

CHAPTER-VIII

CONCLUSIONS AND RECOMMENDATIONS

8.0 CONCLUSIONS

Although some changes have taken place in procurement over the years, but the same have not produced the desired results. If Indian Railways desire to reduce their expenditure and maximise the savings in cost of fuel, then more strategic efforts are needed in the field of procurement of Diesel. Oil industry is a very complex industry. It is operated through oil cartels across the globe. Fuel prices are very volatile and almost impossible to predict. Hence, unless new methods and strategies are not tried, the desired results would be impossible to achieve.

The probable reason for why it appears that there has been little progress away from the conventional methods of procurement is because there are relatively few major players in this sector, and that too, majority are under ownership of the government. Even though this sector has been deregulated by the government, but an indirect control not only exists but is also exercised by way of taxation policies of the government.

The entire market was under monopolistic control of the government. The only suppliers were Oil PSUs, which are owned and regulated by the government. The market has been deregulated as early as 2012, but still the domestic market has seen very little presence of private sector. Absence of any substantive competition has retained the monopoly of the government oil companies.

This is also a very sensitive area and every citizen of the country is affected by the changes in the price of petrol and diesel. As it is important for the Railways, similarly it is important for every common man who uses any means of transport in his daily commute.

It is also not possible to directly transfer the procurement experiences of other products on Diesel procurement as they are different in nature and many other aspects of the business which could have given a different impact to the overall management of other items may not be possible for Diesel procurement.

From the Railways perspective, they spend a substantial portion of their budget on procurement of HSD. With greater pressure on the Railways to cut costs and to increase the revenue, Diesel is one such item, which always catches immediate attention as an area , where it is expected that reducing the

procurement cost of Diesel can reduce the cost burden of the railway. With budgetary constraints, Railway is in a difficult position when it comes to managing their Diesel needs. The dilemma is that the requirement of diesel cannot be compromised and Railways have to pay, whatever the cost.

Oil industry is a capital-intensive industry. It is not expected that in near future, many more firms would be added in private sector in India. Hence, in absence of market competition, innovative approaches to procurement would have to be taken by the Railways, if they want to achieve the objective of reducing the bill for procurement of diesel.

Apart from competition among suppliers, which apparently is missing, a fresh supplier and purchaser relationship needs to be discovered which mutually benefits both the railway and the suppliers over the long run. Any short term strategy is not likely to catch attention of these monopolistic giants. Even though Railways is one of the biggest bulk purchasers of Diesel, but its share is only 3.5% of the total business of these oil companies. Railway does not have a dominant position in the market to influence the suppliers to agree to their favourable terms.

In addition, it is not possible for the suppliers to adopt different pricing strategies for different customers as diesel is used by all sectors of the economy. Being in monopolistic environment, they cannot feel the pressure or the need to advance any special status to any of its clients and hence pass any financial benefit to the customers.

Pricing of diesel is also dependent on the price movements of crude oil. Crude oil cartels run across countries and their governments and India being a net importer of crude/diesel has little control over international prices. Pricing methodology has already been discussed in chapter 6, wherein it is seen that the price of diesel depends on import parity which is controlled by oil cartels of oil producing nations. Due to the complexity in the procurement of these items at international level, even bulk users have no say in pricing mechanism adopted by these oil companies for arriving at the domestic sale price of diesel.

A bulk consumer like railways should get the best prices but on the contrary, Indian Railways is paying for storage of HSD as well as handling losses in Regional Consumer Depots (RCDS), which are the traditional storage and fuelling points of diesel constructed by oil companies at different locations across the country.

However, purchasers and suppliers are continuously using variety of methods to reduce costs, without compromising the schedules and milestones, and these efforts for innovative strategies should not stop if the advantages are desired in the most difficult circumstances.

9.0 RECOMMENDATIONS

Diesel procurement is full of challenges, but these challenges make it an interesting field of work, to still find out a way, to achieve the organizational goals. In a tight framework consisting of cartels, volatile markets, limited suppliers, governmental controls and the indispensable and non-substitute nature of this commodity, maneuvering through this tight maze of challenges, and succeeding in meeting the organizational objectives, appears to be a herculean task.

However, despite such odds, there exist several possibilities and several ways to achieve the desired results. The ultimate aim is to reduce cost of procurement of Diesel in Railways. These ways can be either mutually exclusive or amalgamated together to achieve the desired results. To begin with, a revamp of the Tender Document, with modifications in the conditions for pricing, storage, handling and ownership of RCDs can bring in much needed benefit to the Railways.