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भारतीय रेल (रेल मंत्रालय)
डीजल रेल इंजन कारखाना
वाराणसी-२२१००४, भारत
INDIAN RAILWAYS (MINISTRY OF RAILWAYS)
DIESEL LOCOMOTIVE WORKS
VARANASI-221004, INDIA

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Office of the:
Controller of Stores

No. DLW-S/Policy/Strategic Sourcing

Dated: 05.10.2011

10/10/2011

To,

The Secretary
Railway Board
New Delhi – 110 001.

(Kind attn: **Mr. J. M. S. Rawat /** Under Secretary - Estt.)

Sub: Committee to study and develop framework for implementation of long term Strategic Sourcing on Indian Railways.

Ref: Railway Board's letter No. ERB-I/2011/23/10 New Delhi, dated 01.04.2011.

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The Committee's report on study and develop framework for implementation of long term Strategic Sourcing on Indian Railways is submitted herewith.

DA: As above.

(A. K. Mital)
(Convener & COS DLW)

Copy to: **Advisor Railway Stores, Rly. Bd., New Delhi.**

INDIAN RAILWAYS

A
Report
on

FRAMEWORK
for

IMPLEMENTING
LONG TERM SOURCING

on
Indian Railways

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IMPLEMENTING LONG TERM SOURCING ON IR

1.0. Introduction:

Railway Board vide letter number ERB-I /2011/23/10 dated 01/04/2011 have constituted a committee to study and develop framework for implementation of Long Term Strategic Sourcing on Indian Railways (IR).

1.1. The terms of reference specified are as under:

i) To develop framework for implementation of strategic sourcing and suggest ways and means to institutionalize this approach in IR, duly keeping in view provisions in GFR and extant guidelines;

ii) To identify items / item types, which can be sourced through strategic long term partnerships,

iii) To identify any infrastructural requirements including capacity building, which are considered necessary for implementation of strategic sourcing and improvements in supply chain management practice being followed in IR,

iv) To design a supplier relationship to achieve better standardization and improvement in cost, quality and in delivery time.

1.2. The committee consists of following members:

Shri	A K Mital	COS/DLW & Convener,
Shri	R Vatash	CME/DLW, and
Shri	S P Piplani	COS/DMW

1.3. The committee has carried out its task through

- Documentation Study

1.4. Though the task assigned to committee is to develop the framework for implementing long term Strategic Sourcing on IR, committee considers that a brief on existing system vis-a-vis the new approach is essential to capture the issues involved in implementing Strategic Sourcing.

Accordingly, committee has included a brief on two approaches, while preparing its report on assigned terms of reference.

2.0. Defining Strategic Sourcing:

Among myriad versions of 'Strategic Sourcing' in respect of procurement, following definition is adopted for further deliberations:

2.1. STRATEGIC SOURCING is a methodology of procurement process to maximize the value of expenditure for goods and services, in a collaborative manner with the suppliers from whom sourcing is sought, for meeting IR's strategic needs. The procurement process shall be periodically re-evaluated and improved to adapt to changing market forces and organizational objectives.

2.2. STRATEGIC SOURCING is not based only on cost, quality and delivery, but also incorporates strategic dimensions and capabilities such as

- Design and Development capabilities,
- Cost Reduction capabilities,
- Quality Management and Process capabilities into the procurement decisions,
- Identify and manage risk and develop risk treatment capabilities.

2.3. It shall

- Be a fair, equitable and transparent procurement process (meeting provision of GFR and extant guidelines on public procurement)
- Respect the multiple goals of the public procurement environment.
- Put total cost of ownership and best value in positions of primacy
- Take care of upgradation / changes in technologies, including variable specifications as required by Railway operations.
- Have provisions to meet emergent/varying demands.

2.4. The key aspect to be achieved is to mesh procurement goals with the strategic requirements of IR like

i) Synchronizing varying production targets / requirements
ii) Effective maintenance & reduced downtime / failures
iii) Efficiency of procurement, especially shorter leads
iv) Cost reduction
v) Safety
vi) Consumer / public expectations.

