**Advanced SCM**

**Internal Assignment Applicable for June 2020 Examination**

**1. As a Supply Chain department head, you are stocking large inventory to improve customer service level. However, there is a high pressure from the management to reduce inventory cost. Explain with examples how you will plan for inventory optimization without affecting customer service**.

**Answer**: Inventory management helps in managing inventory holdings, single or multiple production orders and inventory replacement services. This triggers the orders, and balances the demands of production, purchasing orders, and optimal inventory holdings to avoid running out of stock. Inventory cost is the cost of holding goods in stock. We can express it as a percentage of the inventory value. Inventory cost includes capital, warehousing, depreciation, insurance, taxation, obsolescence, and shrinkage costs. Inventory management is an important business and an effective task as it provides the capacity and flexibility to service peak, changing, or

**2. As a production planning head you are required to decide on a suitable aggregate plan for an export order. The demand forecasted is shown below, for next 6 periods. You have with you at present 1050 workmen and each can produce 1 unit per month (all months have same working days). The beginning inventory is zero. The production cost is $100 per unit and includes material and labour cost. If you want to increase the workforce hiring cost would be $30 per workman and to reduce the workforce the layoff cost would be $70 per workman. Inventory holding cost is $20/unit per month and backorder will incur $50/unit/month. Make Chase and Level strategy and explain with reason which strategy you will recommend.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** | **1** | **2** | **3** | **4** | **5** | **6** |
| **Demand** | **600** | **900** | **1200** | **2000** | **1400** | **800** |

**Answer**: **Chase demand strategy**:

In this strategy the production output is increased or decreased according the demand. This is possible if workers are added or removed to vary the input capacity. It also means that if the system is dominantly automated then it will be either under- utilised or over-utilised as the situation demands. Some overtime or subcontracting might also be used, but no inventories would be accumulated.

**Level production strategy:**

In this case, the

**3. You are doing production planning and the performance of your organization depends on the accuracy of the demand forecast you make for it.**

**a. Explain the six-step approach you may take to ensure that your will conduct an effective forecast.**

**b. What error analysis will you do so as to determine the accuracy of the forecast you are making?**

**Answer**: a) Demand forecasting is the process of estimating the quantity of a product or service that consumers will purchase. Demand forecasting involves both informal methods like educated guesses and quantitative methods such as the use of historical sales data or current data from test markets. We can

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