

Logistics' Contribution in Global Competition

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Abstract: International logistics must be handled differently from internal logistics due to three major motives: higher costs, environment change and complexity.

The issue of costs has dominated, until recently, the managerial thinking in the servicing of international markets. The problems related to changes in the trade and legal environment and the high complexity were considered secondary or even ignored, through the delegation of responsibility to a team of specialists in external transportation and the local management of the foreign market.

The attention given to costs had beneficial consequences for the exporters of basic products or the ones with a large volume, in the case of which the price competitiveness has a decisive role and negative consequences for companies which have to avoid the client's evaluation of their offer only or primarily on the basis of its relative cost.

We could compare the current step of evolution of international logistics practices with the internal logistics management of ten or twenty years ago, when the transportation and storage costs were in the centre of attention, under the protection of the physical distribution management.

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1. Introduction

Management problems in international logistics are substantially different from the ones in internal logistics. Some of these differences have already been mentioned: the problem of having control over the transportation process, the advantages of sale in delivery terms, the determination of the place of international distribution in the organization of the company, the reduction of complexity of the transportation market, the necessity to sometimes ignore the frontiers between national markets, the missing data on transit periods, the complexity of the documentation.

To these we can add: the typical demand for export is larger than the internal demand, the potential to sell according to the level of service in export.

Unlike the internal system, international logistics needs a much more united cooperation and coordination system between the sales and the distribution department. In the internal process, logistics is rather a reactive function, responding to the relative regularly fluxes of orders. In the international trade, the processing of orders is more complex and the level of serving clients more difficult to monitor. An organizational bond with marketing is beneficial for the administration of international logistics.

2. Control over transportation

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Defining the limits of responsibility for international transportation between two contracting parts is a sufficiently important problem in order that an international organism, The International Chamber of Commerce, may prepare a list of standards, INCOTERMS, which define the responsibilities of the exporter and the importer.

The minimum responsibility for the exporter is the ex-works (EXW), in which case the exporter does not have many more obligations, except the one of ensuring the product availability at the factory gates.

The Franco bord (FOB) delivery implies that the responsibility extends up to the board of the ship.

The exporter who wishes to administrate the entire movement will fall under the category of DDP – delivery paid custom duties, the equivalent of what was once called Franco Domicile. In some countries the use of INCOTERMS is mandatory by law, in other countries they are recommended and can be disputed as having judicial value in any kind of conflict.

Even so, their use is not yet universal and subtle differences in their interpretation; even in the case of the most frequently used terms, can cause problems.

For example, many developing countries insist that their importers have the responsibility of ensuring the sold goods in „D” conditions.

The normal delivery costs- CIP (carriage and insurance paid) can be changed into DCP (meaning CIP without insurance) in these conditions.

If the products disappear or get deteriorated on the way and the importer refuses to pay, the exporter can encounter real difficulties in receiving the payment, especially if the importer has overlooked the necessity of insurance!

In practice, many companies seem to appeal to a limited number of delivery conditions, which are divided into two main categories:

1. Conditions in which the exporters assume the greatest part of shipment responsibility (CIP, DCP)
2. Conditions in which this role goes to the importer (ex-works, FOB)

Studies performed in different countries showed that the majority of companies prefer not to use the sale in „D” conditions. This reality has to be attentively interpreted in the sense that small enterprises (numerically majoritarian), which sell to the large multinational companies, are advised to sell in ex-works or „D” conditions up to an internal collecting point, where the larger companies group the goods from several exporters. It is the case of the Swedish automobile company Volvo, which supplies itself with several components from Great Britain.

Another aspect due to which many exporters are not so keen on accepting responsibility for delivery is the tendency to pay for the shipment separately. For example, many British exporters use the FOB condition plus estimations of services, which is not an INCOTERM, but an attempt to offer the client the possibility to choose and simplify the export estimation. Another common practice is the multinational companies' tendency to use FOB as a method of establishing the transfer price, regardless of whom arranges transportation.

Generally speaking, it can be assessed that half of the British exports are made in „D” conditions, and half in other types of conditions. It is a little higher proportion than in the case of French or German companies, which use less the sale in „D” conditions.

But, generalizations always hide somewhat large differences in reality. While the french companies appear to consider the European markets as a continuation of the big national market and, due to the size of national territory, consider the transportation a much bigger problem than it is considered in other countries, the German companies, which are especially involved in the exportation of industrial equipment, tend to consider transportation as a separate part of the contract and to rest on international shipping suppliers, which can handle this aspect of their international activity.

