

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,
Vidyavihar, Mumbai- 400077

Program: PGDBM and MMS Operations

Subject: Advance Logistics and Supply Chain Management
Final Exam 2017

Maximum Marks: 50

Duration: 3 hours

Date: 14/09/2017

Instructions

1. All Questions are compulsory.
2. All Questions carry equal marks.
3. You make suitable assumptions and state these before starting to answer the questions.
4. Be brief and to the point. Answers given in point form would be appreciated.

Case study- Akash Ispat Engineering Company Limited

It is 9:30 a.m. The rays of the early sun are filtering in through the sheer glass that comprises the northeast wall of Akash Ispat Engineering Company Limited's boardroom. AIECL is a 10-year old medium-size company having a sales turnover of about Rs 700 crores. The presence of just 6 people has made the room seem larger than it is. Azim Ahmad, a man in his late 50s started his career as a technical trainee who joined the company since its incorporation. At present, he is the chief production manager who always loves his machines and never wants them to be idle. Harbhajan Singh, having a long experience of public sector steel company is always afraid of sales loss due to stockout situations. K. Mathur (ED), highly successful, dynamic and proactive, always looks like a dangerous man. Arun Lal, a traditional traffic manager, always offers his justification in quantitative and competitive terms. KashiNath, Purchasing Manager, quite a young man possesses a management degree from one of the top 5 institutes of India. He always keeps his hands in Mathur's gloves and is extremely conscious about inventory costs. D. Sahu, head of finance, a C.A, is dedicated to cost reduction.

Past performance of the company has been quite impressive but since the last two quarters, problems are cropping. Customers are making complaints regarding failure to meet delivery commitments. Transportation costs are increasing. Competition is increasing and demand is decreasing due to economic slump.

Hence, the meeting is called by the CEO to review the performance in general, and inventory and transportation costs in particular, along with customer complaints.

K. Mathur: Look at the transportation cost. It has increased by 2.5 per cent. If continued, it will eat us. We must realize that today, transportation has tremendous cost-cutting potential.

Arun Lal: I know that transportation cost has increased by 25 per cent in the last 6 months but it is mainly due to Mr. Nath's policy of JIT inventory system. He never wants to keep inventory.

That is why I am not in position to ensure a full-load to transporter at the same time. Quite frequently, I have to opt for more speedier modes of transportation, even air freight, to ensure time delivery. I am helpless.

Kashi Nath: (Interrupts) Mr. Lal as we are saving a lot by the means of this system, I prefer air freight to make sure of getting what I need on time.

Aziz Ahmad: (Supports Mr. Lal and comments) And when I need something, I need it immediately. This JIT is risky and expensive proposition. Quite frequently, we get production materials very late. Unnecessarily, I have to opt for overtime and make use of airfreight to meet delivery dates.

Harbhajan Singh: Whatever the problem, we must have an effective pipeline. When I am not getting things in time, how can I meet the sales target? We are losing our image and will soon lose the sales. Competition is mounting. Our competitors are now offering ready delivery.

K Mathur: (Interrupts and says) No arguments and excuses. I want action towards cutting costs.

Kashi Nath: (Defending himself) The lead-time problem can be sorted out by trade-off between sales and production forecast. I need information earlier.

Harbhajan Singh: Customers insist on promised prompt delivery and I am helpless.

Azim Ahmad: Since a long time back, I have been insisting on the merger of purchasing and traffic in order to get closer to production.

K Mathur: (Quite frustrated) If we want to survive, we have to cut transportation as well as inventory costs.

D Sahu: I appreciate the great job of Kashi Nath because our inventory carrying cost is down by about 45 per cent. But I do agree that transportation cost has increased considerably.

K Mathur: (Concludes the meeting with his remarks) I partly agree with Azim's ideas. But in my opinion, we must have an integrated system for all types of inventory and traffic management.

Mathur, further asked Kashi Nath to submit a blueprint within a fortnight to him, with a plan of action.

