

**ASSESSMENT # 2**

**Total Marks: 30**

1. Give short answers for the following questions: (14)
  - i. Outline the activities involved in logistics.
  - ii. What is meant by the term 'cross docking'?
  - iii. Briefly describe the main aims of logistics.
  - iv. Which activities are included in Stock Control Procedures?
  - v. What is the importance of communication in a supply chain?
  - vi. How are logistic activities organised in different sizes of organisations?
  - vii. How do logistics affect the price of products?
  
2. "Logistics are essential for every organisation." Discuss this. (4)
  
3. What are some ways in which logistics can improve on issues related to environmental protection? (4)

**Case Study**

(8)

Chris is the Managing Director of McDonald Timbers, which makes specialised wood products for the construction industry. He has recently been worried by late deliveries to some very important customers. Chris asked the production manager for an explanation. She told him that 'Our own suppliers were late in delivering certain types of wood. This shortage of a key raw material disrupted our production plans. Chris then went to the warehouse manager to see what was happening. 'There can't be anything wrong here', he was told. 'Stocks have been climbing for the past year, and last month they were at an all-time high. The purchasing manager continued by saying, 'Let me remind you that eight months ago, you instructed me to reduce materials costs. I am doing this by taking advantage of the discounts given by suppliers for larger orders. Often I order more than requested under the assumption that we will need the material at some stage, so I get a discount and the material is already in stock when we need it. Sometimes keeping things in stock would take too much space or be too expensive, so then I might delay an order until I can combine it with others to get bigger discounts.'

Then, he talked to the transportation manager who was not so sure. 'It is much more efficient for me to bring larger quantities into the company', he said. 'If you reduce the average order size, the transport costs will rise. Our budget is already being squeezed, as we have to pay for expensive express deliveries of materials that production classify as urgent. If you lower the order size, there will be more shortages, more express deliveries and even higher costs.'

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Chris talked to some major suppliers to see if they could somehow improve the flow of materials into the company. Unhappily, while he was talking to one company, they raised the question of late payments. This was contrary to McDonald Timbers stated policy of immediate payment of invoices, so he asked the accounting section for an explanation. He was given the unwelcome news that 'The company's inventory and transport costs are so high that we are short of cash. We are delaying payments to improve our cash flow. As it is, we had to use a bank overdraft to pay suppliers for last month.' Later that day Chris found that the late customer deliveries which had started his investigation, were actually caused by poor sales forecasts by the marketing department. They had seriously underestimated demand, and planned production was too low.

**Questions**

- Why do all the logistics costs seem to be rising at the same time when the quantity of the order is reduced?
- What do you think are the basic problems in McDonald Timbers?
- What would you recommend Chris to do?