

International Marketing Logistics

By: Priyanka Kawatra Arora

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INTERNATIONAL MARKETING LOGISTICS

INTERNATIONAL MARKETING LOGISTICS SYSTEM



Introduction to Marketing Logistics System

INTRODUCTION

Marketing logistics (also called physical distribution) is a very important part of marketing. It is in fact considered as 'the other half of marketing'.

Marketing logistics is particularly important in international business scenario because there are multiple suppliers and hence intense competition.

Marketing logistics has several functions like order processing, transportation, warehousing, inventory control, and information monitoring. Earlier, different functions comprising logistics were treated separately. Recent developments in technology have timables integration of various functions and streamlined the entire system process. These are called Logistics Management Systems (LMS).

Due to globalization and rise in international trade, logistics has become an important aspect of corporate strategy.

CHAPTER AT A GLANCE

CONCEPT OF MARKETING LOGISTICS

Logistics is originally a military concept. The term logistics has been derived from French word 'loger' meaning transportation, quartering, and supply of military troops. It refers to physical distribution of goods from source to users.

The concept of logistics is now widely applied to area of marketing management. An appropriate

marketing logistics system is important for any company for supplying goods to meet the customer needs, just as in war the supply of troops, weaponry and other essentials is must.

Marketing logistics is defined as planning, implementation, and controlling the process of physical movement of goods (or material) from point of origin to point of use to meet customer needs.

OBJECTIVES OF MARKETING LOGISTICS

Primary Objective

The primary objective of a logistics system is to transfer the right goods to desired place, in optimum time and good condition, in a cost effective manner.

Other Objectives

There are other objectives which a logistics system must achieve. These include:

1. Better Customer Service: Timely order processing, effective warehousing, cost and time effective transfer of goods help in achieving customer satisfaction. To decide the level of customer service, factors like customer requirements, competitor offerings, and cost of service offering must be understood and considered.

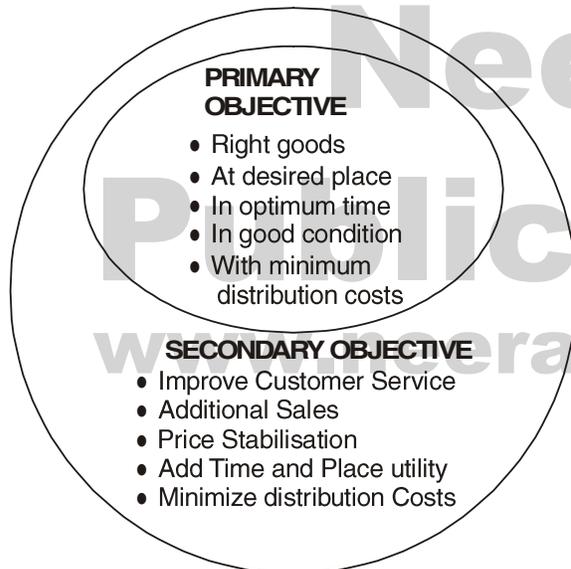
2. Additional Sales: An effective distribution system helps in retaining customers and attracting new ones with better service (in terms of time and cost). By offering better services at lower price, company can achieve additional sales.

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3. Price Stabilization: By regulating supply of goods in market, the physical distribution system helps in stabilizing the market prices. When the supply is in excess of demand, the material/product can be stored in warehouse. This curbs free market forces to operate and helps in achieving stable prices.

4. Add Time and Place Utility: By making the product available at place where it is need and when it is needed, distribution system adds both time and place utilities to the product. For achieving this, company must critically decide on number of warehouses and the type of transport system to be used for product delivery.

5. Minimize Distribution Costs: Total distribution costs includes various costs, like inventory cost, transportation costs and warehousing cost. These are inter-related and minimizing one may increase the other, therefore these must be analyzed in relation to alternative channels and an optimal path must be selected.



IMPORTANCE OF MARKETING LOGISTICS

Marketing logistics has gained importance (strategic) because of a number of factors. These have been described below:

- 1. Helps in achieving overall marketing objectives:** It is the physical distribution that eventually leads to consumption of product/ services. Timely delivery helps in achieving goodwill, repeat customer and hence sales increase. Besides, it helps in achieving customer satisfaction.