3.0. Analysis of Existing System vis-a-vis Strategic Sourcing

3.1. Snapshot of present system:

3.1.1 Up to 2 Lakh stock items and almost equal number of non stock items are annually purchased by IR. The annual purchases are of the order of Rs 30,000 Crores. The procurement is done through a mix of centralized and decentralized systems at various levels like Railway Board, Zonal Railways, Divisions and Production Units, in laid down manner as per prescribed schedule of power. Procurement is based on annual budgeting though future activities are planned almost 12 /15 months in advance.

3.1.2 All modes of procurement from tenders (AT, GT, LT, ST, PAC) including E-Tendering, Rate Contract, Running Contract, Local/Cash Purchases, DGS&D services, Price Agreements etc are adopted under the overall framework of GFR 2005 and guidelines issued by Railway Board. However, bulk of procurement is through open tenders with adequate details on websites for transparency.

3.1.3 For quality and consistency for items procured for specific needs of Railways a system of prequalified /approved vendors is in vogue. For this, elaborate laid down procedures of approval of vendors by RDSO, PUs and Zonal Railways

3.1.4 Procurement from unapproved vendors is fraught with the risk of non-supply due to low credibility of such vendors, low quality of goods and delay in supplies, which may adversely affect the project execution / production/ maintenance. Though individual items may be insignificant and low value, the same may need to be integrated in the whole system; and if these are not of required standard or quality, these may jeopardize the safety of the whole equipment, effectively compromising one of the core objectives in Railways operations.

3.1.5 Further annual procurement involves around 1.5 Lakh tenders floated by Railway Board, Zonal Railways (17 zones), Production units (6 Units) and various other field units. A large number of spares, particularly different types of Rolling Stock, are common, where separate procurement is finalized by individual units to meet their demands. The procedure of prequalified vendor helps in ensuring uniform procurement by different units besides ensuring reliability and safety in operations. Moreover, Rolling Stock of one Railway Zone operates over other Railway Zones and is also maintained / overhauled at maintenance facilities of different Railways, necessitating a certain level of standardization and procurement from same set of approved vendors.

3.1.6 In fact, Indian Railways' vendor approval system is quite elaborate involving physical and technical assessment of vendor facilities regarding capability / capacity, quality assurance system etc. Further, it is a widely accepted concept that the quality of product is in built in process of manufacture and cannot be ensured by sample inspection of finished product. Therefore, a procurement system with condition of eligibility criteria and inspection is no substitute to restricting bulk procurement from pre–approved vendors, more so when multiple purchases from a number of units are arranged for items procured to drawings/ specifications for specific needs of Railways operations where safety / reliability is of paramount importance. It has to be recognized that most such procurement is in nature of specialized product of industrial manufacture and not of commercially available merchandise. Accordingly Indian Railways' procedure of vendor approval is in line with practices adopted in industrial sector.

iv) General perception is that a large number of sources results in lower rates. On the contrary, if total capacity of sources is substantially higher than Railways' need, there is a tendency among vendors to join hands to protect market share and margins, leading to cartel formation at times.

v) Placement of large number of one-time orders on vendors

vi) Sufficient stock level to ensure availability of all items, not JIT

vii) High expenditure of time and energy on order processing

viii) Non- adherence to delivery schedule / considerable energy on post. contract / follow up

ix) Long lead time even for simple manufacturing items, often causing stock outs.

x) Pre- inspection by 3rd Party, in majority of cases.

xi) Negotiation in rare cases, only with L-1 tenderer.

xii) Price fixation through tendering system.

xiii) Fixed price in majority of purchases.

3.2.1 On the positive side it is noted that the existing system is an accepted one for fairness and transparency and conforms to provisions of GFR 2005 and other guidelines. It is also established enough for ease of execution, though focus at times is on procurement process and not on the ultimate goal of supply chain requirements.

3.3. Procurement by private/public enterprises – A study was made of two enterprises- one public sector unit i.e. M/s BHEL, and the other a private sector unit M/s Maruti Suzuki Ltd - by deputing senior procurement professionals. Discussions were also held with a number of private enterprises on the procurement system followed by them.