Exporters are advised by almost every source to sell in „D” conditions and to consider this a marketing choice or a strategic policy. In this manner, the importer receives a better service, which will determine him to prefer the exporter’s offer to the available offers on a national plan. The governments and the groups which encourage the interests of the ones dealing with transportation are preoccupied in the same manner, although due to quite different reasons, of maximizing exports in „D” conditions, because they positively influence the balance of payments in the national transportation industry.

Starting from the premise that the export in „D” conditions is a good marketing strategy, we could reach the conclusion that companies prefer to buy in „D” conditions. The Volvo example, reminded earlier, contradicts this generalization, similarly to the study achieved in the 80’s on British, French and west-German companies. The companies were asked to name the shipment conditions they prefer, for exports as well as for imports. The first conclusion was that half the companies involved in the study preferred to buy ex-works, FOB or in similar conditions.

Even more interesting was the ascertained tendency of two thirds of the 139 exporting and importing companies to sell in „D” conditions and to buy in other conditions and vice-versa. It would have been expected that the majority of companies preferred to sell in „D” conditions and to buy in other ways. In reality, the companies tend to either have the control of transportation both for exports and imports, or to give up control in both cases.

3. Administrating transportation

The company selling in „D” conditions must administrate the transportation system so that it improves the quality of the service to the client. The problem with which many companies confront themselves consists of the qualities of management of the international distribution functioning.

Many companies develop initially through exploitation of the conditions on the internal markets. The exporting activity develops slowly and can be a secondary activity for a long time. The tendency of small firms to sell in different condition than „D” ones is more pronounced than in the case of other firms. A simple clerk

from the exporting service maintains the connection with the carrier and prepares the necessary documents.

In time, exports may represent the main part of the turn-over of many companies, but the same abecedarian personnel will handle the export's distribution. Many people can progress along with the rise in importance of their position. Others cannot do that and as a consequence, the general quality of management of the international distribution represents a problem in many countries.

In many states, the true specialists are the shipping companies. Transportation is considered a professional occupation in countries as Switzerland or Germany. In France or the US it is an authorized occupation. Even in Great Britain, where anyone can establish an enterprise, a strong professional body exists.

Carriers offer a wide range of services, from documentation and transportation, to consultancy, and many companies use their own carriers as experts in export.

In the last few years, the traditional role of the carrier has diminished. Door to door transportation services have developed, while the use of containers and RO-RO system has replaced the bulk transportation services. Even in the case of air transportation, integrated companies have developed rapidly, especially in the superior segment of the market. The possibility of replacing the carrier in its role of intermediary have grown as the transportation systems have simplified, but this possibility is reachable only by those exporting companies whose personnel from the exporting service is capable to deal with supplementary tasks.

Equally important is the problem of the position of the international distribution in the company's framework. A seemingly logic position is in the case of the extended function of logistics. In practice, this choice is not always the most logical due to the significant differences between the internal logistics and the international one. Most frequently, exporters connect the international logistics to the export sales and to the marketing department. The logic is based upon ensuring the coordination between the two departments, regarding the demands which tend to be fewer but larger and more complex than the ones from the internal activity.

In some companies, an organizational bond with the financial functioning is possible as well. For example, in a company that sells high- value equipment or export especially to developing countries, sales are most probably realizes through the means of a bill of credit. Although bills of credit are apparently, an excellent exchange method, offering advantages as far as the exchange flux is considered, compared to operating in an opened account which this implies, banks, as well as the most scrupulous importer, are inclined to examine attentively the contracts, the letters of credit and the export documentation to ensure that every letter is correct. When a spelling mistake of the name of the boat can lead to the annulment of a bill of credit worth millions, positioning the transportation office next to the one belonging to the financial director can be beneficial.

4. Centralizing in large companies

Many large companies have preferred the option of centralizing international distribution. The function of central services varies from giving consultancy and

general analysis to the entire transportation operation. The ideal situation, if it exists, is situated between the two extremes. Transportation with personal means seems to be only a temporary solution. It can start as a central service, included in the overheads or in the direct cost of the operational units, but the natural tendency is to evolve into a separate company or a separate profit center, which will start to offer services to other exporters and to search for better prices outside (under the motif that the internal transporter must have the option of adjusting its tariffs or the level of service to the market evolution). It seems that it is unavoidable that the company's transporter goes on its own way, maybe even very profitable, but the mother company loses the advantages of coordinating the activity, like the grouping of the small cargos for similar markets and the central negotiation with the carriers.

Many leaders are preoccupied with the placement strategy. For example, a company that sells in the majority of European countries can choose to produce components and assemble them on more markets. The strategies of these real international companies include the ownership of at least one double of the main production units, as well as obtaining advantages from several incentives for the location of the production units offered by national or local authorities. Although at a strategic level these policies appear to make sense, at an operational level, they determine a large number of problems related to logistics.

