



## STRATEGIC NATURE OF THE LOGISTICS CUSTOMER SERVICE IN THE SUPPLY CHAIN

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**ABSTRACT.** Logistics customer service in the supply chain considerably differs from the binary relation described in the literature in which one supplier provides services to scattered recipients. The difference is manifested in the fact that an institutional client in the supply chain has much greater and often different requirements than the end consumer, at the same time appearing in a dual role of the supplier and the customer; and first and foremost, should take an active part in creating and implementing a supply chain strategy. If this strategy is to contribute to success, it must be based on cooperation among the supply chain participants, aimed at generating value for the end customer. Supply chain participants should establish partner relations reflected in such service to their customers which would encompass the maximum of their extended criteria of supplier evaluation. They should, however, first and foremost, take into account their maximized contribution to the final effect of the supply chain. Hence, every supply chain should develop a clear strategy determining the role of individual companies in creating the most favourable offer for the end customer.

**Key words:** logistics customer service, supply chain, strategy.

### DEFINITION OF THE SUPPLY CHAIN VS CUSTOMER SERVICE

Logistics customer service in the supply chain is a hardly explored issue. Although there is extensive knowledge of the theory of logistics customer service and business practice, in principle it only pertains to two entities: the provider of a product and the customer who is the recipient of the product. Numerous publications have dealt with this relation, describing the elements of service, standards, measures, costs, as well as implementation of the customer service programme at a company.

Business practice, in turn, is usually much more complicated. Companies - suppliers of products to customers, have their own suppliers and sub-suppliers, and, often, also intermediaries in the field of distribution. This means that they participate in supply chains, i.e. they are not independent creators of quality in the end customer service. The reason is that there are also other supply chain participants to take part in this service. A production company as such sometimes provides services only to intermediaries in distribution channels. Hence, the quality of customer service is affected by the whole supply chain, i.e. the manner of logistics cooperation among all of its participants, including suppliers of logistics services. If this cooperation is to be successful for the end customer, it may not be reduced to operative activities of transferring specific goods, but must be of strategic nature. Therefore, the aim of this paper is to indicate the need of a specific approach to logistics customer service in the supply chain, taking into consideration the needs of an institutional client and the imperative of strategic cooperation among the supply chain participants.

The strategic nature of cooperation among the supply chain participants aimed at good customer service in many cases exists by definition. There are numerous definitions of supply chains. Most of them, however, have references to the customer. E.g. according to the definition made by the European Committee for Standardization, a supply chain is a sequence of processes contributing value added to the product during its flow and processing from raw materials through all intermediate forms until it reaches the form compliant with the customer's requirements.

Likewise, APICS (The Association for Operations Management, formerly American Production and Inventory Control Society) has defined the supply chain as:

1. the processes from obtaining initial procurement materials until consumption of the final product, in which the supplier and the recipient are linked across; and
2. functions within and across companies which enable the supply chain to generate products and deliver services to customers [Cox, Blackstone and Spencer 1995].

A.J. Battagli and G. Tyndall, having noticed a customer-orientated approach in the supply chain, also pay attention to the strategic nature of the supply chain, considering it to be "a strategic concept that involves understanding and managing the sequence of activities - from supplier to customer - that add value to the product supply pipeline" [Coyle, Bardi and Langley 2000].

Also M. Christopher clearly associates the supply chain with customers' needs, holding that the supply chain management is "the management of upstream and downstream relationships with suppliers and customers to deliver superior customer value at less cost to the supply chain as a whole" [Christopher 2000]. The definition also indicates that the end recipient is the customer of the supply chain.

When characterizing the nature of supply chain management, P.B. Schary and T. Skjott-Larsen go even further stating that all interpretations and definitions of the supply chain management assume that the supply chain anticipates customer demand and customers receive products straight off the shelf. It is possible thanks to implementation of the tasks faced by the supply chain managers [Schary and Skjott-Larsen 2002].

