

LOGISTICS - SOURCE OF COMPETITIVE ADVANTAGE

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Abstract: This paper presents the logistics if source of competitive advantage. Logistics can offer a source of competitive advantage, such as a superior position compared to the competitors regarding cost reductions, service diversity and satisfaction of consumer requirements. The logistic activities generate cost and give value to the final product .Despite that the same logistic activity can be done in many ways, with different costs and performance , the evaluation of the activities and the links between them are essential for understanding the influence of logistics regarding the competitive advantage. The links in the chain of value show the synchronization of activities to obtain competitive advantage.

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Key words: logistics, competitive advantage, customer service

1. INTRODUCTION

In nowadays' competitive market, whereas the marketing strategy insists on costumers meeting demands and profit obtained by the producer, the logistics' importance knows new dimensions. Logistics became a source of competitive advantage, a way of yield's augmentation and of the enterprise's market quotation. Many unites started to recognize the advantage that can be offered by a well organized logistics' system and therefore they built logistics special departments, separated by the ones of marketing and production.

The activity of any enterprise is strongly influenced by the environment where it acts (the market, the materials and service providers and costumers). The enterprise's reactions towards these changes are limited, particularly targeting the internal environment. For being able to face the quick changes, the enterprises know that they should adopt new attitudes in their working activities. Logistics is the area which can respond to the challenges that the external environment is generating.

2. OBJECTIVES

At the level of an organization, the logistics includes the following components [8]:

Purchasing. The purchasing activities (acquirement, raise, assurance) of the raw materials, the necessary components for achieving the enterprise's targets are

logistics operations. This component of logistics is referring to the connections between enterprises and providers, representing the levels situated upstream of this.

Activities for the production maintenance. These activities include the material flows from the inside of the enterprise. The logistics' contribution in the production area consists in providing the materials, the necessary parts for the production development, according to the pre-established production schedule (receipt, storage, stockpiling, materials manipulation and the planning of the materials' internal transports).

Physical distribution. The connection between the producer and costumers is realized throughout the physical distribution which can insure the availability of the required products, representing certain activities of demand processing, stockpiling, storage and transportation.

For designing some logistics' components, in specialized literature are used the concepts of „materials management” for „production maintenance activities” and „physical distribution management” for physical distribution. Other persons sustaining the concepts of „materials management” and „physical distribution management” are including these elements in the sphere of influence of „logistics management”.

Logistics supposes the connection between the seller and purchaser, regarding the acquisition and stockpiling of materials, the creation and physical distribution of products so that the enterprise could please the costumers meeting demands. The logistics offers an overall picture to the interflow of goods and services, from the provider to the final consumer and also a general view to the payments and information circulation on the opposite way. Between the sellers and buyers exist strong relations which allow the advantages' identification from the strategically vision of the system's functionality. The managerial attention must concentrate not only on its own organization but also on the interactions which give functionality to the logistics system.

The logistics efficiency supposes the correlation between the three components with the activities developed upstream and downstream. Each organization has its own methods to increase the efficiency of its logistics operations.

3. METHODOLOGY

Integrating with the providers and the distributors

Besides the better utilization of the production capacity, reduction of costs or differentiation, integrating with providers represents another way to obtain the competitive advantage.

Logistics is the process through which a producer enterprise interacts with other external enterprises, providers, customers, specialized firms in transport or stockpiling activities and, because of that, it must not be realized on fragments. When the relations between the producer, provider and customers are complete, the logistics network will be easier to control because all the involved parts are interested in decreasing the costs. Initially the logistics components have been viewed and treated separately and this is way the logistics' costs have increased and also the enterprise's yield has been reduced.

There are correlations not only inside the value chain of an enterprise, but also between all these and the value chains of the providers and distribution chains. These links, which Porter names them as “vertical connections” are similar to those from the inside of the value chain and give an influence to the logistics 'activity costs.

The providers accomplish a product which the merchant enterprise uses in its value chain and the activities developed by the provider (the frequent delivering can reduce the stocks' level; the properly packing of the products can reduce handling's costs) give an influence to the enterprise's logistics activities costs. The enterprise's connections with the providers determine their relationship not to be a worthless game, but a relationship from which, both can win. [6]

The enterprise's connections with the suppliers are similar to the ones with the providers. The coordination and common optimization of distribution activities can reduce the logistics costs. Creating partnerships between the enterprises and other participants in the product's chain is a benefit for a good functionality of the logistics system. These relationships are based, first of all, on common values and strategies, on a communication of plans and developed activities. Making strategic partnerships with the providers and distributors, it is an opportunity to get access to an unlimited profit logistics. The specialized transports enterprises could become partners with the producers or sellers from the logistics chain. Speaking of costs, it is more advantageous to appeal to the other enterprise's services to cover the transportation.

