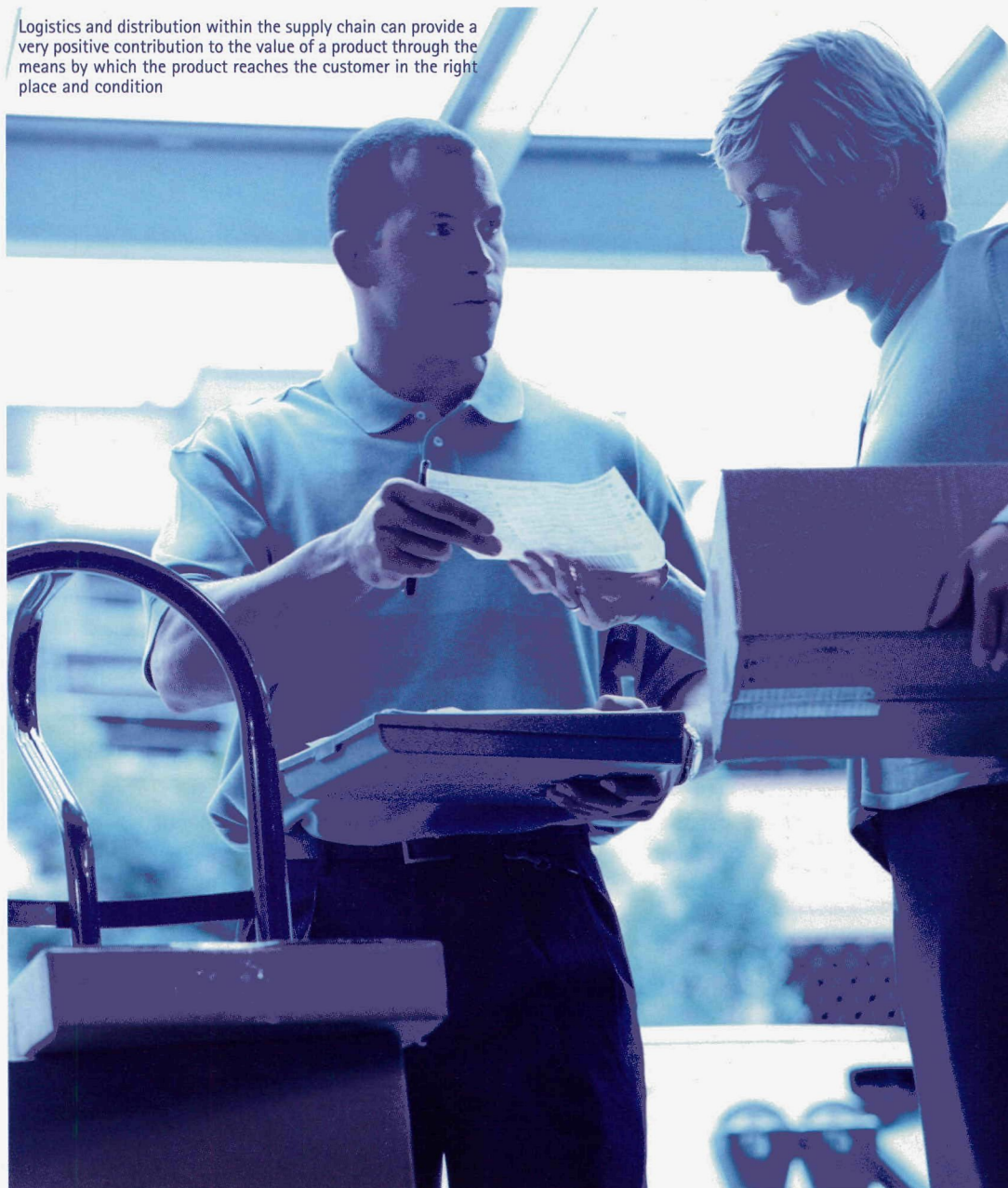


Logistics and distribution within the supply chain can provide a very positive contribution to the value of a product through the means by which the product reaches the customer in the right place and condition



OPINION

LOGISTICS

AUTHOR
Dewi Lloyd CMILT

Supply
Chain

Transport
Planning

Rail

Airport
Travel & Sea
Planning

Bus &
Coach

Ports
Maritime
Waterways

Freight
Forward

Aviation

www.cituk.org.uk

39

The increasingly important role played by logistics in the market equation

■ For those of us who work in logistics, its importance is well known and understood. However, to others it can be seen as little more than being concerned with the relatively mundane tasks of physical distribution and administration. Dewi Lloyd CMILT reveals that logistics plays an important part in many elements of the mechanics of business.

