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CREATING CUSTOMER VALUE THROUGH THE LOGISTICS MANAGEMENT

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ABSTRACT

Ultimately the success or failure of any business will be determined by the level of customer value that it delivers in its chosen markets. Customer value can be defined quite simply as the difference between the perceived benefits that flow from a purchase and the total costs incurred.

Logistics is the interface between the market place and the organiza tion wishing to satisfy its customers and is thus a key area for creating value for the customer. Logistics is a process that crosses functional boundaries meaning that functional integration is the key in the smooth flow of goods and related information.

The objective of this study is to improve the understanding of how logistic management contributes to customer value creation.

Obviously, logistics has strong impact on both components of value. High-quality logistics services directly attract customers and increase the perception of the purchase benefits. On the other hand, effective logistics strategies and technologies provide reduction of logistics costs, that is, the overall costs. For these reasons, logistics is considered to be very effective tool in creating and increasing the customer value.

As a result of the study, a proposition is made:

"If customer value is to be achieved, then customer success has to be attained."

KEYWORDS: *Logistics, customer value, customer, customer satisfaction, customer benefits .*

INTRODUCTION :

Schmidt (1986) describes logistics management as:

"The management (i.e. the planning , execution and control) of all factors that affect the materials flow and the information about it , seen from the perspective of customer requirements, for the purpose of achieving a high delivery , a high reliability , a high degree of completeness and a short delivery time"

Logistics system and examples of relevant activities:

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Supply	Manufacturing	Order to delivery	Distribution	After sales	Returns
•Supplier selection •Issue purchase order •Release purchase order •Goods tracking •Material handling •Invoice control	•Capacity planning • Materials planning • Materials handling • Production •Stock keeping	•Customer order reception • Order management •Order acceptance • Materials handling • Packing and loading • Transport • Invoicing	• Transport planning • Transport • Loading and off-loading •Stock keeping • Product configuring and installation	• Order management • Transport planning • Loading and offloading •Goods reception • Materials handling • Transport	*Identify product condition • Disposition product • Transport planning • Loading and offloading • Transport •Goods reception •Invoice crediting

Factors affecting logistics function:

Following factors affect logistics functions:

i)Lack of standardization. If new components are specified for each new product, the time for their planning and procurement will increase.

ii)Too close tolerances and high finishes, tend to restrict procurement from a few suppliers and thereby retard the efficiency of the logistic management.

iii)Efficiency of the production function affects logistics function to a large extent.

iv)Effectiveness of production, planning and control affects materials flow.

The growing importance of logistics for globalization:

Logistics is an organizational planning framework for material management, information, service and capital flows. Logistics in the context of the prevalent dynamic business environment also involves complex information that is essential for organizations to function efficiently. Logistics has been gaining a growing significance in supply chain management because of the ever increasing complexities of modern day business. It can be translated as a competitive strategy adapted by an organization to meet and exceed the expectations of its existing and prospective customers.

Well-performed logistics management creates competitiveness and superior performance by improving efficiency and effectiveness to positively affect profits. The influence of logistics on profitability takes place by creating customer value through superior logistics services argues that effective logistics can become a major source of competitive advantage in the sense that a position of enduring superiority over competitors in terms of customer preference may be achieved through better logistics management.

In the present business world, logistics plays an important role for an organization focusing on growth and profitability. It also plays on a global stage which is crucial for the phenomenon of globalization. Globalization of businesses and liberalization of trade has increased the importance of the logistics function in

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the past few decades. As businesses source raw materials and components globally, and sell their products in global markets, logistics management has been expanding beyond international boundaries. The forecast growth indicates that businesses are increasingly relying on logistics as a result of globalization which also means that superior logistics may be a key success factor for international businesses to compete against competitors.

Logistics services categories:

According to Zhao and Wang (2010), logistics services can be categorized into two categories 1.Basic low-end services in logistics value chain, such as transportation, warehousing and handling which are mostly isolated functions.

2 High-end services in logistics value chain have high-level functions like payment gathering, demand forecast, logistics system consultation and design, education and training, information processing and also have characteristics like logistics integration. Those products deliver higher value to the customers through value-added services.

Logistics service as a source of competitive advantage:

Logistics service value focuses on the relationship of logistics service to customer service, capabilities and competitive advantage of an organization. Logistics service is an important element of customer service and helps an organization maintain its current competitive position in the marketplace (Langley and Holcomb, 1992). Efficiency, Effectiveness and Relevancy/Differentiation generates competitive advantage Logistics customer value is created through efficiency, effectiveness, and differentiation (Mentzer and Konrad 1991; Langley and Holcomb 1992).

