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Increasing the Company's Profitability Through Logistics Management

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Abstract: The objective of the paper "Increasing the company's profitability through logistics management" is to present the significance of organizing an efficient logistics activity and the challenges that the companies are facing in order to obtain full advantage from using logistics as a competitive tool. The companies' dependence from the strategic decisions belonging to the supply chain stands as a reason for the ever growing interest towards Supply Chain Management and towards applying innovative processes that will offer an advantage when faced with increasingly tougher competition from domestic or foreign companies. The company's characteristics can be subject to deep changes through decisions pertaining to the supply chain; these decisions are vital to the company's productivity and competitiveness. If the logistics' role in increasing the company's profitability is acknowledged, then implementing complex technologies and investing multiple factors into improving logistical performance is fully justified. Customer orientation and focusing on key activities, which need to be performed daily in order to meet customer demand are absolutely necessary in a system which implies fast reaction to market changes. The managerial way of thinking has changed significantly in the last years, because of the highly global competitiveness, the pressure to reduce costs, focusing on the company's central competence. The principle of functioning is an aggregate system approach for the entire flow of information, materials and services beginning with supply of raw material, processes and movements inside the factories and warehouses, until the products reach the final customer.

Keywords: logistics; supply chain management; outsourcing; distribution; added value

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1. Introduction

The "Logistics" term comes from the way the companies relate to each other. If we start our research with the provisioning department and we go all the way of provisioning we identify a number of suppliers but for each one of them we find one or more suppliers. The result is provisioning network or a series of chains. These networks can become easily very complex. The purpose of supply chain management is to reduce the risks that may occur in the processes, by acting in a positive manner in all that concerns inventory, time cycles, processes, but mostly in satisfying the final customer. The focus is on optimizing the system. The instruments that assist the efficiency of the chain activities are Forecasting, General Planning, Inventory, Daily/Hourly/ Planning. In order to develop forecasts a common database must be used. The forecasts become therefore entry dates for general planning. This general planning establishes restrictions and directions for the Inventory, thus through it can be determined the need of workers and the equipment planning.

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The supply chain capacity has the same importance for the company as the product strategy. The supply chain management supports the management of the processes among the all departments. Linking the objectives of the supply chain management to the general strategy of the company, it will achieve an improvement of the company's competitiveness. These improvements are generated generally from the external company's goals than from the internal objectives of the departments. The supply chain management requires a management in the traditional functional domain and a management of the company's external activity. This type of management incorporates the objectives and the capacity of the supply chain into the company's strategy. Focusing on this integration will lead to a sustainable competitive advantage over the competition. Due to the management impact on the general demand and offer it will reflect on the company's profitability.

The companies have become in time more and more specialized and started to look for suppliers that offer quality materials at lower prices instead of engaging their resources in their own logistics department. In the same time it is critical for the companies to overview the entire logistics network in order to optimize the general performance. In this sort of situations the companies have realized that when two companies are involved in the logistics process the success of one company depends on the success of the other company.

2. Distribution and Materials Management

The national and international competition has become very challenging. The customers have multiple possibilities from which they can choose in order to satisfy their needs. It is therefore crucial to position the product through the distribution channel in the same manner to have maximum of accessibility for the customer with minimum costs. The companies have tried to solve the distribution problems by building up stocks in different points of the supply chain. The dynamic nature of the market makes the building up of stocks to be very risky and to lead to a potential unprofitable business. The customer's habits regarding the buying are always changing. The competitors are continually introducing and retreating products from the market. The offer variation leads to errors in building up of stocks. The costs of keeping stock are blocking a part of funds and stop the company to offer low products.

3. Production and Marketing

The mission of the logistics management is to plan and coordinate the necessary activities to achieve the maximum customer's service level at the lowest price. From this point of view the objectives of the logistics management span the organization from the management of raw materials to the delivery of the final product. The customer satisfaction is achieved through the coordination of the information flow from the market to the suppliers and of the materials and products from the suppliers to the customers. The integration of logistics into the organization offers a different perspective for the company compared to a conventional organization. For many years the production and the marketing within the same organization ware seen as separated activities, which came very often in conflict. This conflict was born from the different directions which the mentioned departments had: on the one side the production was focused to obtain a higher efficiency through standardization and long production run, on the other side the marketing department had to launch into the market a large variety of products and to rapidly operate changes to the product. Today it is impossible for these two departments to operate independently from each other. The customer orientation concept and the understanding of the customer needs are prerequisites for survival. Radical changes have been made therefore in the production management as the introduction of the flexible manufacturing systems, the materials requirements planning and just-in-time methods. In this scheme of things logistics receive a crucial role in keeping the competitive advantage. Including the logistics problems into the organization's strategy has become mandatory for today's companies, due to the increase of competitiveness through the incorporation of the suppliers and distribution logistics processes.

