every hotel industry because this will reflect a very good sign to the suppliers.
- Every hotel should avoid the policy of receiving gifts from suppliers. Because after receiving gifts every person feels the burden in taking fair decisions.
- In the present scenario, promotional discounts have played a very important role in increasing sale, so every hotel should implement it on a large scale.
- Problems regarding overstocking due to any reason may be needed to be disposed off. Purchase department usually takes the responsibility. So every hotel should avoid the overstocking with the help of purchase department.
- In the age of Computers, all organisations except the very small should make arrangement to storing data of past performance. Computer operations should be extended to material management for increasing efficiency.
- Activities regarding purchasing and receiving of products are not linked because it will create a problem of control. The separation of these two activities reduces the chances of theft.
- Quantity should be ordered as per the storage space and the frequency of ordering should be increased in case of lack of storage space.
- Quality standards should be maintained by every hotel on priority basis. They should not compromise with these quality standards.

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