The cost advantage of cheap location can be lost if the economies so formed must ensure transportation costs. Even so, an even flux can be organized between the component factories, so that the main stock can be kept in a container or a truck situated on the way or between the two operational units and not in a storage.

The potential contribution of the logistics department management to the placement decisions cannot be neglected. In the problem of ignoring or not the international frontiers when the locations are selected for the centers of distribution or for the production units, both extreme solutions present risks. At one pole, a large company can decide to structure its activities by country, every market having its own production, distribution and marketing. At the other pole, the same company can decide to consider Europe as a large homogenous market.

Many companies have oriented more and more to the first extreme. Although CEE had the tendency to completely remove the trade barriers in 1992, multinational companies kept separate factories in each country, manufacturing and selling similar products with different sizes and under different names in each market. A company manufacturing detergents sold the same basic production, but in one market the toilet soap was sold under the name used in another market for detergent. A food company had rules which forbade certain branches to export to a foreign market even if the placement of factories was so designed that the factory from the mother country was closer to the market from the neighboring country than the factories situated in the neighboring country itself.

At the opposed extreme, a Japanese company manufacturing video equipment, kept a stock on a single European market under a bond note (thus avoiding custom duties on import on this market). The company services each national market by air and through express road transport from a single storage point. The transportations costs were high, but the total costs were much lower. Where the logistics systems are good, either due to low pikes or to a transportation system which manages to

eliminate delays as a consequence to its relation to the customs, the benefits of ignoring frontiers must be considered.

5. The Global Transportation Market

Choosing the transportation method in international transport is similar to that of the national market. The main differences are the bigger importance of naval transport and the potential of air transport used for the reduction of storage costs.

The use of cargo becomes a norm in 1960 and the conventional services of naval transportation were limited to those developing countries which could not afford container handling equipment. Road transportation has replaced rail transportation in many markets, but the use of railways as an alternative for the naval one over the North American and Russian bridges meant an important innovation for the rail transportation. Barge traffic is still an important transport mean even in Western Europe.

5.1 Naval Transportation

In the 1980's three major tendencies manifested. Firstly, the traditional power of commercial naval lines belonging to the cartel structure of the Naval System Conference started to decay. The first challenge came from Eastern European and Third World fleets which often sold overprices, anxious to obtain hard currency for their states. The rule 40:40:20 UNCTAD was developed to encourage the fleets from developing countries, stipulating that only 20% of any commercial exchange traffic can be transported by ships not belonging to the countries involved in the exchange and the rest was equally divided between the participating countries. The main mechanism of applying the UNCTAD rule was the system of the Naval Conference. Ultimately, the rule became a threat exactly to the system which was supposed to apply it.

Another threat was the emergence of a new kind of operator outside the Conference. Traditionally, the ones outside the Conference sold at a price corresponding to the irregular service they were providing, unlike the members of the Conference.

The new outsiders, like Evergreen, sold themselves at a corresponding to the service price based upon large investments in modern equipment, large capacity and an international level operating base. These innovations allowed outsiders to compete with the Conferences, weakened by the operational performance of smaller members.

From the exporter's point of view, the attraction to use ships not belonging to the Conference grew, while the costs became lower especially due to major overcapacity on the naval market at the beginning of the 80's.

5.2 Air Transportation

The second major tendency on the transportation market was the reduction of the relative cost of air transportation. The explosive development of passenger traffic on large distances was encountered by airlines through the use of large planes,

having a substantial capacity. They replaced, sooner than later, the old planes of universal transport. Due to the fact that many airline companies considered the passengers' incomes as their main source of profit, the commodity transportation was rated at a price which was a little bit higher than the marginal cost.

Although the reduction of prices in all routes except the popular one was welcomed by the exporters, disadvantages also existed. One of them is that the long distance passenger planes flew from a limited number of airports, while the commodities' planes were more flexible. Regional traffic was concentrated in these centers. On shorter routes, where the access of high capacity planes was limited, the cargo has to be transported by road.

Air transport had become cheaper but less flexible and in some cases, slower. Then, the door to door operations, usually performed by independent carriers rather than national airlines, developed quickly by offering time guarantees much appreciated on the market and simplified price structures. Prices were generally higher than the ones used by normal air transportation but the services were much better.

Many companies concentrated on the cargo market of under 25 kg: delivery companies transported small articles, which were declarable. The transporter got a number of services in the sector which has become known as express delivery.

In the European sector, the fast road services can compete in this developing sector and even railways are used as a transporting line between major centers.