- 2. Helps in Achieving Economic (cost) Advantage:** Regions specializing in certain products can gain by exporting product to other regions using effective logistics system. It allows landed costs (production plus logistics costs taken together) to be competitive with other regions.
- 3. Restructuring of Production Facilities:** More and more producers are decentralizing their systems to attain economies of scale (EOS)
- 4. Increasing product line** requires maintenance of more varieties and hence increases the stock level.
- 5. Shorter Product Life Cycle (PLC):** Forces production to match the demand. Excess production faces risk of obsolescence, price falls, and other risks.
- 6. Shift of distribution power** from manufacturers to traders.
- 7. Faster data transmission systems** enable faster inventory planning, forecasting sales, stock update, and increased responsiveness to changes in market conditions.

The following factors have caused ready acceptance of marketing dynamics:

- 1. Technical advancements** in area of information processing help in obtaining real time information for timely fulfilment of orders.
- 2. Technical advancements** in area of transportation, warehousing and material handling.
- 3. Emphasis on Total Cost** (rather than Direct Cost)

LOGISTICS TASKS (OR ACTIVITIES)

An effective logistics system has following components:

- (1) Order Processing:** Order processing includes various tasks such as receiving order from customer, recording the order, order filling, and assembling order for transportation. Order processing has two most important considerations, it very has to be both—timely and accurate. Timeliness is critical in order processing. For example, if an order is not executed in time, it may delay delivery of goods, which negatively effects customer experience and may also lead to order cancellation. Real time systems which enable timely processing of order are available to enable timely processing of orders. Accuracy in order processing

means delivery of right product to right customer. It is important as delivery of wrong product, or product with different specifications would lead to loss in firm's credibility, has reversal costs, and even order cancellation.

(2) Warehousing: Assorting and storage of goods to create time and location utility is called warehousing. Warehousing enables assortment of similar products and provide proper storage facility for them.

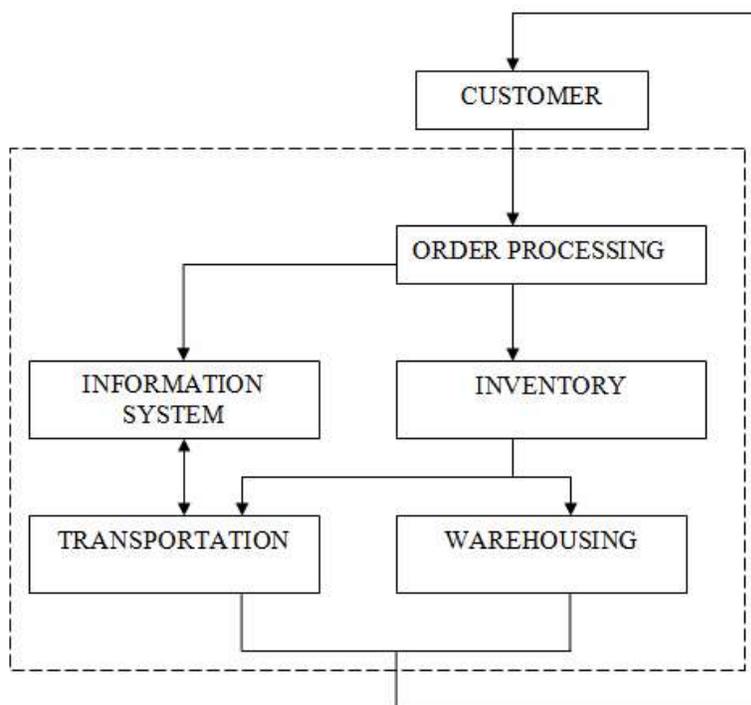
Warehousing involves strategic decisions like number of warehouses, warehouse capacity, their location, and type of ownership (leased or owned). A firm has to consider these factors while making warehousing decision, because it involves conflicting resources. For instances, cost of owning of a warehouse involves initial cost and financing the same. Similarly, owning more warehouses would mean better customer service, but involves ownership and maintenance costs.

(3) Inventories: Inventory costs include holding costs (warehousing costs, obsolescence, tied up costs), replenishment costs, and manufacturing costs. Decision regarding inventory level is made by estimating future demand. A precise estimate helps in controlling inventory costs and also optimizes production level. While deciding inventory level, a firm has to consider accuracy of its sales forecast, production efficiency,

inventory policy, and efficiency of its distribution system. Inventory level is high in certain industries like steel and automobiles (nearly 30-40%) and hence controlling inventory level is critical to success of overall logistics business. More and more companies are now following JIT (Just In Time) philosophy.

