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STRATEGIC MANAGEMENT FOR LOGISTICS

Abstract: The appreciation of the scope and importance of logistics and supply chain has led to a more scientific approach. The effective supply chain management, as a component of strategic management, is an important aspect of company's functioning and is responsible for the optimizing of the whole system's operation and the competitiveness on the rapidly developing market. Strategy is about formulating a long-term plan for the supply chain that includes solving of day-to-day issues and problems that inevitably occur. Thus, logistic strategy can be defined as the set of guiding principles and driving forces that support the coordination of goals and plans and is applied through behavior within and between partners across a network. There are four options of implications for the way in which the supply chain strategy is approached in different organizations: evolve, classical, accommodate and systemic. The basic argument for alignment strategy in the supply chain is the difference of logistics links that provide competitive advantages. The logistics strategy has to be recognized and be a part of the whole business strategy of the company. Logistics plays a significant role in the behavior between network partners across different market segments. There are five principles of successful strategic positioning in logistics: a unique value proposition, a tailored supply chain, identify the trade-offs in the supply chain, align logistics processes and continuity of the logistics processes. Moreover, products with different logistics priorities, such as cost and time, require very different logistics strategy implementation.

Finally, the importance of the integration of the logistic function into the business has been emphasized. Also, the necessity of the connection between the logistics strategy framework and the company's corporate and comparative strategies is noted. The logistics strategy must be evaluated regularly to find new opportunities for company's development, because every business has different logistics needs and different ways to evaluate operational success. The research explains various organizational aspects of the effective logistics strategy and the applicability and relevance of the planning to distribution and supply chain systems. A number of real effective examples of company's logistics strategy is provided. There is a number of implications for the way in which supply chain strategy is approached in different organizations.

Keywords: logistics, supply chain, management, planning, strategy, design

INTRODUCTION

The market competition has increased significantly in all industrialized parts of the world and the requirements of striving in a global scope has become imperative in many industries. Consequently, most companies operating in high-competitive markets, has been continually challenged to respond effectively to this competitive reality. The improvements in supply chain management and logistics have been one the more frequent and useful ways pursued by companies interested in increasing and fostering competitiveness.

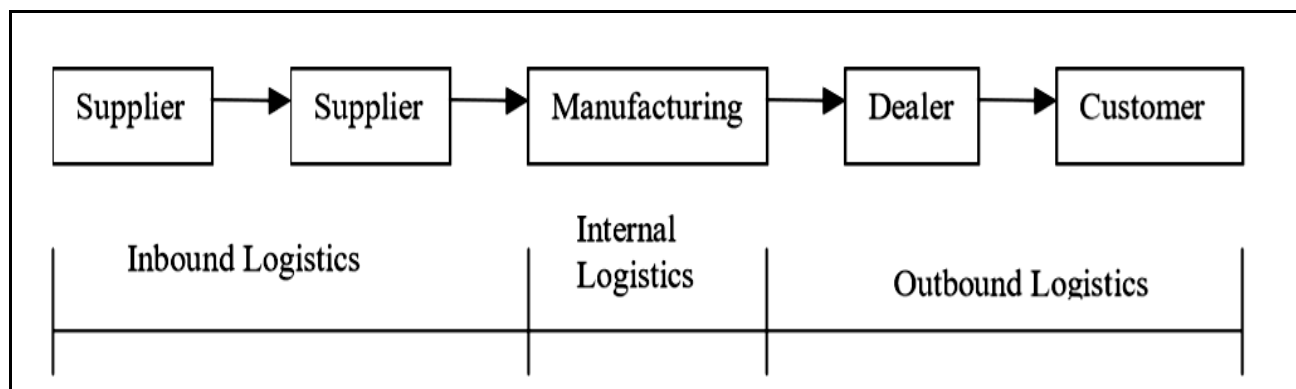
In the modern world, the strategic management plays an important role in the success of a smoothly running business and can be recognized as an important approach at every stage of business and at every level of its lifecycle and as a vehicle through which firms can achieve a competitive advantage on different markets. Thus, the necessity of the proper strategic management for company's logistic system is clear and runs in parallel with the growing of the importance of distribution processes, product's movements and supply chains.

