



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATION FOR
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY**

CITY CAMPUS -EVENING

ABA 438: LOGISTICS MANAGEMENT


Date: 21st November, 2016

Time: 5.30 - 8.30pm

INSTRUCTIONS:

- Answer Question ONE (Compulsory) and any other TWO.

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QUESTION ONE (COMPULSORY) (30 MARKS)

CASE STUDY: KIPTOO TIMBERS LTD

Jotham Kiptoo is the Managing Director of Kiptoo Timbers Ltd. which makes specialised wood products for the construction industry. He has recently been worried by late deliveries to some important customers. The industry is very competitive, and Jotham knows that customers will go to other suppliers if he cannot guarantee deliveries. The marketing manager is particularly upset because he has worked with these customers for a long time, and promised deliveries that were not made.

Jotham 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. We cannot be blamed for this. If anyone in the company is to blame, it is the warehouse manager who does not keep enough stocks of raw materials to cover for late deliveries.'

Jotham 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. In part, this is a deliberate decision, as I want to improve service levels to production. In part, though, stocks seem to have just drifted upwards. Now we have high stocks of most items, but there are still occasional shortages. These high stocks are causing me problems with space, and are stretching my budget. I think that the blame lies in purchasing, who do not order the amounts that we request.'

Jotham saw that some stocks were drifting upwards because purchasing were buying large quantities of some materials. At the same time, they were delaying some purchases, and this produced the shortages. The purchasing manager explained to Jotham, '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.'

Jotham thought that he was near the source of his problems, and might ask for the purchasing policies to be reviewed. Then he talked to the transport 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.'

Jotham 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 Kiptoo's 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 Jotham found that the late customer deliveries which prompted his investigation, were actually caused by poor sales forecasts by the marketing department. They had seriously underestimated demand, and planned production was too low. All the employees at KT were doing their best, but things seemed to be going wrong.

Required

- i. Explain why all the logistics costs seem to be rising at the same time. [10 Marks]
- ii. Identify and briefly discuss the basic problems in Kiptoo Ltd [10 Marks]
- iii. If the company had sought advice from you as a logistics expert, provide the recommendations you would give to Jotham [10 Marks]

QUESTION TWO

- (a) Explain the meaning of the following terms:
- (i) Logistics Management [5 Marks]
 - (ii) Cross docking [5 Marks]
- (b) Briefly discuss any FIVE activities constituting the logistics function in a business organization [10 Marks]

QUESTION THREE

- (a) Examine the factors illustrating logistics as a critically important function in modern business enterprises [10 Marks]
- (b) Describe the process of strategic planning for the logistics function [10 Marks]

QUESTION FOUR

- (a) Explain the challenges likely to face an organization that has not achieved internal integration in its logistics function [10 Marks]
- (b) Discuss the factors considered necessary when formulating a successful transportation strategy [10 Marks]

QUESTION FIVE

- (a) Identify the functions of warehousing [5 Marks]
- (b) Evaluate the benefits of warehousing in the logistics system [7 Marks]
- (c) Briefly describe the types of warehouse available [8 Marks]
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