



CII Institute of Logistics
PGDSCM & Certificate Programs
Semester-end Examination – December 2008

Strategic Issues in SCM

Time : Three Hours

Marks : 100

Part A

Answer all questions (20 x 1 = 20 Marks)

Part B

Answer any four (4 x 10 = 40 marks)

1. Discuss on the factors responsible for driving globalization.
2. Explain common manufacturing strategies in vogue. What are the implication of JIT in manufacturing.
3. What are the various global logistics systems? Explain how they can be managed ?
4. Compare and contrast centralization and decentralization in original decision making.
5. Discuss the application of RFID technology in logistics.
6. Explain the variables dealt with the demand forecasting. Discuss ant two basic methods of forecasting.

Part C

Case study : The Maharaja goes BIG on Cargo

Today , Air India's modern fleet of Boeing and Airbus aircraft carries just about everything from emeralds to elephants; pins to pigments; and shrimps to super computers. According to P.K. Gupta, Air India's Executive director ,sales &

Marketing (cargo); "our long-term plan is to make Air India Cargo (AIC) a separate profit centre and everything that we will do will be evaluated in terms of cost and profit."

Currently, the merged carrier operates one Boeing 737-200 aircraft for the Indian department of post and telegraph between Kolkata, Guwahati, Imphal and Agartala in the northeast, said Gupta. It has also entered into a joint venture with logistics major, Gati, to operate a freight service with the Nagpur as the hub.

To capture the cargo market across continents, AIC will deploy nearly 41 aircrafts (B737s, A310s and B747s) gradually. According to Air India Officials , the company plans eventually operate five B737s-200s domestically, of which one has already commenced operations on the Delhi-Mumbai-Bangalore-Delhi route.

Aircraft from Mumbai, Delhi, Kolkotta and Chennai will discharge and exchange pallets at the central Indian city of Nagpur which will act as a hub.

In June 2007, the state owned carrier re-entered the cargo market on the Frankfrut and Paris routes. AIC will soon withdraw its cargo operations from the Mumbai-Paris route and instead, will deploy its two freighter aircraft in South East Asian sectors such as Hong Kong and Singapore. AIC had started its Paris operations in 2007 and will withdraw services due to stiff competition from airlines like Air France and Lufthansa. The charges for uplifting cargo by the rival freighter aircraft on the Paris-Mumbai route is less than 30 euros per KG which is nearly 25% less than what AIC charges its customer in this route.

According to Gupta, "We are undergoing a major route rationalization process, so we can start operating on profitable routes." He says cargo is invariably a low priority activity for an airline as the highest priority goes to the passengers due to the higher yield. This is followed by passenger baggage and thereafter whatever space is left is taken by cargo. As a result,, cargo has never been a dominant player in the revenues of an airline except for carriers that dedicated freighters or all cargo flights, whether they are cargo carriers only or even commercial airlines that have an independent fleet of aircraft dedicated for cargo handling. Such airlines definitely have larger revenue share from cargo traffic.

Air India so far has not been a major international player in the cargo market. Even on the domestic front, the aircraft being operated by the erstwhile Indian have not had adequate capacity in the lower route.

Airbus A310s that are now being converted into freighters, will be available for operation by July / August 2008. "We also have plans of converting Boeing 737

aircraft with the erstwhile Indian and this is going to be done in two phases. The entire 737 fleet is going to be converted. In phase I, seven Boeing 737s will be converted by 2008-09, which will create an extensive network within India with Nagpur as the hub.

“Eventually when Nagpur becomes an international hub, it will offer convenient connections from all over the world into India. We are looking at 40 all cargo aircraft by 2015. We expect five weekly freighter flights between Nagpur and other major cities within India with a capacity of 15-20 tonnes. On the international front, we have shortlisted various segments and we are looking at various potential markets. The major challenge for us is that the two major aircraft manufacturers Boeing and Airbus, are overbooked and even if we place an order with them today, we would get the aircraft only after 2011. In the mean time, we are looking at the conversion of B747-400 aircraft to meet the increasing capacity” Gupta says.

India is definitely growing at a faster pace than most international markets, he says, adding India and China are the two key markets and both these countries are growing at a minimum of 11 to 12 percent annum, whereas globally, growth is 7 to 8 percent, while the compounded growth globally is 13.7 percent.

The growth so far has been phenomenal. Overall revenues in airfreight worldwide have been to the tune of US\$ 4.2 trillion. The air freight sector provides annual revenues of US\$55 billion, which is equivalent to 12% of the airline industry’s total revenue.

Asia accounts to 45% of international freight movement and is expected to be at 55% by 2011, which means a growth of 10 percentile points in the next four years. Domestic air freight has grown by 10.6% from 2003-04 until 2007-07 and 90% of this growth is from the six metros in India and the expected growth in the coming years should be around 10-12 percent, which is on par with the growth in international freight.

Gupta feels overall as an industry, domestic cargo has grown by 34% in the last year with a total tonnage of 10.3% which is higher compared to the growth in cargo by sea and rail, which stands at 9.2%

Answer all the four (4 x 10=40 marks)

1. *What is Air India Cargo’s long term strategy?*
2. *Should the airlines give higher priority for cargo than for passenger and why?*
3. *What are the advantages of Nagpur as the hub ?*

4. *What are the challenges for AIC and how they plan to overcome them?*