Supply chain network includes suppliers, manufacturers, warehouses, distributors and customers in order to convert raw material to final products, deliver them to consumers by meeting their needs and minimizing (maximising) cost (profit) of the whole distribution network (Hamedani et al., 2013). The strategic aspects of logistics and supply chain management is necessary to be identified by the companies and can provide relevant ways of expedient transformations and improvements in this area. In following, some relevant aspects, from the strategic perspective of logistics and supply chain strategic management are presented and discussed further.

1. LOGISTICS AND SUPPLY CHAIN MANAGEMENT

Logistics and supply chain management have emerged recently as an area of the great interest and have leveraged the competitive advantage of many companies worldwide. Besides this, it is still frequent some confusions and misunderstandings regarding the logistics and supply chain management's concepts. Although, very usual, the logistics is a traditional area of interests in the production management, but it involves the integration of the information, transport, inventory, warehouses, finance and handling and packing equipment (Bowersox & Closs, 1986). Also the logistics can be defined as the process of planning, implementing and controlling the efficient flow and storage of goods, services and related information from the point of origin to the point of consumption. It is important to note that the focus of this definition is the individual firm, embracing traditional activities such as purchasing, transportation, warehousing, handling and distribution (Stock et al., 1998).

More recently, many companies have made efforts in order to integrate and synchronize the execution of its logistics processes. Generally, the logistics processes are divided in three distinctive scope of the conduction (inbound, internal and outbound) and frequently are called by integrated logistics. The Figure 1 illustrates the current scope of logistics in companies.

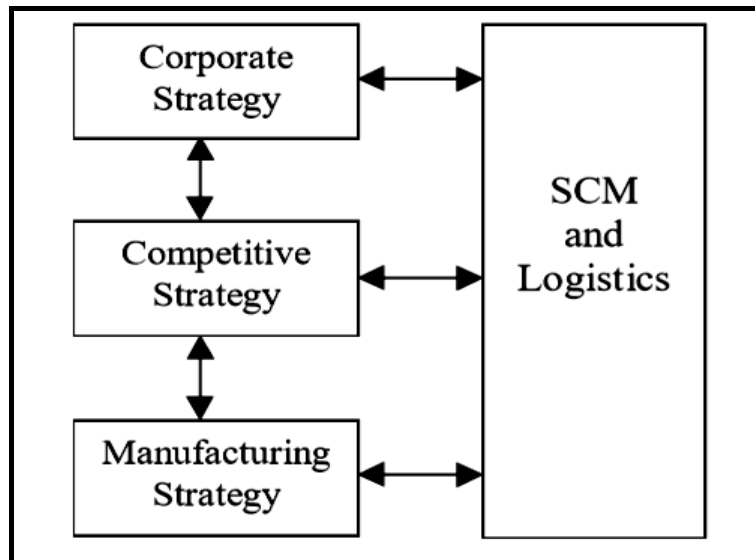


Picture 1: The scope of logistics in companies

Source: Chopra & Meindl, 2001

In other words, supply chain management is a contemporary strategic approach for managing all the manufacturing and has recently adopted interesting innovations in most industries and worldwide. It is possible to state, that supply chain management deals with the holistic integration of the business process through the demand and production chains with the purpose of attending the final customer in more effective ways.

Logistics had been considered a narrowly defined functional activity concerned with tasks such as transportation, warehousing, inventory and materials management. It was pointed out that "as firms become less and less hierarchical, as they become more and more geographically dispersed, and as customers become more and more demanding, logistics can provide a coordinating role that will provide a firm with a competitive advantage" (Porter, 1980). In this direction, supply chain management has clearly a wider strategic scope and is based on the competitive model that is different of the classic competition among business units. It is important to remember that the basic objective of supply chain management is to maximize the integration between all parts of the demand chains, either by reducing costs or by enhancing value to the products. The Picture 2 illustrates the scope of supply chain management and logistics concerning the three common level of strategies discussed.