Following key features in their procurement system are noted:

3.3.1 M/s BHEL's major procurement is from approved vendors. They have very limited long term contracts for a few items like consumables and raw materials.

raw materials to these vendors / sub vendors is at price fixed by M/s Maruti Suzuki, effectively availing economies of scale on account of total volumes.

They have a highly flexible pricing policy, even at post contract stage. Regular negotiations for price are held with all vendors. There is no pre-inspection of materials / components and payment is made without production of bills.

They undertake detailed costing and hold negotiations with vendors in almost each purchase case. They are having a vendor rating system, including a reward / penalty system. Suppliers are loyal towards M/s Maruti and there is a strong buyer-seller relationship.

3.3.3 Discussions held with a few other private enterprises indicated main features of strategic procurement as being followed by them as follows:

- Supplies are taken from one/two approved sources.
- There is no long term contracting, but rather a long term relationship. Contracts are entered on year-to-year basis or for a lesser period, but there are long term relationships which ensure orders on a continuous basis.
- Negotiations are held almost in every purchase.
- Procurement team / cells have adequate qualified staff capable of undertaking detailed job costing for determining and deciding cost(s) of purchase from a spectrum of vendors.
- Cost reduction is done through following:
  - Change in design without compromising quality
  - Value Engineering techniques
  - Use of alternative raw materials
  - Altering / improving manufacturing process
  - Shifting to modern technology/automation / processes

- Timely delivery and payment mechanism

3.4. Current Issues:

3.4.1 In this era of rapid introduction of new products, safety issues and short life span of technologies, the requirement of material is varying in quantity as well as in specification /form. The present system of procurement, based on annual tendering, is not able to cope up with these variations effectively.

This creates a gap in dealing with fluctuations in requirements or changes in specifications including varying delivery schedule (as these factors get relatively rigidly specified in annual tenders).

3.4.2 One of the key strategic requirements (in these days of shorter technological life spans and continuous upgradability) is shorter leads of procurement. Present tendering system begins almost 12-15 months in advance.

3.4.3 Other strategic area is the fact annual tendering system is not able to create a dedicated capacity / production line to cope up adequately with Railways' changing needs and emergencies.

3.4.4 There is occasional tendency to maximize profits by making supplies of inconsistent quality which are just about acceptable as there is no incentive to improve the product / reduce the overall cost in absence of long term relationship.

3.4.5 In a government system, negotiation is exceptional and permitted with L-1 tenderer only. Being the only one called for negotiation, the negotiating tenderer plays a dominating role in negotiation and has no incentive to offer substantial reduction in rates leading to token discounts being offered. Retendering in such cases is hardly an option, as there is the apprehension of not getting material in time for production / maintenance besides little likelihood of getting lower rates.

3.4.7 Monitoring system to provide data on quality, performance of product in fields, vendor performances etc are weak.

3.4.8 Too many rules, lengthy procedures and scrutiny arising out of audit / vigilance and frivolous complaints make procurement officers' job difficult. There are situations when rules become hurdles and decisions taken do not yield quality materials, there are lots of delays.

3.4.9. Finally, inspection, inventory and payment system in present system have considerable scope for overall improvements.

3.5. Strategic Procurement: The strategic procurement, as defined, goes beyond annual procurement cost, quality and delivery, by integrating the supply chain to the final requirements. Its added benefits include

i) Reducing lead time of ordering.
ii) Dealing with variations in quantity, delivery schedules and including upward revision of specifications.
iii) Utilizing the design development and manufacturing expertise in collaborative manner for cost reduction and mutual benefit.
iv) Doing away / reducing cost of inspection and many other stages which add to cost without any value addition.
v) Reduced inventory

3.6 Issues with Strategic Procurement:

Implementation of Strategic Procurement in the government sector shall be new turf. This may require changes in system as well as management mindset.

3.6.1 Dealing with the change in mindset, from existing rigid, annual contractual supplier relationship to long term collaborative approach shall be the biggest and most crucial challenge in implementing long term Strategic Sourcing.

3.6.2 The key difference is that long term relationship needs to resolve issues, which cannot be anticipated in advance. Such resolution will require flexible decision making, beyond the present rule bound mindset of finding solutions only through contract terms and conditions.

