CIELE A FUNKCIE PODNIKOVEJ LOGISTIKY

OBJECTIVES OF BUSINESS LOGISTICS FUNCTION

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Abstract

The logistics function has to earn the highest possible return on investment over time as far as internal objective is concerned. But to achieve this internal objective it has to first achieve external objectives. It has to earn revenue and minimize costs.

Therefore a logistics system has to be designed and operated considering its impact on revenue contribution that comes through the quality of customer service provided and cost of logistics facilities, system and operation. Costs of logistics function include capital costs are operating costs. Wages, public warehousing expenses, public transport expenses, and financial expenses related to inventory investment, other administrative expenses are examples of operating costs. Capital costs are onetime costs, own warehouse, own trucks are examples of capital costs.

Key words

Business logistics, objectives, costs, function

Introduction

The financial objective of the logistics function can be expressed as "Maximize over the time the ratio of the annual revenue (due to the customer level provided) less the operating costs of the logistics system to the annualized investment in the logistic system."

Study of logistics can focus on management process and the skills needed to perform the activities involved. Management process can be briefly described as planning, organizing and controlling. The three important domain areas of logistics are facilities location, inventory levels and mix, and transport facilities. Logistics function is concerned with providing service levels to customers and managing costs appropriately for the company. All decision making requires information. Study of logistics includes principles and practices related to the above issues. Some of the issues are discussed in detail in specialized texts related to those areas and a logistician has to examine them now in the context of logistics.

The tasks of crafting and executing company strategies are the heart and soul of managing a business enterprise and winning in the marketplace. A company's strategy is the game plan management is using to stake out a market position, conduct its operations, attract and please customers, compete successfully, and achieve organizational objectives. The central thrust of a company's strategy is undertaking moves to build and strengthen the company's long-term competitive position and financial performance and, ideally, gain a competitive advantage over rivals that then becomes a company's ticket to above-average profitability. A company's strategy typically evolves over time, emerging from a blend of (1) proactive and purposeful actions on the part of company managers and (2) as-needed reactions to unanticipated developments and fresh market conditions.

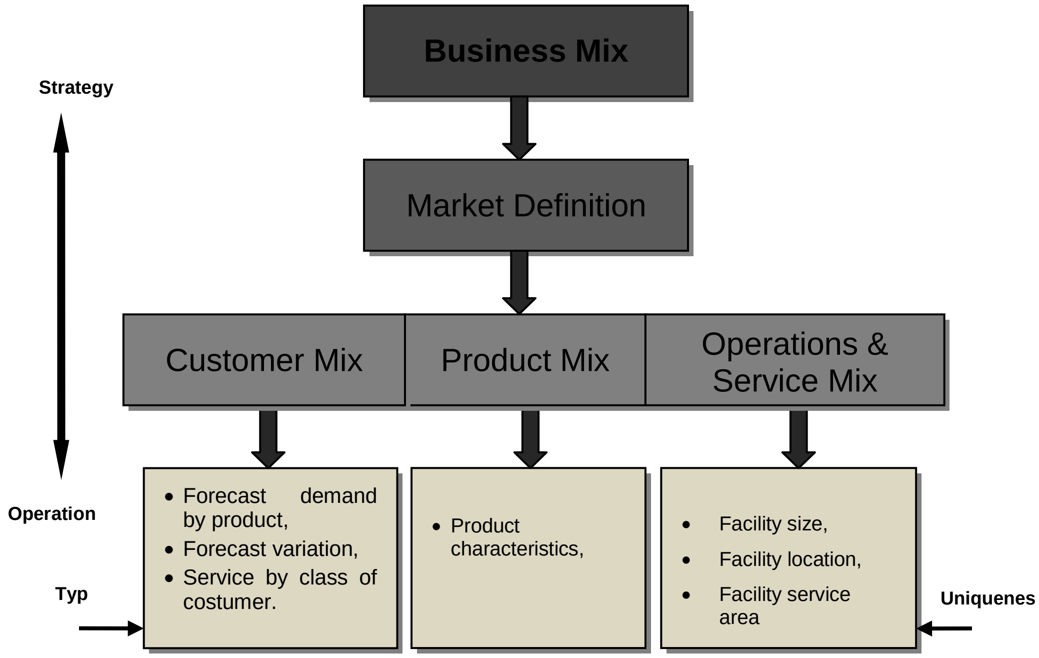

Fig. 1 The business logistics process

A number of factors must be evaluated to determine the best cost and service mix in a business logistics structure:

1. Cost:

- Number of warehouses,
- Location of warehouses,
- Shipment modes,
- Size of shipments,
- Frequency of shipments,
- Shipment consolidation,
- Operating methods,
- Storage requirements,
- Regulatory requirements.