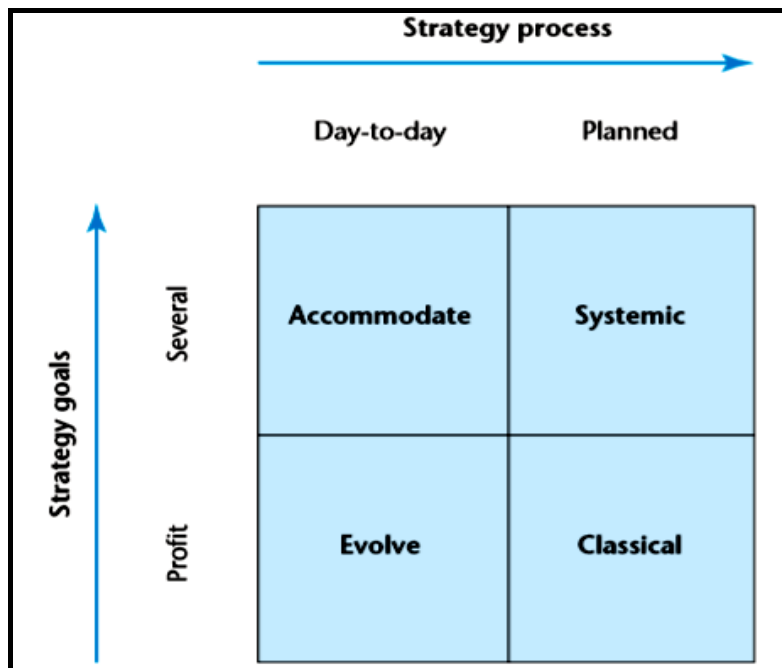


Picture 2: Supply chain management and logistics scope relatively to the three strategy levels
 Source: Christopher, 1994

Logistics supports competitiveness of the company's supply chain as a whole by meeting end-customer demand through supplying what is needed when it is needed at low cost (Hall et al., 2008). A supply network is a system in which each organisation is linked to the others. Therefore the overall performance of the network results from the combined performance of the individual partners. The relative importance of logistics performance objectives varies from one situation to another and over time. Thus, the concept of order winners and qualifiers helps to prioritise the logistics task. Key influences on relative importance are individual product needs in the marketplace, position in the product life cycle, and competitor activity.

2. DIFFERENTIATION OF THE STRATEGY

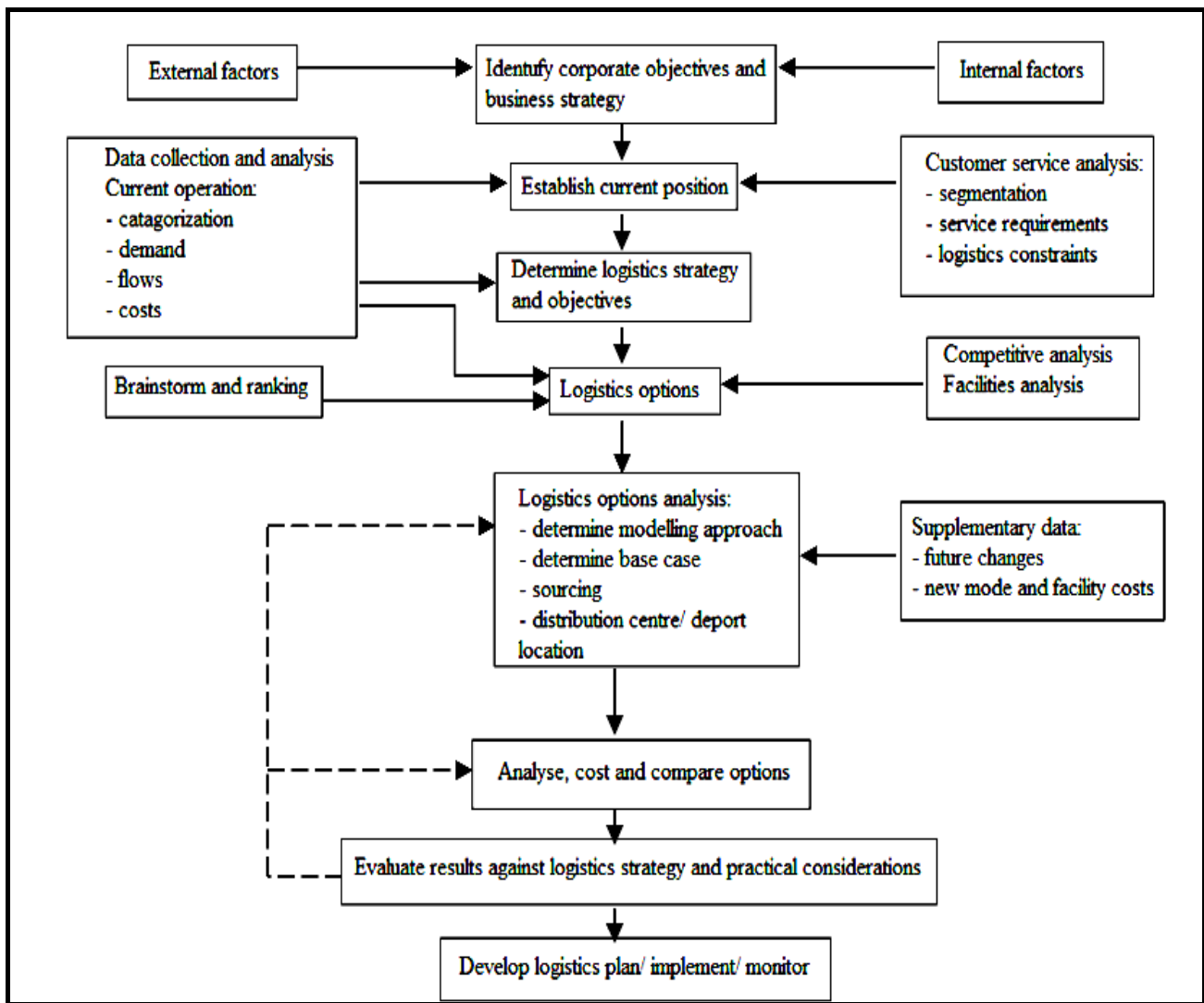
Strategy is about planning as distinct from doing, about formulating the long-term plans for the supply chain system of the company, as distinct from solving the day-to-day issues and problems that inevitably occur. The logistics strategy can be defined as the set of guiding principles, driving forces and ingrained attitudes that help to coordinate goals, plans and policies, and which are reinforced through conscious and subconscious behavior within and between partners across a network (Hayes & Wheelwright, 1984). Four approaches are applied for crafting of the logistics strategy and illustrated at the Picture 3 below. The evolve strategy approach is not a proper strategy; the operating decisions are taken in relation to the needs and financial goals as the main guiding principles. The classical approach is the oldest and most influential option where the financial goals are again the main guiding principle and are achieved through a formal planning process. The accommodate option strategy is adopted to the realities of the focal firms and the markets in which it operates; decisions are back to the day-to-day mode, but financial objectives are no longer the primary concern. The systemic option for the strategy setting sees no conflicts between the ends and means of realizing business goals across all these major aspects (including human resources, marketing and manufacturing policies) and connected with the means by which they will be achieved in practice (Harrison & Hoek, 2014).



