

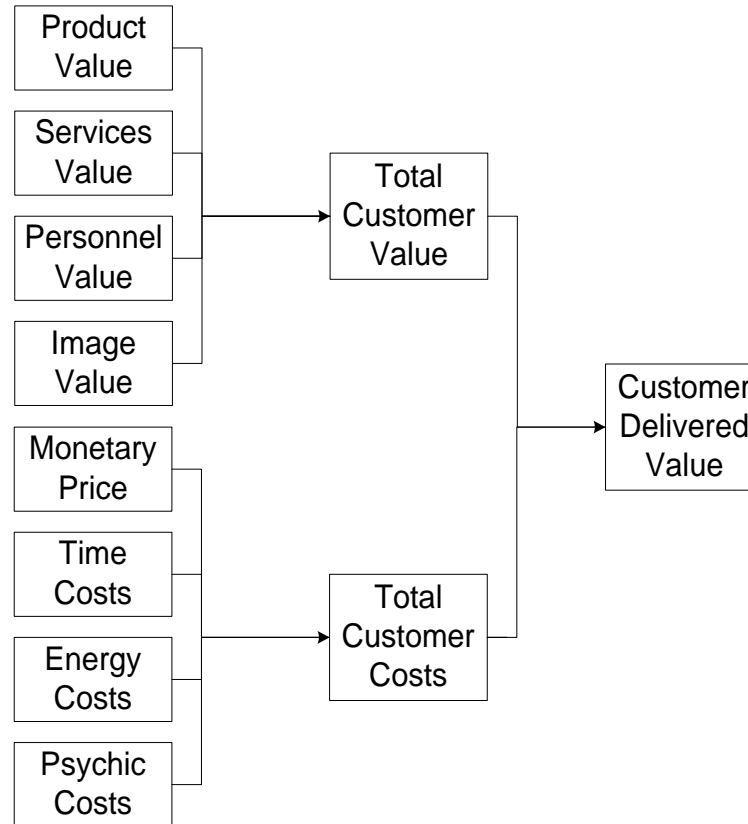
Lecture 2

Design of Logistics Systems

Customers Demand Greater Value

- Customers prefer perceived 'highest customer value'
 - The difference between total customer cost and total customer value
- Difficult for global companies to determine with customers in many different markets
- Customers seldom lower their desired level of delivered value

Customers Demand Greater Value



Customers Demand Greater Value

- Transportation
 - Complex framework of laws and regulations
 - Recently deregulated (1977)
 - Reorientation towards more competitive transport system
 - Opportunities for shipper to obtain better service and lower prices
 - Increased complexity for transport managers

Customers Demand Greater Value

- Environmental concerns affect society's quality of life
 - Logistics impacts are important in affluent countries
 - Willing to pay more for environmentally friendly goods ...recycling, "green" products/services, etc.
 - Less important to those in developing countries
 - More interested in raising their standard of living

Customers Demand Greater Value

- Changing view of inventory
 - Historically used to compensate for internal problems that could result in customer dissatisfaction
 - Long runs for reduced set-up cost
 - Sales force pressures
 - Focus on inventory costs
 - JIT results in lower cost but lower customer service
 - Inventory management increasingly critical management activity for global companies

Customers Demand Greater Value

- Information technology
 - The glue that holds the logistics system together
 - Dramatic improvements in the past 20 years enable systematic management of logistics
 - Capability to fully automate the logistics system is now available
 - EDI
 - Supply chain visibility
 - Customer visibility of order fulfillment
 - RFID, GPS, secure containers, etc.

Customers Demand Greater Value

- Electronic commerce
 - E-commerce rapidly taking hold
 - Security issues
 - Quick order placement requires quick delivery to insure customer value
 - Total logistics management (Supply chain management) is the best approach to the problem we have today

Global Organization of Logistics

- Traditional approach to business concentrates on geographic markets
- Global organizations must look at the whole world as one potential market
 - Sourcing
 - Manufacturing
 - Researching
 - Raising capital
 - Sales

Global Organization Logistics

- Challenge is managing this global network
 - Spread activities among nations to serve the world market "locally"
 - Coordinate among those dispersed activities to minimize cost and maximize value for each customer population served
 - Outbound logistics, after-sales service and marketing tied to buyer's location
 - Inbound logistics and manufacturing performed anywhere

In global logistics, however, the "financial supply chain" can be much more directly linked with the physical and information flows. Letters of Credit, financial settlement processes, and other financial related capabilities must often be mastered to expand the network of potential trading partners on both the buy and sell sides, as well as to ensure the timely flow of goods is not interrupted by issues with financial flows and related documentation.