3.6.3 Long term strategic procurement system exists in many private sector firms such as M/s Maruti Suzuki. But the procurement process is not dependent on price fixation by competitive tenders but by price negotiation. Their system, however, is

very restrictive as it does not encourage more suppliers for any item. Most suppliers act essentially as their ancillary units.

3.6.4 Obviously, the system followed by private enterprises would not stand the scrutiny of public procurement as it effectively prohibits entry of any other vendor so long as private sector manufacturer is satisfied with performance of its current vendor. Further, price may also be varied at any stage of execution due to change in input prices / taxation / technological changes etc by mutual discussions.

3.7 GFR Requirements:

i) The Committee, after due study of systems existing in IR and outside, as well as requirements of GFR / extant instructions, considers that Long term Strategic Procurement is not within the purview of GFR / extant instructions.

ii) GFR vide Rule 204 (General principles for contract) sub clause (VIII) mentions about long term contract.

3.7.1 Accordingly, only long term contracting done through well established tender system for initially for three years may be adopted, in a phased manner and restricted to a few items to begin with. This falls within the ambit of GFR too.

3.7.2 However, execution of such long term contracts would require building up special terms and conditions for retaining the spirit of Strategic Sourcing.

For long term relationship, extant instructions and understanding need to be differentiated with the post tender relationships / risk sharing exercise required in enabling such contracts.

3.7.3 Accordingly, the Committee recommends a framework to bring in the concept of long term relationship in present system, through Long Term contracts.

3.7.4 Committee also considers that after the first phase of trial of long term relationship approach, a complete review of the achieved benefits / drawbacks should be made.

Based on positive outcome of the review, the second phase i.e. implementation of strategic procurement through long term contracts could be initiated.

3.7.5 In implementing strategic procurement, the following aspects, which are outside GFR ambit, need to be addressed for implementing strategic procurement in its total spirit:

(i) Full autonomy to the procurement / decision making committee, with regard to variable pricing.

(ii) Negotiations for finalization of contract (as well as during currency of contract) which are presently banned or rarely adopted have to be permitted.

(iii) Public procurement, which is open to all, will get restricted for such cases and needs to be permitted.

(iv) Post event reviews of Audit, Vigilance other committees etc. needs to be balanced with regard to permitting free decisions taken for implementing the long term relationship; as each such decision would be relatively subjective and cannot be supported in the present mindset/reviews.

(v) Risk sharing mechanisms will have to be built in along with a risk management plan in the whole supply chain mechanism.

3.7.6 The present tendering system approach and the route through strategic procurement have one fundamental difference i.e. wherein strategic procurement leads to restricted long term partners as against existing tendering system which encourages open participation of newer/different vendors.

Further, present tendering system is expected to result in competitive prevailing price. In fact, the price so obtained is tenderers' estimated price at which the order could be secured and executed with maximum possible profit.

3.7.7 Hence, it is proposed that strategic procurement be initiated only after the entire system is ready to accept these changes.

3.8 Long term contracting

3.8.1 Objectives:

The objectives of long term contracting, have to be to provide a very high level of assurance, through timely deliveries, at optimum cost and without affecting quality.

To meet these objectives, it is essential to have an integrated approach, which not only deals with purchase policy and procedures, which is the terms of reference for the committee, but also dove-tails into the broad objectives of Railways to optimize the cost of inventories and ensures consistency in quality.

3.8.2 Goals:

Further, the Committee considers that Long Term sourcing may be resorted against specific Targets / Goals to be achieved, so as justify the intended benefits. Few such goals are illustrated as under

i) Reduction in Lead Time.
ii) A targeted reduction in total cost of procurement, in net equated terms despite all variables.
iii) Technical improvements in terms of life / warranty failures / downtime.
iv) Delivery improvements in terms of average inventory, inspection cost etc.
v) High standard of safety.

4.0. Framework of Implementation:

issues (on account of availability of spares and staff capability) involved in different makes.

iii) Items involving higher component of cost of manufacturing / technology, as compared to cost of raw material.

iv) No major changes in design/specification anticipated in next two - three years.