The marketing mix

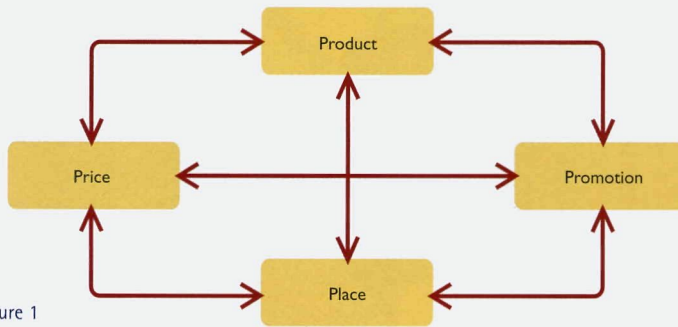


Figure 1

Optimisation of manufacturing techniques

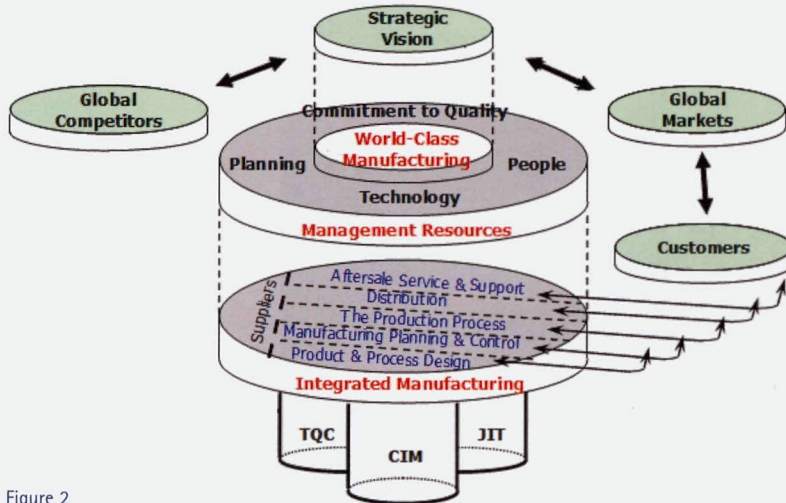


Figure 2

As far back as 1962, the late author Peter Drucker¹ said that physical distribution was: 'the last frontier of cost economies' – or to put it another way, that even then the world of logistics offered great opportunities for businesses to find cost savings. It would be another 30 years, however, before major manufacturers and retailers became interested in taking the control of their supply chains away from their suppliers.

Although Drucker's words were undoubtedly wise and insightful, much has changed over the past 50 years that has actually made his statement even more relevant to businesses in the UK today:

- Many avenues for cost reduction open to UK businesses have already been realised:
 - Reducing the prices paid to manufacturers – a huge amount of cost opportunity has already been realised and limited scope remains for many businesses
 - Move production to a low-cost economy in south-east Asia or Eastern Europe, thereby reducing production costs – once again, many organisations have already taken this step
- Traditionally, estimates of the proportion of operating costs spent on distribution typically ranged from 3% to 6%; however, with many items nowadays sourced from the world's low-cost economies, this cost proportion is growing, and with it the importance of logistics costs in the overall cost equation

Marketing mix

The marketing mix is a well-known technique used to define the four key aspects of marketing – see Figure 1:

- Product – selling goods and services that customers will want to buy
- Price – choosing a pricing structure that is profitable whilst still attractive to customers
- Promotion – using advertising and other techniques to let customers know about the company and its brands, goods and services
- Place – making goods and products available in a way that is convenient and attractive to potential customers

The marketing mix has been around for decades and is as relevant today as it ever was. However, businesses are finding it harder and harder to make their goods and services stand out from the crowd. In particular, the ability to carry out cost comparisons quickly and easily on the internet has meant that price competitiveness is a must for many organisations.