2. Service:

- Order processing times:
  - ✓ Customer service.
  - ✓ Operations.
  - ✓ Transportation.
- Inventory service:
  - ✓ Stock vs. non-stock.

- ✓ In- stock position.

- Delivery reliability.
- Freight consolidation holding times.
- Information systems.

3. Inventory:

- Stock vs. non-stock.
- In-stock position.
- Frequency of replenishment.
- Transit times.
- Variability of demand.
- Inventory carrying costs.

Logistics collaboration

During the 1980s and 1990s a new trend towards integration and collaboration instead of so-called arm's-length agreements between suppliers and customers has been recognized by researchers as well as business practitioners. Actors participating in the same supply chain identify tradeoffs with their adjacent customers and suppliers and recognize the importance of integration in the chain in order to focus on what is offered to the end customer in terms of cost and service. Internal excellence is not enough anymore; there is also a need for external excellence in the whole supply chain. This is the philosophy underpinning supply chain management (SCM), which has received enormous attention in research journals as well as in industry.

True SCM-based collaboration among supply chain players can have significant benefits. According to researchers as well as consultants, massive reduction of costs and improved service are possible (Sandberg, 2005). Within the field of logistics, best practice companies have applied collaborative approaches based on the SCM philosophy and have achieved extraordinary results.

A process approach to collaboration puts a natural focus on the coordination and integration of the activities. It must be said that the question of organizational responsibility for the different activities should be considered later when the process already is optimized. From this it follows that the division of the organizational planning responsibility between companies could be changed from a traditional view towards other, better integrated, solutions. Defining and describing a process could make these possible options more visible for the supply chain members.

From a theoretical point of view, collaboration among supply chain members results in many positive effects. On a general level lowered total costs, improved service and shorter lead times are often mentioned. Also more intangible effects, such as the wish to strengthen the company's market position and increase its competitiveness, can be seen as driving forces.

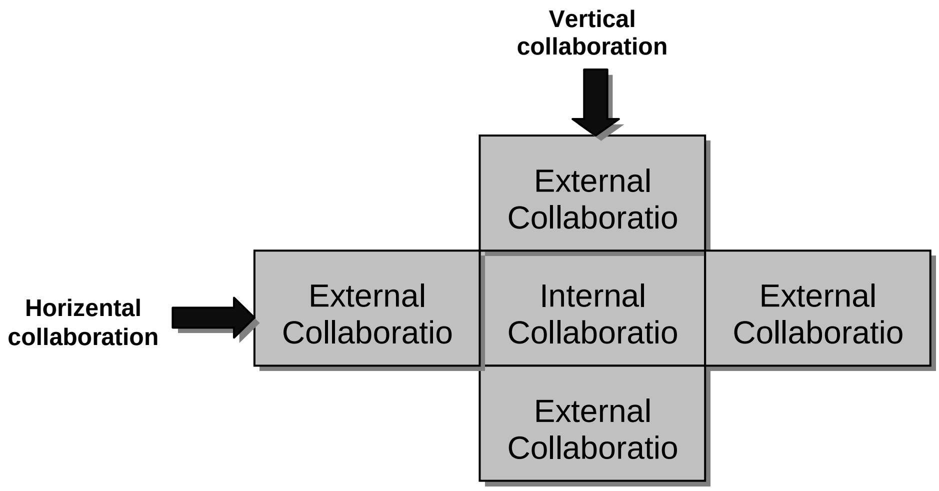

Fig. 2 Different types of collaboration (Source Barratt, 2004, p. 32)

The analysis shows a relationship between the degree of process approach adopted and the experienced effects of the collaboration. To start with, respondents with a defined process for their collaboration experience a significantly clearer division of responsibilities between themselves and their partner/partners. As discussed above, the description of a process will increase the awareness of the activities involved and contribute to a better understanding of the collaboration. Thus, a clearer division of responsibility between the participating actors can be a consequence of a clear process approach. It can also, together with proper measurements, be an important driver for improvements in the collaboration. A clear description of responsibility facilitates and encourages actions for improvements.

The description of logistics collaboration shows that it is a more intensive collaboration on an operational level that contributes to the achievement of better results, and that top management involvement is an important driver for:

- Increasing the intensity of the existing collaboration.
- Increase collaborative efforts with other members of the supply chain.