4.2 Implementation Plan:

Committee considers that this new approach to be initiated at three IR Production Units viz DLW, DMW and CLW, where requirements could be projected in specific terms.

4.2.1 It also considered that this implementation be initially restricted to fifteen selected items among three units.

4.3. Delegation: It is utmost important and highly recommended that full delegation of powers for dealing and finalizing such long term contracts for three years' requirement including option clause quantity may be vested to these field units irrespective of the value of purchase.

4.4. Source Selection Process - Through Open Tender:

Committee considers in view of provisions of GFR 2005 and transparency, initial selection of long terms strategic sources should be through an open tender system, with pre-bid conference, so that concept is understood on both sides clearly.

4.5. Framing of Tender Document:

One of the key ingredients for implementing this shall be drafting of tender documents which should bring out detailed (including projected) technical, commercial and financial inputs of the item. These may further be fine tuned

Following time schedule is recommended –

i) Four months up to pre-bid stage – for estimating requirement, framing technical specification, preparation of tender documents, publication of tender notice.

ii) One month for submission of technical/commercial bid.

iii) Four months for decision making, negotiation and finalization of contract.

This process should be completed at least three months prior to beginning of Ist year of delivery.

4.7. Quantity Distribution:

4.7.1 Three years' projected requirement shall be indicated in the tender document. Further it will be specified that

Year 1 - 100% firm commitment of projected 1st year quantity
Year 2 - 70% firm commitment of projected 2nd year quantity
Year 3 - 70% firm commitment of projected 3rd year quantity

Budget allocations are on year to year basis. The firm commitment of 70 % requirement for 2nd and 3rd year is expected to take care of changes, if any, in production plan / budget allocation.

The remaining 30 % (for Year 2 and Year 3) shall be covered based on the actual requirement / performance (in terms of timely delivery, quality and warranty claims/rejections) of the firm. Year to year commitment will be subjected to standard +/- 30 % Quantity Option Clause during the year.

4.7.2. The tender documents will specify-

i) Based on budget allocation/vendors' performance during first/ 2nd year, the quantity will be enhanced up to 100%, 3 months before the beginning of 2nd /3rd year respectively.

ii) The vendors' performance will be judged on following factors:
   a) Timely delivery as per schedule given.
   b) Quality of material supplied.
   c) Rejection of item at any stage.
   d) Warranty failures.
   e) Firm's response to warranty claim/replacement.

iii) The firm to give complete break up of price such as –

a) Cost/quantity of raw material used.
b) Cost of every manufacturing process.
c) Overheads including depreciation.
d) Other expenses
e) Profit margin
f) Duties / Taxes

iv) The firms are encouraged to use ancillary units for sub- contracting.

4.7.3 Monthly Schedule of delivery should be agreed upon. Deviation from this may be agreed, with justified reasoning.

4.8 Number of Long Term Sources:

4.8.1 This may depend on item chosen, offers received and capacity assessment to deliver the requirements. This aspect needs to be deliberated upon while framing tender documents based on past experience and existing base of vendors. If sufficient capacity to meet the requirement exists in general then not more than two / three approved sources may be selected as it defeats the very concept of long term relationship. The total annual capacity of such firms may be up to two times the annual requirement.

4.8.2 Committee considers that the present system of pre-approved vendors has stood the test of time in obtaining assured quality goods for safe and reliable operations. This is also in accordance with Rule 142 of GFR 2005. Accordingly, in first stage long term ordering may be restricted to such pre-approved sources.

4.8.3 In case offers from other sources are financially advantageous and are prima-facie considered technically capable, they may be separately considered for developmental order outside 1st year's requirement. In case of successful supply and satisfactory trials, such firms may be considered for small quantity order within +/- 30% quantity of 2nd / 3rd year.

4.9.2 Thereafter, it shall be mainly controlled through the mutually agreed PV formula. The intermittent variations outside the PV clause shall generally need to be absorbed / mitigated through reduction of wastages, improved processes and other cost reduction techniques.