Logistics management try to create a unique aggregate plan for the entire organization, that will link the stand-alone plans of marketing, distribution, production and procurement. (Christopher M. 2005)

4. Outsourcing and Purchasing

Outsourcing is the term used when a company decides to purchase from outside certain materials and other services, that were initially performed within the company. Outsourcing allows a company to focus on the activities that represent its main competences. Thus the company can create competitive advantages by cost reduction. The coordination of outsourcing activities is usually achieved by the materials manager of the company. The terms materials management and logistics are commonly used with the same purpose and meaning. These terms refer to the entire range of management functions that form a complete circuit of materials: purchasing and internal control of materials production; planning and control of internal processes; transport and shipping of finished products. The purchasing department manages also the current contracts with the suppliers.

A strategic decision that is critical for many companies is choosing between producing or buying a material or a service. A company's character can be deeply changed by this type of make-or-buy decisions and has a vital importance for the productivity and competitiveness of a company. The managerial way of thinking has changed dramatically in recent years, thanks to increasing global competition, to cost reduction pressures, the decreasing and focusing on the company's core competences.

Traditionally, the "make" option is preferred by many large organizations, resulting in an upstream development and in the creation of a large number of production units and assembly lines. Most purchases are done for raw materials, which are afterwards internally processed. Current management tends to favor flexibility, to focus on the company's strong points, to get closer to clients' needs and to emphasize especially on productivity and competitiveness. These aspects support the idea of buying from the outside.

It would be totally unusual if there were an organization that could be superior in this competition in all aspects of production or services. By buying from the outside, the company's management can better focus on its main mission. This approach has already led to a substantial decrease and has created an extended goal in the purchasing process. Seeing the entire world as one large market, it becomes thus the responsibility of the purchasing department to search world class suppliers that would fit the company's strategic needs. If it were possible to have this issue discussed generally for the company itself, the problem should be formulated as follows: what would be the objective of the organization, as in how much value should be added internally as a percentage of the finished good or service value and in what form? A strong purchasing group will show a tendency to buy, if no other factors interfere, that could influence by means of their importance in the general process.

The organization outsources in the moment it decides not to produce a certain good, but to buy it. Outsourcing is essentially the reverse decision from that to produce something. A huge wave out outsourcing and privatizations (in the public sector) has hit most organizations in the last decade. Following increasing pressure to reduce the size of companies and to focus on the activities that add value to the product and on core competences in the purpose of surviving and prospering, both private and public companies have completely outsourced a series of functions and activities that were formally done internally.

Within a company one ca outsource either an entire function, or multiple elements of a certain activity, having the rest done internally. For instance, some elements that concern information technology can be strategic, some can be critical and some can be the target of a potential outsourcing and can be managed by a third party. Identifying a function as being a potential outsourcing target and breaking that function down to its components allows the people responsible to decide which activities should continue to stay within the company and which should be outsourced.

The increase of outsourced processes in logistics is said to be caused by certain inconsistencies in transport, focusing on core competences, decreasing inventory and improvement of IT systems for logistics management. Smaller stocks suppose less room for delivery errors especially if the organization performs by just-in-time principles. Logistics companies are currently holding complex computer assisted vehicle tracking technology, which reduces a series of transport risks and allows hence the logistics companies to add a greater value to the organization than in the case this function had been done internally. Third parties that that take care of logistics ensure transport tracking by using electronic data packet exchange technologies and a satellite system in order to communicate to the client where a certain driver is located and when exactly the delivery will take place. In a just-in-time environment, when the delivery window is not greater than 30 minutes, this kind of system can be critical.

The research revealed that procurement had a relatively moderate implication into the outsourcing decisions of many organizations. However, regarding the nature of this kind of a decision, the purchasing department should be massively implicated in outsourcing. Actually, in many cases – like outsourcing of the IT systems, which has grown dramatically lately – the procurement was not implicated. This will change depending on the role that the procurement activity will have in the future of the organization.