Logistics and the chain of value

Michael Porter used an instrument named „the chain of value” for classifying the purchasers, the providers and also to organize the enterprise on different activities, but interdependent activities which are produce value. The concept of the value's chain can be used to identify the sources of the competitive advantage and the modality throughout they are reporting to the value perceived by the purchaser. The value's chain is not only a concept, but also a practical instrument used to establish the modality in which the competitive advantage must be sustained in the conditions of increased competition on market. [3]

Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors. [7]

In Michael Porter's vision, the value's chain includes two categories of activities – elementary and supporting ones. In the elementary category are included [7]:

- **The internal logistics**, referring to reception, stockpiling and distribution of the production's entrances;
- **The operations or the production process** transforms the entrances into the finished product;
- **The external logistics** suppose stockpiling, storage and transportation of the finished product towards the consumer;
- **The marketing and the sales** suppose advertising activities, promotion, fixing the prices, choosing the distribution chains;
- **The service** consists in maintenance activities of the functional product (installation, repairs, providing the spare parts).

The supporting activities are the following:

- **The purchasing**, the acquisition of the material resources necessary for the elementary activities' development;

- **The technological development** with the research-projection activity of a product or a process;
- **The human resources management** with the activities of selection, recruitment, training, employers' motivation;
- **The enterprise's infrastructure** which includes the planning system, financing, the quality control.

The value's chain theory helps us to determine the logistics part inside the profitable enterprises; this means that the theory includes two of the five elementary activities which give value to the product or services – the internal logistics and external logistics.

These activities are integrating functions that cut across the traditional functions of the organization. Competitive advantage is derived from the way in which organizations organize and perform these activities within the value chain. [6] To gain competitive advantage over its rivals, a organization must deliver value to its customers by performing these activities more efficiently than its competitors or by performing the activities in a unique way that creates greater differentiation.

The implication of Michael Porter's thesis is that organizations should look at each activity in their value chain and assess whether they have a real competitive advantage in the activity. [6] If they do not, the argument goes, then perhaps they should consider outsourcing that activity to a partner who can provide that cost or value advantage. This logic is now widely accepted and has led to the dramatic upsurge in outsourcing activity that can be witnessed in almost every industry.

4. ANALYSES

Competitive and advantage of added value

Organizations that compete only on product characteristics have a big disadvantage against companies that enhance the basic product with value added services. The product in the hands of the customer is much more valuable than the product in the warehouse of the unit.[4] These benefits can be untouchable, for example the image or serving the clients.

If the product we offer doesn't differ from the competitor's, the clients will tend to choose the cheaper provider. So, adding additional value to the offer is a way to make it different from the competition's one. The way through which the organization can differentiate their products from the competition's is by segment approach of the market. In other words, different segments of clients give a different importance to the benefits offered by the organization.

While the objective of any logistic system is to provide the customer segments the service level which was established and negotiated, it should be acknowledged that there also should exist priorities in serving the customers. Since not all the customers of an organization are equally profitable nor products are equally profitable, key customers and key products should be offered an adequate level of service. Within the organization, profit varies by customer and by product. The indicator suitable for measuring should be the profit, and not sales revenue or sales volume. The reason is that sales revenue and volume could hide significant variations in service costs.

In other words, value adding by differentiating is a way to obtain the competitive advantage. Another way to add value is the service offered to the clients. The markets become more sensitive to services, which determine special challenges for logistics. It is getting harder and harder for any organization to compete on the market

only relying on their image, brand or fabrication technology. Thus the need of the organizations to differentiate their offers through offered services (delivery services, after sale services, financial packages) as a way to obtain a competitive margin.

A customer serving is a major component of the logistics politics because of the impact had on the economical results of the enterprises and its competitive advantage. The marketing target is to serve customers as well as the competition does or even better and also to obtain profit. To accomplish this target's needs is made with the logistics' help that has as elementary target the effective demand required by marketing. The enterprises are designed from interior to exterior and develop supplying, production and sales activities which are not always responding to the customers' requirements. Because the enterprises are not created by the customers, but for customers, this is an opportunity for the services' improving offered to customers. For enterprises, this supposes a permanent adjustment to the market's changes and a logistics strategy well organized which can face and take over the customers' demands. The managers' ability in logistics to change and rule the change might have as an effect, the improvement of the customers' demands, the sales and yield increasing.

The customers' serving level gives an influence over the sales, costs and the enterprise's profit. The connection between the logistics and the customers' serving level determines the enterprise to choose from one of these two fundamental strategic options [7]:

- the leader position in the prices area, which supposes that the enterprise is the producer with the lowest cost from the area where it develops the activity;
- the eloquent differentiation which consists in visible differences over the competitors who present interests for the customers (the product's superiority, delivering in the shortest time, quality services)

The logistics encourages costs advantage owning and contributes to the services' differentiation. The correlation between logistics activities and diminishing of costs allows the establishment of competitive prices. Obtaining a competitive advantage can be realized even throughout providing quality services.

In case when the strategic option is becoming the competitor with the lowest cost, then major risks appear. The difficulty in combining the strategic option (competitor with the lower cost) with the operational one (the customer's serving level) is higher because the serving level offered to the customers must be close to the one of competitors, even when it is chosen the strategy with the lowest cost [3].

Approaching the customers and providing some quality services, based on the individual needs of the customers might contribute to the earning and maintenance of the competitive advantage of the enterprise. Decreasing the costs, finding the factor/service which keeps the customer fidelity, realizing a new product are modalities of differentiation of the enterprise's for its competitors.