4.9.3 In case of unforeseen / abnormal fluctuations in prices the same shall be reviewed by pricing committee (which shall be of the same level as in the original tender stage) every year, and every quarter, if so required.

4.9.4 The pricing committee shall be guided by changes in material input costs over the period for both upward /downward directions.

For this purpose in the initial tender a detailed price breakup / costing shall be sought along with offer.

4.9.5 No specific PV formula is being specified in this report as same is dependent on nature of the item. However GFR's PVC directive may be reiterated for these contracts.

Tender Document should specify a clear PV clause with the name of authority publishing the basic indices including a base rate, with fixed part and variable part of pricing separately incorporated in PV formula.

4.9.6. Any PV formula will generally cater for direct variation in material and labour costs on indigenous content and exchange rate / customary variations on import content where verifiable indices are available. All the variations which affect the price may not be feasible to be factored in PV formula. Moreover Government's fiscal policies, direct / indirect taxation, energy scenario etc keep changing which cannot all be visualized.

It is felt that applicability of price variation may be limited to three years in long term contracting. Thereafter, fresh tender needs to be floated to determine the market price.

4.10 Tender Evaluation:

A fully transparent evaluation criterion may be incorporated in tender documents.

As long term contracts are expected to result in cost savings, the first year's price is expected to be lower than last purchase price adjusted with increase in input costs. Further such tender shall solicit, as a part of offer, the percentage cost reduction, if any, duly compensating for price increase on inputs as per PVC on year to year basis for 2nd and 3rd year, in view of long term relationship.

The evaluation for inter se ranking shall be based on NPV (Net Present Value) arrived at, using the rate quoted for first year considered with quoted reduction on a discounted factor which is to be specified in tender documents.

4.11 Dispute Resolution Mechanism: Committee considers that standard arbitration clauses of GCC and dispute resolution mechanism of IRS conditions may suffice even for such relationships, including terminations. The guiding principle should be long term relationship for such situations.

4.12 Security Deposit (SD), Risk Purchase (RP) and Liquidated Damages (LD):

It is considered that for ensuring improved supplier Buyer relationship Risk Purchase and Liquidated Damages clauses shall not be applicable.

However if a firm fails to maintain scheduled supply rate, its portion of business for that month / quarter should be withdrawn and re-allotted to other contract holder.

As deterrent, a Security Deposit (SD) clause for failures / quantity cancelled / redistributed is proposed.

Tender Document shall also specify right of Railways to go outside this long term relationship after due notice.

5.0 Suggested Items / Group of Items for Long Term Contracts in First Stage

1) Traction Motors
2) Traction Alternators
3) AC-AC Traction System
4) Traction / Auxiliary / Static Converters
5) Traction Transformer
6) Turbo Supercharger
7) Air Compressor
8) Computer Controlled Brake system / E 70 Brake System
9) Radiator Assembly
10) Crank Shaft
11) TM Bearing / Axle Box Bearing Assembly
12) Radiator Cooling Fan
13) Dynamic Braking Resistor Kit
14) Steel cap Piston
15) Air Inlet / exhaust Valve

The items indicated are from the point of view of Diesel & Electric Locomotives.

6.0 Infrastructural requirements (Capacity Building):

6.1. General: Considering the present industrial base in the country, committee considers that no support (in terms of finance, or space or infrastructure) to industries in this endeavor be made by the railways directly since this is not an exercise in development of sources, rather sharing of expertise with assured business, and for achieving positive improvements.

However improvements in Supply Chain Management (SCM) practices in terms of sharing of data, refining extant procedures like inspection, payments may be required. These are to be built into gradually during execution stage, jointly. Payment to vendor to be made automatically within 10 days of receipt of material without the need of receipt note / submission of bills, based on acceptance of material in the system.

6.2 Ancillarisation:

6.2.1 Committee, accordingly, considers that as part of long term contracts ancililarisation may be given fair support, without taxing the railway's finances.

6.2.2 Committee considers that above encouragement to ancilliarisation be a part of Tender Document. However, beyond this, the Long Term source may be free to proceed without any commitment on this aspect.

6.3. Monitoring Cells : Committee considers that for preparatory as well as during execution phase, at field level a separate cell be created to generate detailed data base and monitoring the effectiveness of such long term relationships.