For instance, value can be created through customer service elements such as product availability, timeliness and consistency of delivery and ease of placing orders. If logistics can create value through the inimitability of its logistics activities, an organization may be able to differentiate itself from its competitors (Grant 2010). The value customers receive from logistics activities also serves as an indicator of logistics performance. Excellence in logistics performance requires superiority when compared to competitors (i.e., differentiation) (Langley and Holcomb 1992).

Beyond efficiency and effectiveness, logistics activities provide the best comparative net value to customers (Stahl and Bounds 1991) in order to compete in today's competitive marketplace. Due to the importance of logistics to customer value creation (Flint et al. 2005; Lambert, García-Dastugue, and Croxton 2005), the performance of logistics activities must be perceived as differentially superior to competitors in the same market segment(s) (Williamson, Spitzer, and Bloomberg 1990).

In addition to the traditional logistics service that focuses on achieving internal operation standards that translate into efficiency and customer focus based upon meeting customer performance standards that translate into effectiveness, a truly relationship-driven logistics function that focuses on establishing customer success that translates into relevancy, is needed (Bowersox et al., 2000).

An emphasis on having a specific understanding of the needs and requirements of the diverse and varied customers of the logistics function has the potential to turn standard basic services into value added solutions. Evidence collectively reveals that the logistics function as a whole should strive to minimize the ratio of resources utilized against derived results (efficiency), accomplish predetermined objectives (effectiveness) and gain superiority when compared to competitors (differentiation) (Bobbitt 2004).

When traditional attributes of logistics service are modified to create value-added services or are configured in unique bundles, they take the shape of logistics capabilities that can be a source of competitive advantage (Morash et al., 1996; Lynch et al., 2000). Creating value-added solutions involves the willingness and capability of an organization to become an increasingly relevant provider to its customers. This is an ongoing process. Apart from achieving a one-time understanding of customer needs and requirements, mechanisms to regularly monitor and be aware of the changing priorities of the customer should be established (Langley and Holcomb, Kong, Berky and Choe, Mae Fong Page 42 O R G A N I Z A T I O N 1992). Constant alert on customers' changing needs and continuously developing value-added solutions for them may lead to relevancy and differentiation.

Value creation:

In a competitive environment, it is not enough for an organization to simply position a fixed set ofactivities along a value chain. Organizations constantly strive to provide "value – an intangibleconcept that is frequently defined in terms of exceptional customer service that accompaniesexceptional product quality and value-based prices" (Anderson and Vincze, 2000). Increasingly,smart organizations do not just add value, they reinvent it. According to Normann and Ramirez (2000), focus should not just be on the company or the industry, but :

"The value-creating system within which different economic actors (e.g. suppliers, customers, employees, business partners, etc.) work together to co-create value"

The key strategic task lies in the reconfiguration of roles and relationships among this constellationof economic actors in order to mobilize the creation of value in new forms and by new players.

Hence, the underlying strategic goal is:

"To create an ever-improving fit between organizational competencies and customers"

It is a systematic social innovation which involves continuous design and redesign of complex business systems.

Definition of Customer Value:

Bowersox, Closs and Cooper (2010) define that customers have at least three perspective of value: The traditional perspective of value is economic value. Economic value builds on economy of scale in operations as the source of efficiency. The focus of economic value is efficiency of product/service creation. The customer's take-away of economic value is high quality at a low price.

A second value perspective is market value. Market value is about presenting an attractive assortment of products at the right time and place to realize effectiveness. Market value focuses on achieving economy of scope in product/service presentation. The customer's take-away of market value is convenient product/service assortment and choice.

The third value perspective is relevancy. Relevancy involves customization of value-adding services, over and above product and positioning, which make a significant difference to customers. Relevancy value means the right products and services, as reflected by market value, at the right place, as reflected by economic value, modified, sequenced, synchronized and otherwise positioned in a manner that creates valuable segmental diversity.

In manufacturing and assembly, relevancy is achieved by integrating specific components into products to increase functionality desired by a specific customer. The customer's take-away in terms of relevancy is a unique product/service bundle.

The simultaneous achievement of economic value, market value, and relevancy value requires totalintegration of the overall business process and is known as the integrative management valueproposition which is illustrated in Table 8 below.

