Diploma in procurement and supply chain management

Logistics and supply chain management

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Assignment 3

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1. **Define logistics. What are the advantages and disadvantages of logistics to an organization?**

**Definitions of logistics**:

**The American Council of Logistics Management** defines logistics as “the process of

planning, implementing and controlling the efficient, cost effective flow and storage of raw

materials, in-process inventory, finished goods and related information from point of origin to

point of consumption for the purpose of conforming to customers’ requirements”.

**Philip Kotler** defines logistics as “planning, implementing, and controlling the physical flows

of materials and finished goods from point of origin to point of use to meet the customer’s

need at a profit”.

**Advantage of to an Organization?**

**Focus on core competencies**

Management is freed from repetitive/mundane tasks, reduces investment and

generates cash. Organization can concentrate on core competencies.

**Organizations can adopt “best-in –class” practices*.***

Vendors have considerable strength and focus on outsourced processes. To remain competitive, they are continuously looking to improvise their services and adopt best practices to make them more efficient. This helps organizations achieve faster, efficient, effective and more economical business process.

**Organizations become more competitive**

Can respond more effectively to changing demands. Allows companies to gain more scalability. Outsourced activities allow companies to have greater leverage in responding to changes and to gain market access, expand.

**Reduced cost and advanced technologies**

Vendors often implement latest technologies to make their processes and services. Companies can take advantage of these technologies, which they might not be always able to do if they were conducting activity in-house. Vendor’s economies of scale helps drive down overall cost in the system, thus enabling companies to realize more productivity and efficiency.

**Disadvantages of logistics to an organization?**

**Expansion of customer service**: Today’s customers are more demanding, not only in terms of quality but also from service point of view. There is a need for differentiation with more and more markets becoming ‘commodity’ markets. The creation of differential advantage is through adding value, especially through customer service. Achieving competitive advantage through customer service is from a carefully planned strategy for service and developing appropriate delivery systems and commitment from people throughout the organization. Achieving service excellence can be only through a closely integrated logistics strategy.

**Time Compression**:

Time is a critical issue in management. Shorter product life cycles enable customers to accept substitute products, which are available just in time. In the case of introducing new products, management implications result from the reduction in the time ‘windows’ for making profits. Amidst all the concern for creating and managing. More problems are created by limited co-ordination of supply decisions with the dynamic requirements of the market and the limited visibility in purchasing and manufacturing related to final demand.

**Globalization of the industry**: The increasing trend towards globalization is proving a challenge for logistics management. Global companies seek to achieve competitive advantage by identifying world markets for its products and then developing manufacturing and logistics strategy to support its marketing strategy.

**Organizational integration**: The classical business organization is based upon strict functional divisions and hierarchies. Achieving a closely integrated, customer-focused materials flow while encroached management with its priority’s guards’ traditional territorial boundaries. Today’s organizations follow a systems approach where functions are components of the system, which requires an overall guidance to fit together

1. **Why should an organization use Just in Time? Give its advantages and Dis disadvantages**.

**Just – in – Time System (JIT)**

Just in Time is a manufacturing philosophy, which leads to Production of necessary units, in the necessary quantities at the necessary time with the required quality.

It is an approach to achieving excellence in the reduction or total elimination of waste to the organization.

**The advantages of Just in Time include:**

Better quality products.

Higher inventory turnover.

Higher productivity.

Lower production costs.

**The disadvantages of Just In Time or examples of waste according to just in time are:**

Overproduction

Unnecessary Inventory

Defective Products

Transport and Waiting time

1. **Can supply chain management be used as a competitive advantage by an organization? Give 5 reasons well explained.**

**Competitive Strategy**:

This defines the customer needs to be satisfied through its products and services. A firm’s competitive strategy depends upon the customer requirements. It targets the customer segments with a main objective of providing products and services to cater to the customer needs.

**Supply Chain Strategy**:

A wide term, which includes supplier, operations and logistics strategy. Includes decisions relating to inventory, transportation, operating facilities and information flows. The strategy specifies the activities of supply chain such as operations, distribution and service.

Therefore, here are the five reasons as why supply chain management can be used as a competitive advantage in an organization.