Picture 3: Four options for crafting strategy
Source: Whittington, 2000

The strategic management for logistic usually requires systemic strategy setting between network partners, who have to coordinate order winners and qualifiers across different market segments. The basic argument for alignment strategy in the supply chain is the difference of logistics links that provide competitive advantages for the company. Thus, if different links in the supply chain are directed towards different competitive priorities, then the chain will not be able to serve the end-customer as well as the supply chain in which the links are directed towards the same priorities (Cousins, 2005).

The logistics strategy has to be recognized and be a part of the whole business strategy of the company. As it was mentioned above, the logistics plays a significant role in the behavior between network partners across the different market segments. The supply chain, which choose to compete on the different criteria, needs to recognize and form the business strategies of all the members of a given network. These strategic choices have major implications for the operation of each member. There are five principles of the successful strategic positioning in logistics: a unique value proposition, a tailored supply chain, identify the trade-offs in the supply chain, align logistics processes and continuity of the logistics processes (Porter, 1984). To reinforce the issue of differentiating strategies, it is necessary to look at two commonly used strategies that have very different logistics implications by considering products with different logistics priorities. The first priority is cost that implies that a high volume product for which demand is relatively stable throughout the year. These products subject to occasional enhancements and have comparatively long life cycles, thus demand forecasts are usually pretty accurate. The second criteria is time: a high variety product, which is designed for a given season and which is completely redesigned for the next season. The product life cycle is short, and demand is much more difficult to forecast (Harrison & Hoek, 2014). Cost and time have quite different logistics implications. The actions that help to reduce costs are not suitable when speed and responsiveness are main goals. Similarly, the investing in high volume, low variety equipment in the factory can create the efficiency and low costs, but at the same time provides limits for a firm's ability to offer variety and fast response times. Developing the capability to support more of one priority (cost) embarrasses the capability to support another (time). The principle of trade-off in logistics is two separate supply chains where one is cost oriented, the other focused on time. This can be inconvenient, but logistics operations can separately be kept to avoid one product line interfering with the flow of the other. The same thinking can be applied within a given product range, when everyday demand needs to be kept separate from promotional demand (Harrison & Hoek, 2014). Thus, products with different logistics priorities, such as cost and time, require very different logistics strategy implementation. The different products characteristic should be taken into account for the effective implementation of the logistics design tools and techniques. There is a variety of the product characteristics, which have a direct impact on the development, and the operation of company's distribution system. The major product categories are sustainability, high-risk products, the product life cycle, packaging and units loads (Rushton et al., 2014).