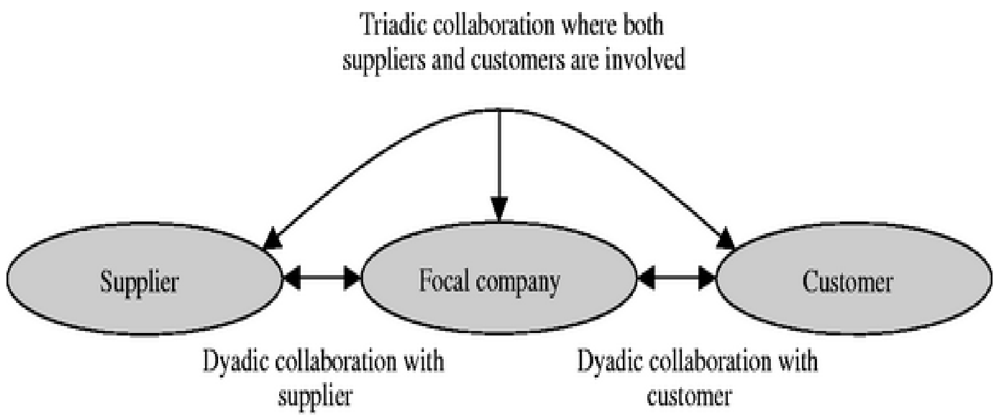

Fig. 3 The chosen perspective and the three types of collaboration investigated in this study

Three Phases of Collaboration:

1. ***Strategic assessment:*** The first phase is all about determining current positions and how collaboration supports the company's strategic objectives. For instance, essential capabilities might lie with one or more of your trading partners, so instead of building these capabilities and resources yourself, partnering allows for better access. Because screening is crucial, the assessment typically begins with creating a list of prospective partners, keeping in mind the potential for marketplace acceptance of such a collaboration. The list is then whittled down to a short list of prospects.
2. ***Partner engagement:*** This phase is the pitch to prospective partners. It requires top-to-top leadership communications to ensure a cross-functional agenda that is not limited by cultural preconceptions. Where there is mutual interest, there is a program with clear objectives that benefit both parties. Organizing cross-functional initiatives around a product category or a customer channel is effective for managing the process and also allows for cross-functional synergies. Here, we typically establish a joint team and the equivalent of a merger integration clean room to evaluate opportunities in each company's value chain, establish an investment model, and determine value sharing options.
3. ***Opportunity realization:*** In phase three, both companies decide whether the opportunities are substantial enough to justify dedicating resources to implementing joint initiatives. Pilots are launched within a small portfolio of products or markets, with the goal of demonstrating the real value of virtual vertical collaboration and working out kinks in the operating model. Successful pilots lead to broader launches. As a guiding principle, value from cost reductions is directed toward innovations and joint areas of growth, which essentially means that incentives are aligned with behaviors to sustain a long-term relationship. Both partners review their options annually-if not more frequently-to determine whether or not the partnership is living up to expectations.

Much of it today is at a basic, transactional, and data-oriented level, or at an intermediate level, usually in logistics. Although these activities create value, they only scratch the surface of collaboration's true potential.

Organizational structure within an organization clarifies employee roles, facilitates communication and establishes a chain of responsibility to help determine strengths and weaknesses. Before you determine whether your organizational structure should be vertical or horizontal, you need to understand the differences between the two frameworks. Implementing the correct organizational structure is critical to maximizing staff productivity.

Horizontal Collaboration

Horizontal collaboration is the pooling of logistics activities and consolidation of supply chains between two manufacturers (can be non-competitors or semi/direct competitors) for mutual benefit. Referred to as horizontal collaboration, this approach is characterized by manufacturers sharing supply chain assets for mutual benefits. It is collaboration across rather than along the supply chain. Often, horizontal collaboration is between companies in the same industry that, while not competing directly, market and sell to similar customers and consumers.
Horizontal collaboration can have a significant financial effect on operating costs without affecting operational standards. Within the automotive industry, the savings are certainly

impactful. In simplistic terms the process aims to share the elements of a supply chain network between businesses running similar operations; similar companies going to similar customers as a way to create critical mass. In some cases, this can even include competitors. The processes can be anything from warehousing and transportation to consolidating back office functions such as finance, administration and customer service.

The benefits of horizontal collaboration have long been known to the logistics industry, particularly in sectors where the supply chain is a significant element of operating cost. Now companies are looking in this direction, the sector has started to explore ways to pioneer and profit from this concept.