What this means is that for many businesses, they are left with a limited number of options to gain competitive advantage:

- Find ways to make their products and services stand out from the crowd through innovation or improved product-service mix
- Use advertising to make their products and services appear better than the competition's, even if in reality there is nothing to choose between them
- Improve the level and consistency of customer service provided
- Find ways to reduce costs, as we saw earlier

Gunn and Christopher

Gunn² argued that there was a great opportunity for businesses to gain a competitive advantage through the optimisation of manufacturing techniques – see Figure 2. Although the term 'distribution' does appear in Gunn's model, it was Professor Martin Christopher³ who harnessed the fact that logistics and supply chain management could also provide an important opportunity for organisations to gain a competitive advantage.

In Christopher's words: 'Effective logistics and supply chain management can provide a major source of competitive advantage – in other words, a position of enduring superiority over competitors in terms of customer preference may be achieved through better management of logistics and the supply chain.'

He focused on several key points:

- Customer value is defined in different ways for different products and services; cost is important, but so is responsiveness and dependability; enhancing supply chains to optimise those performance objectives that matter most to customers is a super source of gaining competitive advantage
- The need to reduce the lead-time gap – see Figure 3 – by either artificially lengthening the customer order cycle or reducing the logistics lead-time
- The need to understand the total cost base of organisations rather than focusing primarily on manufacturing costs; with so many commodities now being manufactured in the Far East, this is becoming even more important

Lambert and Stock model

In 1993, Lambert and Stock⁴ developed their theories about the link between logistics and marketing and introduced the model: Cost trade-offs in logistics – see Figure 4. They focused on the important link between logistics and marketing as being the 'place' element of the 4Ps.

Value chain

Womack and Jones⁵, Christopher and Porter⁶ have all discussed the topic of understanding the value chain – the way that customer value is delivered by organisations. Many organisations have many wasteful processes embedded in their logistics and manufacturing processes, so being able to understand how customer value is delivered is extremely useful in order to enable organisations to streamline their activities.

Porter's model of the value chain – see Figure 5 – highlights the fact that competitive advantage can only be optimised by focusing on all aspects of business activity.

Updated version of the Lambert and Stock model

In today's marketplace, where differentiation from competitors is becoming more and more tricky, the role of logistics in the overall market equation is becoming increasingly important. On an otherwise level playing field, saving a few pennies on logistics costs or shaving a few hours from order fulfilment can make all the difference to consumers.

According to Christopher and Rushton et al⁷, logistics and distribution within the supply chain can provide a very positive contribution to the value of a product through the means by which the product reaches the customer in the right place and condition.

Based on the above, we can update the Lambert and Stock model – see Figure 6 – to show how logistics plays a part in all four elements of the 4Ps.

Conclusion

Increasingly in business, the scope for gaining competitive advantage is reducing, meaning that organisations need to find innovative ways to stand out from the competition.

Fifty years after Drucker's comments about physical logistics costs and nearly 30 years after Lambert and Stock's model linking logistic costs to the 4Ps of marketing, it can be seen that in an increasingly level playing field, logistics can play a more important role than ever in business improvement activities.