Picture 4: An approach to logistics strategy planning
Source: Whittington, 2000

The Picture 4 above illustrates the logistics strategy's approach, which describes the practical steps that need to be taken for the effective logistics strategy's implementation. This approach requires the collection, collation and analysis of the data and qualitative assessment and has to suit particular industries and business situations. In addition, the business and logistics issues and the combination of the conceptual and quantitative evaluation techniques have to be implemented. The right product must be produced at the right time, be available at the right place and at the right price in order to meet customer's needs and create a flourishing business (Jobber & Fahy, 2009). Thus, businesses should have the logistics capabilities in order to achieve desirable success on market. Consequently, the company's logistics strategy is based on its service levels at which its logistics organization reached the cost-effectiveness. Because supply chains are constantly changing and evolving, a company develops a number of logistics strategies for specific product lines, countries and customers. Thus, the ultimate goal of any logistics strategy is to deliver what customers want, when they want it and getting that done by lowest price (Rushton et al., 2014). To sum up, the strategic management allows a company to identify the impact of imminent changes and make organizational or functional changes to avoid the drop of service levels and to successfully implement of the logistics strategy despite changes that occur in the supply chain.

By implementation of the effective strategic management, the company can evaluate customer's needs, manage inventory targets and reduce cost. However, the company has to review its logistics strategy from time to time, as supply chains and supply chain priorities change. Thus, it is necessary to correctly identify service level goals and to map logistics landscape. The corporate strategy has been usually focused on subjects such as business diversification, business profitability, business viability and business synergies within the corporation. On the competitive level, frequently companies have used the concept of the competitive advantage focused on the competition among individual business units. Porter (1980) proposed two basic and mutually excluding strategies: cost leadership and differentiation. Thus, the companies can avoid practicing simultaneously both approaches in the same business, in order to avoid being stuck in the middle. The functional strategies such as manufacturing, finance, marketing, research and development are positioned on the lower level (Porter, 1980).

For every business, there are different logistics needs and different ways to evaluate operational success and inefficiencies and alter your logistic management strategy to fit company's changing needs. As it is known, potentially the effective logistics strategic management can drive significant savings and customers service improvements (Hall et al., 2008). A good example of the effective company's logistics strategy is the company named Talleres Auto (TA), which is based in Barcelona and provides the roadside repair and recovery services. When customer's car had broken down and they wanted it to be fixed quickly, so most of TA customers made "distress purchases". Thus, the company had to organize a fast replacement service from the local distributor. While the distributors both recognized the need for fast replacements, the performance of the purchasing department at the remanufacturer was measured on the cost savings. The company tried to have low costs by suppling the components thought this chain (Johnston et al., 1997). Thus, the logistic strategy has to be evaluated regularly to find new opportunities for running business.

RESULTS

The importance of the integration of the strategic management into the logistic structure of the business has been emphasized. Also, the necessity of the connection between the logistics strategy framework and the company's corporate and comparative strategies is clear. The logistics strategy must be evaluated regularly to find new opportunities for company's development, because every business has different logistics needs and different ways to evaluate operational success. Thus, the proper organised logistics system can allow companies to rationalise and maximise the efficiencies in their distribution processes and in whole company's operation the markets.

Supply chain managements and logistics are the important elements in supporting the sustainability of the business that helps to achieve quality supply chain processes at a high level that minimize operating costs and improve service quality. So that, the strategy and innovations in the logistic management are needed to achieve a high quality performance of the supply chain in order to run whole business effectively and efficiently. To improve the performance of the logistics management and supply chain management the company can employ the information system integration through the use of the information technology, managerial and technological innovations. The effective strategic management can be used to plan and control quality, activity, and services in the operation industry in the private and public sectors and to improve the performance of the whole company's supply chain system. Finally, the effectiveness of logistics can be achieved through the collaboration between the strategic management, external partners and the outsourcing strategy on purchasing, supply and inventory management, and transportation.

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