The cell needs to be multi disciplined. It must be provided with adequate exposure to long term contracting issues and concepts.

It has to have assigned authority /powers, for quicker decision making.

Such cell shall have the responsibility for creating a master data for each item/ group of item having in-depth analysis of

i) Technical inputs
ii) Process of manufacturing
iii) Costing
iv) Data on Traceability / performance for whole lifecycle of item
v) Support for such relationships.

6.3.1 Adequate funds and infrastructure for manpower, machine /IT support and delegation needs to be created. For economy, the cell may be manned by dedicated persons, as task force, carrying out the additional role as part of regular activities.

6.3.2 Beyond such cells, the committee does not consider any other necessity in the present industrial environment of the country.

7.0 Designing a supplier relationship (Long Term relationships)

7.1. It is considered that all tangible inputs (like Man, machine, money, technology

These non tangibles may have to be laid down broadly. These may include automatic payment system, access to data with firm, sharing of daily requirements, communication system with source, communication channels, dealing with quality issues etc.

One of the key non tangible inputs should be faster decision making to settle issues. An upper limit of 72 hours from a notified instant would be reasonable.

7.3. Another key area shall be changing mindsets to work out such long term contracts. The usual approach of Vendor v/s Railways cannot go along with such contracts.

The approach to resolve issues and meet goals set is a must and can be imbibed only if all concerned users Stores, Finance, Audit, Vigilance and the Supplier appreciate it. In whatever fashion the contract is framed, the success of such contracts shall be dependent on appreciating the collaborative nature of such a relationship.

8.0 After successful implementation of first phase of Long Term Sourcing, monitoring the benefits for a period of three years, committee recommends to initiate action for strategic sourcing which will require a change in policy and purchase procedures, as well as need of additional man power in the initial stages. The detailed strategy can be framed out subsequently based on the experience with Long Term Contracting.

9.0 **Recommendations:**

Recommendations made by committee are summarized as follows:

9.1 The committee recommends to go for long term contracting for three years, initially, instead of long term Strategic Sourcing at this juncture (Para 3.71).

9.2 Full delegation of powers for finalizing contracts for three years to field units (Para 4.3).

9.3. Conclusion of long term contract through an OPEN TENDER, on pre- approved vendors. A total time – schedule of nine months is recommended for finalization of Long Term Contracts (Para 4.4 and 4.6).

9.4 Initially, fifteen items are recommended for implementation at three PUs viz DLW, DMW and CLW (Para 4.1, Para 4.2 and Para 5.0).

9.5 Multiple negotiations with all eligible firms may be permitted to obtain most economical rates (as at present negotiations with only lowest eligible bidder are permitted) (Para 4.9.7).

9.6. Tender Document along with PV formula to be approved at appropriate level. (Para 4.5 and Para 4.9.5).

9.7. A fully transparent evaluation criteria may be incorporated in tender documents (Para 4.10).

9.8 Number of sources for long term contracts to be limited to two / three, subject to their capacity meeting the requirements. New vendors may be considered separately for developmental orders (Para 4.8.1, Para 4.8.3 and Para 4.8.4).

9.9 Post tender issues at contract execution stage need to be addressed promptly (Para 7.2).

9.10 Do away with pre-inspection of these specific items at vendors' premises; material may be accepted on firm's Works Test Certificate i.e. WTC (Para 4.9.8).

9.11 Ensure a fully transparent system and if required integrity pact may be signed (Para 4.13).

9.12 Constitution of Monitoring Cell (Para 6.3).

9.13 The contract should have flexible cost/price mechanism to address unforeseen price fluctuations (Para 4.9.3 and Para 4.9.4).

9.14 To build up long term relationship with vendors (Para 6.0 and Para 7.0).

9.15 Concept of Long Term Sourcing needs to be percolated at various levels simultaneously for ensuring adequate appreciation and as an acceptable, beneficial and alternative approach (Para 7.3 and Para 8.0).

(R Vatash)	(S P Piplani)	(A K Mital)
CME/DLW	COS/DMW	COS/DLW & Convener