Questions

1. Discuss the basic problem of the firm along with the situations responsible for the development of the problem.
2. Should Kashi Nath develop an integrated system to minimize total logistic costs? If yes, how?

Case Study: Bharat Vikas Bank

Bharat Vikas Bank is a public sector bank in India. It has been in operation for over two decades and has more than 200 branches spread across the country. Since its inception, it has been focusing only on retail banking.

Till 1991, the banking sector was not opened to private and foreign players and, there was not much competition among the banks. The level of service was not an issue for customers as all public sector banks provided the same level of service. Therefore, people did not have any specific criteria for choosing a bank. Their only concern was to find one close to their locality. Since then, the market dynamics has changed considerably in addition to private local banks; many foreign banks have now opened branches in the country. As customers now have a range of options, they select a bank on the basis of its performance. Therefore, in the last one decade, other public sector banks have also changed their processes and adopted technology to provide better service to customers. But, Bharat Vikas Bank, however, did not gear itself up for the competition and continued to provide same level of service. As a result, its customer base has been eroding for the last five years. Its market share has also reduced considerably during this period.

Almost all transactions were manually recorded into registers. Sorting and searching those registers was a time consuming task. It was also difficult to avoid the mistakes associated with manual entry. Such errors could only be identified during the monthly reconciliation and checking of accounts and correcting them involved considerable work and time. The time taken to execute each task was three to five times more than that of better managed banks. The management realized that it would be difficult to survive in this fierce competitive environment if it did not improve its level of customer service. It also understood that there was a dire need to improve the situation, or it would soon be out of business.

The management therefore, appointed an internal cross-functional team to study the existing processes of the bank. The team was also asked to study how technology could help the bank improve its performance. The objective of the study was to find ways to minimize the number of stages and people involved in the operation. The team suggested that the bank processes be reengineered. The team in its study found that the average customer waiting time was the highest in the industry. This was one of the major worries for the management. It was found that every customer coming for withdrawal had to wait for more than 30 minutes on most days, and for much longer during the first few days of the month. In the current scenario, this would be unacceptable to any customer. In addition, the bank provided services for a limited number of hours.

The bank had two options to improve the situation. It could either increase the number of counters or use technology and automate its processes. Increasing the number of counters would definitely reduce the waiting time, but the operating cost would increase. This would in turn, reduce the profitability of the bank. If the bank set up ATMs, the initial capital investment would be quite high, but the operating cost would reduce. The team found that by installing ATM

machines, the transaction cost per employee could be brought down by more than 50 percent. After evaluating both the options, the bank decided to invest in ATMs, which would also lessen the burden on the counter staff. Further, the use of such technology would give the bank a professional image among prospective customers. It also decided to computerize all the tasks in the bank. After computerization, the total operating cost came down significantly.

The management also realized that the use of technology alone would not lead to improvement in its service. It had to fundamentally rethink its processes. For instance, the number of people involved in the processing of cheques was three. After computerization, the bank found that a single person could handle the requirement of checking the available balance, verifying the signature, and then making the payment. So tasks that were performed in many stages by different personnel were combined. Many jobs were eliminated due to reengineering of the processes and organization structure was also changed. Initially the staff protested against the implementation of technology in the bank, but when the management communicated the reasons for reengineering the processes, they understood that this was necessary to ensure their survival in the long run. The bank wanted to reduce the transaction time for customers, streamline the processes and improve the motivational levels of employees through reengineering. After reengineering, the bank found that the transaction time had significantly reduced and was comparable with that of private and foreign banks. The level of customer service also improved due to automation of processes. Employee motivation level increased due to higher level of autonomy and task identity. Under the new structure, employees could use their discretion in taking decisions.

Though the performance of the bank has improved in the last two quarters, the management is aware that a lot remains to be done. It was however, happy that a beginning has been made and they are on right track.

Questions for discussion

1. Identify the operational areas where Bharat Vikas Bank is lagging behind from private and foreign banks.
2. How do you think the operational changes would affect the performance of the bank? Suggest measures to improve its performance.