Lead-time gap

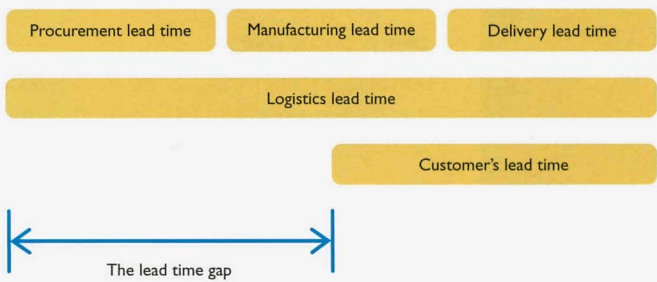


Figure 3

Cost trade-offs in logistics

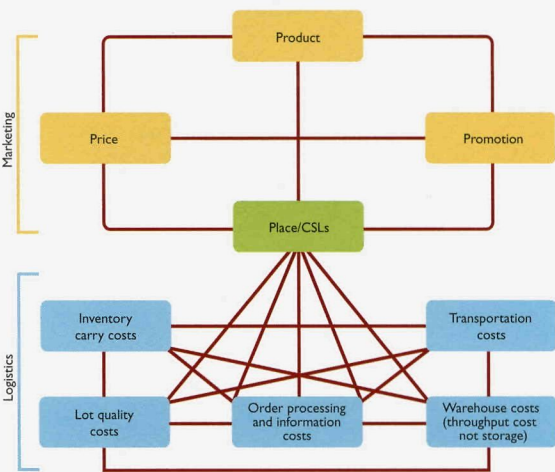


Figure 4

Porter's value chain model

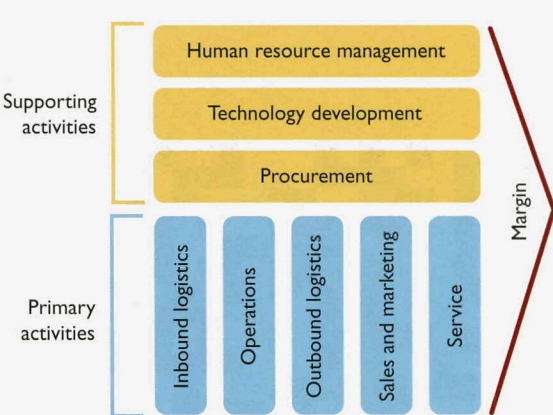


Figure 5

Updated Lambert and Stock model

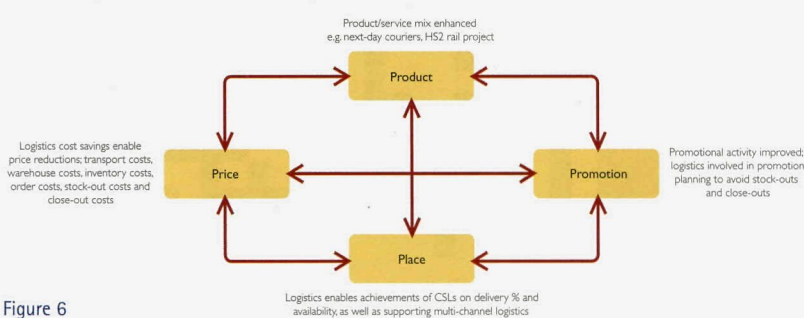


Figure 6

ESSENTIALS

ABOUT THE AUTHOR

Dewi Lloyd CMILT has over 20 years' experience working in logistics. He is a lecturer in logistics and operations management for Temple Management Training, Birmingham.

Email: dewi@templeqms.com

REFERENCE

1. DRUCKER, PETER, 'The Economy's Dark Continent', *Fortune Magazine*, April 1962
2. GUNN, T G, *Manufacturing for Competitive Advantage*, Ballinger, 1987
3. CHRISTOPHER, M, *Logistics and Supply Chain Management*, 4th edition, Financial Times/Prentice Hall, 2010
4. LAMBERT, D and STOCK, J, *Strategic Logistics Management*, 3rd edition, McGraw-Hill, 1993
5. WOMACK, J and JONES, D, *Lean Thinking*, Free Press, 2003
6. PORTER, M E, *Competitive Advantage*, Free Press, 2004
7. RUSHTON, ALAN, CROUCHER, PHIL and BAKER, PETER, *The Handbook of Logistics and Distribution Management*, 4th edition, Kogan Page, 2010

FURTHER INFORMATION

For more information on the issues raised in this article, why not join our Outsourcing & Procurement Forum? See our website www.ciltuk.org.uk for more details.

END

CILT CORPORATE MEMBERSHIP

DISCOVER YOUR LEVEL



Now more than ever, the ability to compete efficiently and effectively is vital.

CILT understands how imperative it is for professionals to keep up-to-date skills and continually invest in their professional development. Simply scan the above code on your smart phone* and discover the benefits of CILT Corporate Membership.

*Quick Response (QR) code reading software is required

The Chartered Institute of
Logistics and Transport (UK)



Copyright of Logistics & Transport Focus is the property of Chartered Institute of Logistics & Transport (UK) and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.