The enterprises can realize good products with efforts supported by promotion and low prices. If they do not succeed in accomplishing the customers' demands on time and completely, the results will not be at the level of expectations and a decrease of sales and market quotation might be reported. The competitors could imitate a prices politics, but they can not also imitate services politics [2]. The prices' problems are always important but they can not be rewarded by increasing the customers' serving level. The highest price does not mean the best service offered to the customers. The

cost is in direct relation with the offered services, demand and offer are reflected in the total logistics costs.

The improving of the customers' serving level regarding the increase of sales must be based on an analysis of the serving level's impact over the cost and enterprise's profit. The sales' volume increasing is not equal with the augmentation of the profit. The assurance of a highest serving level is possible only when there are substantial increasing stocks. The approaching to the maxim serving level imposes higher stocks and determinate a precipitous increase of logistics costs [5].

The establishing of an adequate serving level supposes the quantification of supplementary income obtained from the offer of quality services to the client and determination of the report cost / profit for different serving levels [1].

In other words, obtaining the competitive advantage results not only from reducing costs, but also by increasing the number of services offered to the customers. We can say that logistics has the potential to help the organization in obtaining the advantage of cost and added value.

The competitive advantage of costs

Logistics can offer a source of competitive advantage, such as a superior position than the competitor's regarding the satisfaction of consumer requirements. The source of the competitive advantage appears from the capacity of the organization to differentiate it's self from the competition and to manufacture some products at low prices. The search of a competitive advantage has become a concern for every manager because in the current conditions the idea that good products will sell or that the success obtained today will continue tomorrow is no longer true. This success is resulted form an advantage of price, value or an ideal situation, from both choices. [6]

Martin Christopher underlined: "the competitor with the largest profit from any branch of the industry tends to be the producer with the lowest price or the provider that offers a product with the most perceived values of difference". [6] This hypothesis is based on the fact that the producer with the lowest price, will have the biggest volume of sales from this sector, thanks to the big economy resulted from allocating the invariable cost on a larger volume of products.

Obtaining a competitive advantage of price doesn't only result from increasing the selling volume and the scale economies, but with the help of logistics. Logistical costs hold an important part in the production's total costs and by redesigning the logistical processes cost reductions can be obtained.

Logistics has a special importance for the enterprise's costs, as well as, for identifying the relationships between the accomplishing modality of value creative activity and, the cost or performance of another activity. The connections within the value's chain are reflecting the activities synchronization in order to obtain the competitive advantage. For example, delivering in time supposes a coordination of some activities classified in operations, external logistics, services and sales-marketing.

The value activities and accounting classifications are rarely identical. [7] Accounting classifications (direct expenses, general, administration) group costs that are part of the same activity.

Due to the fact that some logistics activities can be realized in many variants with different performances and costs, the activities' evaluation and the connections

between them is essential for the comprehension of the logistics' influence over the competitive advantage.

Apparently the most frequent decisions in reducing the logistics costs are those of the minimization of expenses that occupies the highest place, such as: transports, stockpiling, and storage. But not always this economic judgment takes us to obtain the highest effects. The logistics with low costs also suppose compromises (higher costs for transport but smaller costs, storage and stockpiling). If there is just one responsible person for all these logistics activities, an adequate decision can be easily taken. Because of the costs that every component activity involves, there is a detailed analysis for reducing all these and increasing the enterprise's yield, because their reduction supposes the increasing of the others. For example reducing the transport costs by increasing the number of stockpiling places, will determinate the increase of the storage, launching and realization costs.

To decrease the logistics costs, a sever analysis of the effects which are generated by the relationships between the following elements must be taken into consideration:

- stocks and transport – stocks reducing leads to the number and frequency increasing of movements from providers or customers, meaning a growth of the transportation costs;
- storage and transport – storage reducing costs by giving up to some storage places, determining a high number of movements, in the conditions of the same activity volume and transportation costs;
- marketing and transport – using the transportation means to their full capacity means delivering higher quantities of products to reduce the transportation costs, but it might have negative effects in fulfilling the customers demands on time.
- stocks and marketing - the raise of the satisfaction degree of the customer's demands, a priority target of marketing strategy involves a higher cost for stockpiling. A customer's fulfilling demand on time supposes the existence of a certain products' quantity.
- Stocks and production - finished products stocks are influenced by the customer's demands and the enterprise's production activity. The customer's demands reduce the level of the finished products stocks and the production process increases their level. For the logistics system this situation can determine an increase of storage costs, if the products have a slow sale or the market demands were not tested before. Regarding the material resources, the decreasing of storage costs might generate discontinuities of the production process when irregularities in the yield's process from the provider are reported.

5. CONCLUSIONS

Logistics is the most important component of the organization which, if well administrated, represents a source of competitive advantage.

The organizations can respond to the challenges of a competitive environment using logistics as a competitive weapon and not as a group as activities, generating costs.

Because of the fact that same logistics' activity can be realized in many ways, with different performances and costs, the activity's evaluation and the connection

between them are important for logistics' influence on understanding on the competitive advantage.

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