**Cost Leadership**:

Achieving cost leadership is facilitated by logistics cost reduction to a major extent. This can be achieved by many ways. Examples of achieving logistics cost reduction are: Reducing transaction costs through IT support, Warehouse operations based on scale economics, JIT, cross docking and postponement, which results in reduction of inventory and related costs, reduced vendor base and copartnerships with suppliers.

**Differentiation**:

This strategy focuses on offering superior service. Examples of offering logistics services for differentiation. On time and consistent delivery.

**Collaboration**:

A strategy where the customer works in collaboration with the suppliers. An example here is Vendor Managed Inventory (VMI). In VMI, customer places no orders but instead shares information with the vendor. This information relates to actual usage or sales of their product, their current on hand inventory and details of additional marketing activity. On the basis of this information, the supplier takes responsibility for replenishment of the customer inventory.

**Diversification**:

Organizations having a lot of operations adopt this strategy. The basic objective here is the lower cost and better control over operations thus providing superior customer service.

**Outsourcing**:

Outsourcing services to logistics service providers having expertise in this area in order to bring efficiency and effectiveness into the logistics operations. An example in outsourcing is Customs Clearance service providers. As a majority of exporters and importers do not have a proper expertise in this area of logistics operations, many logistics service providers offer customs clearance services to their clients. This can reduce the overall transaction cost.

1. **What are inventories? How important are they to an organization?**

Inventories are stock of materials of any kind stored for future use, mainly in the production process. Semi-finished goods, which are awaiting use in the next process, or finished goods, which are waiting for sale.

**How importance are they to an organization?**

Management of inventory is a powerful driver of financial performance. Improper management of inventory leads to slow growth and pressure on profitability. Thus, firms aim at improving the efficiency of inventory cycle. This helps the company from locking up of capital, which can be invested elsewhere, and improve financial performance and create competitive advantage in delivering goods at lower prices.

1. **Why is planning essential in logistics and supply chain management?**

There are many reasons to plan. When planning, management should consider the overall mission of an organization and develop specific action plans and activities to move the organization in the desired direction. In today’s rapidly changing business environment, it is essential for managers to anticipate changes and prepare their organizations to best incorporate, respond to, and take advantage of such change. Without taking a proactive approach, managers will be constantly reacting in a crisis mode, and they will not be able to move forward in achieving their firm’s mission.

**Planning** is ideally an ongoing process. In addition, it is important to tie all of the functional plans together to ensure that they mesh and support the overall corporate plan and objectives. It also is important to have plans for different time frames, and that these time- phased plans fit together to support the long-range plan. The various types of planning are

**Strategic plan** Organization use a variety of items to explain the various planning levels. At the highest level, which extents the furthest in time, is the strategic plan. Most U.S- based organizations tend to extend their planning horizon about 50 to 10 years. The further into the future a plan extends the less detail it will need. This is true because it is extremely difficult to anticipate the changes that may occur in the environment and the organization that will affect the organization’s mission and its strategy.Components of a strategic plan the strategic plan considers an organization’s objectives, overall service requirement, and how management intends to achieve the corporate vision. The plans are very general and usually include projected revenues and expenses, lines of business, anticipated relative share of business within the market, and sales and profits from existing business lines compared with new lines of business.

**Tactical plan.** At an intermediate level, general one of five years into the future. Tactical plans are often more specific than strategic plans in terms of product line and may be broken down into detailed quarterly revenues and expenses. Nevertheless, such plans tend to show only a “top” line, without much detail about sales by stock keeping unit (SKU).Tactical plans usually include a capital expenditure plan that indicates how much the organization will invest each year in new plant, equipment, and other capital expenditure items. Issues like building warehouses, purchasing transportation or materials handling equipment, and other major expenditures to support the logistics infrastructure should be addressed as part of the capital expenditure plan.

**Operating plan** **or the annual plan.** It breaks out revenues,expenses and associated cash flows and activity by month for one- year period. The detailed operating plan is prepared to guide the activitie for following year. Actual performance is monitored and compared to performance in order anticipate problems and respond accordingly and to communicate results.A frim can use this plan to anticipate its logistics needs from warehouse space to shipping. This allows logistics to anticipate its labor needs and to negotiate contracts with third pary providers.

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Lambert, Stock, Elram et al, Fundamentals of Logistics Management, McGraw Hill, New York. Pdf

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