Regarding cost control, the purchasing department is the most important area of a company because two thirds of the product costs are acquired elements. It is said that design is the most expensive part of a product, but this fact is true just when the manufacturing and the purchasing links are not functioning properly. The purchasing department is responsible to know and to control these phenomena. The purchasing department has to know the materials, the performance, the availability and the suppliers. It is necessary to know which part of the product is aesthetic and which part is functional. The department is directed to other sources, like the Institute for Supply Management (http://www.ism.ws), an organization well known internationally.

5. Added value

In his paper „Competitive advantage: Obtaining and sustaining a better performance”, Porter asserts that the competitive advantage results from the value that a company manages to add for its customers. The value can be perceived by the customer either through a smaller price than the competitor’s products or through additional services that can bring some extra advantages and can justify a higher price of the product (Porter, M. 1985). An issue might be that one problem is the fact that, through differentiation from other products on the market, the degree of complexity will also rise automatically. If this differentiation is not perceived by the customer, than it is practically not present on the market, and the added value won’t bring the expected output. Porter used an instrument called „value chain”, defining steps in the transformation processes that modify a product along a supply chain. These steps include separate and interdependent activities in the added value process. The value chain helps to understand the competitive advantage sources and how they reflect in the value received by the customer. It is an analyzing instrument and it systemizes the activities from a chain and how they interact with one another.

The decision that is taken in a certain knot, will influence the other knots. If a certain plan is being made, this has to be communicated in time to the other participants in the chain, in order to assure the number of people, materials and time for the production line. In the production process, the bought goods and services cover 60% - 70% from the value of the sold product.

6. Strategic partnership relationships

The majority of companies have realised that maximizing the performances of a certain department or of a certain function can reduce the general performance of the company. The purchasing department can negociate a better price for a certain component and obtain a favourable price variance, but that cannot support the additional costs that come up in the final product because of factory inefficiencies. Thus the companies are forced to have an overview over the entire chain in order to fairlz measure the impact of a decision taken in whatever field. By the words of Ralph Drayer, vicepresident for Procter and Gamble: Winning a place on the market will suppose another type of relationship – one that admits that at the end of the day the winners will be those who understand the interdependency of businesses between sellers and retailers and those that work together in order to exploit the opportunities to deliver to the client products with added value. Mangers of most companies follow closely also the success of the other companies from within the supply chain. They work together in order to render the entire chain more competitive. They know the market realities, are very well documented concerning the competition and are coordinating their activities together with those of their business partners. They use technology to obtain the necessary information about the evolution of market demand and to trade information between organisations. The critical point in supply chain management is the management of the connections between each knot from within the chain in order to synchronize the entire supply chain.

7. Conclusions

The organisations that wish to face a dynamic environment cannot be built spontaneously. The examples of companies that have succeeded show that the process is slow, systematic, constant and present in all levels of the organisation. Management must grant sufficient importance to all elements that form the premises of a continuously chaning organisation by anticipating the changes that will occur and not by reacting to the environment. A supply chain must have a flexible logistical mechanism that allows it to respond to transformations of the business environment.

The managers that are responsible with logistics administration must define their role in the context of supply chains. They must continuously focus on cost reduction as well as quality improvement. These objectives can be achieved by means of an efficient coordination of logistical activities throughout the chain and of an optimal configuration thereof. By integrating logistics in the company's development strategy, managers must ensure the company's competitiveness and a tighter connection with clients and suppliers. The orientation towards innovative practices in the field of logistics are a solution for creating a competitive advantage that can lead to increasing profitability. Managers can achieve their goals by analyzing the supply chain and by completing activities based on this system, thus bringing added value to the product. The company can create processes and systems that support the activities described in this paper by integrating them in the operating manner of the organisation. Hence it will be capable eventually to efficiently manage logistics.

A problem of research and specialized literature in the field of logistics and supply chain management to this date is an insufficient description of the connections between more supply chains and of their impact on logistics. Each chain is analyzed separately, and only the perspective on the different flows that occur from the supplier to the client is insufficient. Extending the analysis also towards the secondary chains that interact with tha main chain is absolutely necessary. There needs to exist a continuous coordination and synchronization of the main chain with the secondary ones in order to obtain maximized efficiency and competitiveness.

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