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Collaboration can provide many benefits for customers. One way that companies can see if horizontal collaboration is right for them is by determining whether or not their supply chain offers them differentiation. If a supply chain does not present a specific market opportunity, then it makes sense for this to be an area where companies do not invest additional funds. In a market with fixed expectations of its supply chain and standardized levels of delivery, there is an established level of service across the industry. As every company in the market adheres to these fixed levels, improving supply chain frequency or quality will not create beneficial differentiation, so these companies must look elsewhere to see where they can optimize costs, and invest in revenue-generating opportunities.

Clearly collaboration within the supply chain is a greener approach, as well as more cost effective for all parties, and seems to be spreading rapidly. It generally involves a pooling of resources between manufacturers or retailers, including consolidation of goods flows, sharing of transport vehicles and network capacity, sharing warehouses, etc. as well as back office processes such as finance, administration and customer service. There are two dimensions of supply chain collaboration:

1. Vertical collaboration which includes collaboration between suppliers and customers.
2. Horizontal collaboration which includes collaboration with competitors and other supply chain actors, e.g. in sharing manufacturing capacity.

Vertical collaboration

A vertical organization is one that has a pyramid-look when charted out on paper. At the top is the company president or chief executive officer, and then each division is made up of a series of middle management and supervisors who are responsible for various departments. This is often referred to as a "tall" organization. A horizontal structure is one without middle management where employees are largely allowed to make their own day-to-day operational decisions. Large groups of employees report often to just one manager. It is also called a "flat" organization.

Advantages of Horizontal Business Organizations: The advantage of a vertical business organization is a clear management structure, such that the lines of responsibility and control are clear and the function of each layer will be clearer and more distinct. Also, the ladder for promotion and progression is clear. In addition, each manager has a smaller number of employees under his control, giving him a narrow span of control, which allows him to more closely supervise his employee.

Disadvantages of Horizontal Business: Organizations communication between the upper and lower layers of management must be transmitted through many layers, resulting in a redundancy and delay in communications. Thus, business decisions and actions are delayed when approval by each level of management is required. Furthermore, the quality of the effectiveness of those business decisions and actions is further diminished because of the limited freedom and responsibility of subordinate employees. In addition, vertical business organizations incur a higher cost of management because managers are generally paid more than workers and each layer of management is paid a higher salary than lower layers.

Differences between horizontal and vertical organizations

There are a number of considerations, including advantages and disadvantages, to make when choosing between a vertical and horizontal business organization. Since the industrial revolution, businesses have taken the form of vertical organizational structure. Vertical business organizations have many levels of management and supervision with a long chain of command running from the top of the organization down to the bottom of the organization. Typically, vertical business structures seldom exceed eight levels of management, because the increasing number of management layers diminishes the span of control and the disadvantages begin to outweigh the advantages of a vertical structure. Vertical business organizations have been the norm up until modern times, which has progressively given way to the horizontal business organization. Horizontal business organizations are usually smaller organizations, which has partially to do with fewer layers of management. In contrast to vertical business organization, horizontal business organizations have comparatively few levels of management.

The vertical and horizontal structures have very different ways of making decisions. In a vertical organization, decisions come from management down through the hierarchy to employees. Employees are given a set of guidelines to follow and must work with the management hierarchy to make any changes to job duties. Horizontal organizations empower employees to make daily operational decisions and encourage employees to consult with management on larger issues. The staff is driven by production goals set by the company, and there are company policies that must be adhered to for safety and legal reasons.

A vertical organization tends to be structured in terms of employee and management collaboration. Since decisions must travel up and down the organizational chart, collaboration between employees and managers on company processes or issues happens in a very structured setting that includes meetings and constant monitoring. Because employees in a horizontal organization are empowered to make their own decisions, collaboration tends to happen more organically. Employees have open contact with each other and are more available to create collaborative solutions.

Conclusion

A business model, which may be considered an elaboration of a business process model, typically shows business data and business organizations as well as business processes. By showing business processes and their information flows a business model allows business stakeholders to define, understand, and validate their business enterprise. The data model part of the business model shows how business information is stored, which is useful for developing software code.

Usually a business model is created after conducting an interview, which is part of the business analysis process. The interview consists of a facilitator asking a series of questions to extract information about the subject business process. The interviewer is referred to as a facilitator to emphasize that it is the participants, not the facilitator, who provide the business process information. Although the facilitator should have some knowledge of the subject business process, but this is not as important as the mastery of a pragmatic and rigorous method interviewing business experts. The method is important because for most enterprises a team of facilitators is needed to collect information across the enterprise, and the findings of all the interviewers must be compiled and integrated once completed

Key words

Podniková logistika, ciele, náklady, funkcia

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