5.3 Combined services

The third significant tendency was the development of transportation services which use more ways than one of transportation. This seems an innovation due to the fact that sea traffic and the air one usually have to be complemented by terrestrial circulation. Nevertheless, the main mean of transport was the one determining the way in which the service was sold and controlled. Different ways need different documents, different standards of safety and use different structures of tariff.

The ISO container was the source of change in the attitude of choosing the means of transport. The fact that the produce was kept in containers meant more than the means of transport chosen. Combined bills of lading had to be introduced. The transit duration were charged from door to door and not from dock to dock.

The most substantial change can be observed on the express delivery market, where the carriers use various services and balanced convenient prices. Cheaper and slower services use combinations of transport which are they cheaper and slower. The use of naval/air combinations can profit from the limitation of cargo in the air transport on some routes, in order to reduce to half the times of transit with a low supplementary cost.

The result was a higher number of possibilities of choice for exporters and a raising pressure on the branch of transportation to offer „packages” with various prices and service levels instead of specialized transportation.

4. Transportation services and the buyers' manifestation

International logistics has the tendency to focus especially on costs and not on analyzing other factors that can influence the service of which the final client benefits from. Transportation costs can rise to approximately 10% of the delivered product's price. The variations are, however, very large, from 0.2% for pharmaceutical companies to 100% for porcelain exporters.

Unavoidably, there will be pressure on the companies' management to reduce transportation costs, even in the case of pharmaceutical companies. Normally, transportation represents a lower proportion of the costs than the tariffs. Adding these to the reality that in international marketing the price competitively is of capital importance on the commodities market, it can be easily explained the attention traditionally given to the price of transportation services.

Two problems exist as far as this aspect is concerned. The first one is the difficulty to control the international transportation budget. International markets tend to fluctuate, sometimes intensively, according to the exchange rate, incentives given by governments concerning the manipulation of tariff and non tariff barriers which protect national industries. The costs of servicing national markets can differ in multiples of ten. Secondly, the exporter can reduce the transportation costs by changing the delivery terms. It is not surprising that only a small part of the exporters use the budgetary control of transportation.

The second factor that attracts attention over the prices of the transportation services is an apparent passing by of other factors, like the speed and safety of the service. Market studies have shown that the one responsible for sales at export have totally flawed perceptions with regard to the transit timing in international transportation, having the tendency to underestimate the transportation timing on road and railway modules.

It has been observed that not even the buyers of transportation services have data with regard to the real timing of transit. In a way, it is not something very surprising. The communication between the importer and the exporter is harder than the one between the client and the supplier in the case of national trade. Often, the importer uses its own carrier for the elaboration of the custom formalities, so that the exporter, in the best case, can only monitor the time of transit until the harbor or the terminal and not the one up to the door of the importer.

5. Documents needed for transport

A transport for export can need up to 20 different documents for transportation, customs, insurance of banking operations and licenses. The complexity and quantity of documents seems to have been the most important factor that discouraged the small American companies to handle exports. The costs per transportation were estimated at approximately 80 pounds, especially due to internal bureaucratic costs and external taxes paid to transporters. The error balance from the documents proved to be high, having as a result delays in distribution or in payments.

On an international plan, several patented systems of documents are available. Many of them are based on the concept of alignment. In this way, every information about a cargo (the name and address of the importer and the exporter, description of the product, the size and weight of each package and others) is allocated a specific space on the main document.

After the elaboration and close verification of the main document, other documents can be elaborated by posting on the monitor the main document and photocopying the necessary data on the requested document. This last process can be automatic with the help of a photocopier.

This process was gradually replaced by the laser printer, where the document can be printed on the entire sheet, with different characters, company headings and other elements. Another system, the Single Administrative Document or SAD, was introduced in Europe in 1988 to replace an entire range of official custom and transit documents. For example, the same document, accepted in one country as a custom registration for export, is accepted as a custom registration of import in another country. The true innovation owed to SAD is maybe, the agreement over a limited number of information from the transportation document. The introduction of „documentation without documents” is facilitated in this manner and also the removal of some important artificial trade barriers.

6. Conclusions

International trade theories underline the obtaining of the competitive advantage on a national market, offering in this manner the possibility to sell cheaper on another market. This kind of theory can promote the idea that the price is the dominating factor in trade. Although in many sectors of the market this is true, a company can be successful also through the maximizing of the service, especially if the firm's strategy does not aimed at occupying a main position on the market. Sale at competitive prices assumes, before anything else, the reduction of logistics costs. Sale at a corresponding price does not mean the opposite, but it allows the exporter to concentrate more on the administration of the channel distribution in a more proactive way. Both approaches need the emphasis of the role of logistics in international activity.

7. References

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