Integrative management value proposition

Economic Value	Market Value	Relevancy Value
Lowest total cost	Attractive assortment	Customization
Economy-of-scale efficiency	Economy-of-scope effectiveness	Segmental diversity
Product/service creation	Product/service presentation	Product/service positioning
Procurement/Manufacturing Strategy	Market/Distribution Strategy	Supply Chain Strategy

Explain linkage between customer value and logistics from a contemporary perspective:

As a consequence of increasing globalization, the competition among organizations is growing and therefore new ways of winning growth and profitability have to be adopted in the new business climate. As mentioned above, logistics has a growing significance in influencing the performance of organizations and therefore traditional logistics service offerings are inadequate to compete in the marketplace.

Traditional logistics services tend to be passive, routine, and standardized which may sometimes means "one size fits all". Logistics in the old days only focused on operational excellence which suggested that providers offer logistics services and the customers buy them (Vargo and Lusch, 2008). Contemporary logistics services are more proactive, interactive, and particularly, customer oriented. Service providers nowadays are developing services that customers want and their key objective is value-adding and continuing the positive relationship with the customers (Vargo and Lusch, 2008). Rewarding mutual win-win benefits are generated through the tight relationship between providers and customers which may eventually create value for both parties. Based on the perspective of Service-Dominant logic, value is defined and co-created by customers rather than being embedded in the output (Vargo and Lusch, 2008). So such perspective suggests that "customers and providers co-create value". One of the motives of this thesis is to explain the linkage between logisticsand customer value.

CREATION OF CUSTOMER VALUE THROUGH LOGISTICS:

A school of thought links logistics function to customer value. Langley and Holcomb (1992) suggest that the objective of supply chain management should be the synchronization of all supply chain activities to create customer value. Thus, supply chain management philosophy suggests the boundaries of supply chain management include not only logistics but also all other functions within an organization and within a supply chain to create customer value and satisfaction.

In this context, understanding customers' values and requirements is essential (Ellram and Cooper 1990; Tyndall et al. 1998). Thus, supply chain management philosophy drives supply chain units to have a customer orientation which provides the basis for internal logistics service with an internal customer focus. Stank, Keller, Daugherty (2001) suggest that a primary goal of supply chain management is to create or enhance value provided to the end-customer. Christopher (2005) also supports the customer orientation perspective by adding the cost element. He argues that the objective of supply chain management is to link the marketplace, distribution network, manufacturing processes and procurement activity in a way that customers can receive quality services at a lower total cost. Part of the value that a company creates for its customer is its ability to deliver the right product in the right amount at the right place at the right time for the right customer in the right condition at the right price (Shapiro and Heskett, 1985). This translates to the fact that logistics service is part of the value of the product (Mentzer et al., 1997). According to Langley and Holcomb (1992), logistics creates customer value through three generic ways: efficiency, effectiveness, and differentiation or relevancy. Moreover, when traditional attributes of logistics services are modified to create value added services or are configured, they result in unique logistics capabilities that can be a source of competitive advantage (Morash et al., 1996; Lynch et al., 2000).

Service Standards in Key areas of Logistic Management for customer value creation

• Order cycle Time

This is the elapsed time from customer order to delivery. Standards should be defined against the customer's stated requirements.

• Stock Availability

This relates to the percentage of demand for a given line item that can be met from available inventory.

•Order-size constraints

More and more customers seek just-in-time deliveries of small quantities. Do we have the flexibility to cope with the range of customer demands likely to be placed upon us?

• Ordering convenience

• Are we accessible and easy to do business with? How are we seen from the customer's viewpoint? Do our

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systems talk to their systems?

• Frequency of delivery

A further manifestation of the move to just-in- time is that customers require more frequent deliveries within closely specified time windows. Again it is flexibility of response that should be the basis for the performance standard.

• Delivery reliability

What proportions of total orders are delivered on time? It is a reflection not just of delivery performance but also of stock availability and order processing performance.

• Documentation Quality

What is the error rate on invoices, delivery notes and other customer communication? Is the document user friendly? A surprisingly large number of service failures are from this source.

• Claims Procedure

What is the trend in claims? What are their causes? How quickly do we deal with complaints and claims? Do we have procedure for service recovery?

• Order completeness

What proportion of orders do we deliver complete i.e. no back orders or part shipments?

• Technical Support

What support do we provide customers with after the sale? If appropriate do we have standards for call-out time and first- time fix rate on repairs?

• Order status information

Can we inform customers at any time on the status of their order? Do we have hotlines or their equivalent? Do we have procedures for informing customers of potential problems on stock availability or delivery?

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