(4) Transportation: Transportation involves transferring goods from production or sales point to consumption point in stated quantity. Transportation system must be cost-effective, adequate, consistent, reliable, and equitable. Transportation increases economic value of goods by adding time and place utility.

(5) Information System (Logistics Management System (LMS)): An efficient information system is a must to provide up to date information about transportation, warehousing, and inventory to maximize efficiency of the distribution system as a whole, as each of the activities are interdependent. For example, an information system will help in objectively estimating the demand, which in turn can be used to determine the inventory level and also level of production. Similarly updated information about warehousing like unit load performance, space utilization; etc., has time and cost implications and effects success of physical distribution system.



Logistics Tasks–Major Tasks of Physical Distribution System

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LOGISTICS AND MARKETING

Marketing, sales, and logistics are closely inter-related. Traditionally, logistics (physical distribution) was considered as “The Other half of Marketing”. Marketing commences with obtaining demand through promotional activities and product-price mix. Once the demand has been confirmed, delivery of product becomes important. Delivering the right product at right time, at right place are the factors which help in overall improvement of sales.

Physical distribution costs accounts for large proportion of sales value for many products. To reduce the overall product cost, it is necessary to reduce the distribution/logistics costs.

Marketing and Logistics Converge

Logistics has gained strategic importance. To achieve competitive advantage, it is necessary to have an integrated system where manufacturing, marketing, sales and distribution are unified, more specifically at strategic level. This is driven by the following factors:

1. Diminishing Brand Power: Product differentiation is increasingly decreasing due to convergence of technologies, making product less different from each other. In such situation, the availability of product (stock) becomes an important factor in achieving product sale.

2. Increased Customer Expectations: Industrial customer are more specific in selecting supplier with formal vendor appraisal systems in place.

3. Shorter Product Life Cycle: Rapid advancements in technology have shortened the product life cycle and the lead time in turn. The lead time which was earlier the time elapsed between the order placements to delivery has change to time between material procurement to delivery. In some cases, the PLC can become even shorter than the procurement to delivery lead time. This has serious implications on product planning and operations.

4. Shorter Lead Time: Production lead time is shortening, while a greater proportion of time goes in transport and storage. Hence it is required to have effective warehousing and logistics system in place.

THE CUSTOMER SERVICE DIMENSION

Customer service is a connecting link between marketing and logistics system. The aim is to manage these aspects in such a way that it brings cost advantage and value addition.

A product has virtually no value until it is in the hands of consumer/customer. The aim of customer service is to provide time-place utilities in transfer of

goods/services, where the role of physical distribution comes in play. There are several factors which influence the timely delivery of right product to the customer like – order cycle time, delivery frequency, stock level; etc.

There is shift in customer buying trend. Customer associate product cost with inventory costs, lead time of suppliers; etc. This has led to frequent ordering as per the requirement. This requires strong logistics and warehousing system in place. Hence, logistics is not just delivery of goods, but as a tool for marketing and increased sales.

DOMESTIC AND INTERNATIONAL LOGISTICS

Domestic and International logistics differ on the basis of Logistics Cost involved, business mechanics and influencing political and cultural factors.

1. Logistics Cost: The Logistics costs (as a proportion of overall distribution costs) is much higher in international trade. Unlike domestic logistics, international logistics involves several costs like transport costs which are mainly freight cost, as nearly 90% of the cargo is moved by sea. The transportation cost borne by developing countries are twice as much as those borne by developed counterparts. Other costs borne in international logistics are the tariffs. The tariff and transport costs together with inland transport costs; visibly distinguish International logistics from domestic logistics. There are certain other costs which are otherwise common to both the systems. These include inventory costs and non-physical handling costs, which include staffing cost, information system management costs, demand forecasting costs, permissions seeking costs, extensive documentation costs, order processing and dispatching costs; etc.

2. Business Mechanics: International logistics is complicated due to involved business mechanics. It requires wide knowledge of procedures, trade policies, merchandise, competitors; etc. It requires expertise to quote the deliveries and involves more intensive documentation as compared to domestic shipments. International shipments also face challenges at port, cargo aggregation points (switching points) which increase total transit time and increase overall logistics costs in return. This is more ascertained in case of developing countries in International trade.

Political, Institutional and Cultural Factors: Foreign trade has several inherent risks like currency risk, Government policies, control and regulation of foreign trades, banking system, natural or intended