The special role of the customer in the supply chain is not incidental. Every company in the supply chain, irrespective of its size and manufacturing profile, can exist thanks to the fact that there are customers who are willing to buy its products or services. The days of push economy are gone forever, hence customers nearly always have a choice. If they do not buy products manufactured in a given supply chain, companies participating in it will not have any earnings, which, combined with the costs incurred, will lead to their collapse. This applies both to consumer goods markets and to goods addressed to institutional clients.

The supply chain must therefore be structured in such a way so as to connect links which have a direct or indirect impact on the end customer by generating value for the customer, regarding both the product as such and the whole logistics service. It is all the more important since customers' expectations keep rising, the importance of "brands" of goods keeps decreasing and customers are becoming far less loyal. Hence, a logistics system created by all links of the supply chain should be developed in such a way as to include the effects of market analysis conducted as regards the needs of different groups of customers to whom the offer is to be addressed.

## **STRATEGIES OF SUPPLY CHAINS IN VIEW OF THE CUSTOMERS' NEEDS**

Just like individual companies, also entire supply chains may or even should have their own strategies. Many definitions of business strategies can be found in the literature. In the classic definition by A.D. Chandler a strategy is presented as the "determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" [Chandler 1972]. Until recently, strategic goals were most often connected with profitability or market share, however, in recent years, the service level of the end customer is increasingly mentioned as one of the most important attributes of the functioning of

companies and entire supply chains. Such an approach is justified by the list of most important strategic decisions taken as part of the supply chain management. The decision on determining the standards of the end customer service should be mentioned on top of the list. However, the remaining strategic decisions of the supply chain should also be made taking into consideration this customer's interest. The said decisions should involve the following [Ciesielski 2006]:

1. adjusting the supply chain to match the nature of demand and product features;
2. determining the model of relations among the supply chain participants;
3. selecting suppliers;
4. determining distribution channels;
5. adopting a specific concept of stock management;
6. determining the location and nature of warehouses;
7. formulating guidelines with respect to transport service;
8. determining key competences of the supply chain as a whole and with regard to individual elements.

Taking any of the aforementioned strategic decisions without considering customers' interests could do a serious harm to implementation of general strategies of the supply chain, all the more that strategies of supply chains are usually competitive strategies aimed at the end customer and "demand control" [Hines 2004].

The focus of supply chains on the customer is most explicitly emphasized by the Quick Response (QR) concept. It consists in recognizing demand and reacting to its changes as quickly as possible. The concept has been developed with reference to the clothing industry to help avoid losses related to considerable changeability of demand and unreliable forecasts, as well as the Forrester effect in the supply chain. The nature of QR consists in closer cooperation among supply chain participants in order to ensure a high level of customer service with costs reduced to the minimum. This turns out to be possible if customers quickly provide their suppliers with the necessary information on demand and suppliers undertake to provide quick deliveries, offer high level of service, manage stock correctly and the former and the latter apply modern logistic technologies, in particular EDI. This obviously requires partner relations in the supply chain, shorter time frames, information sharing (in particular information regarding the stocks), TQM obligations, fast transport and redesigning manufacturing operations as well as reducing the time needed to switch production. Thanks to better customer service, these operations lead to increased sales and reduced costs, bringing benefits to all the supply chain participants.

Also the concepts of time based management (TBM) and total quality management (TQM) strongly refer to customer focus. Lead time reduction is becoming one of the most important factors in the competition among companies and quality management systems in companies, which by facilitating the functioning of the supply chain generate numerous benefits for customers (Ciesielski 2006).

Flexibility of deliveries or, in a broader sense, flexibility of suppliers, is becoming increasingly important. This pertains in particular to the operation of supply chains, including their strategies. Therefore, the issue is about flexibility of individual supply chain participants, including in particular suppliers vs. customers, and also, or perhaps, first and foremost, the flexibility of the entire supply chain understood as the ability to adapt to the changes in market structures and strategy changes [Lee 2005].

Strategies based on lean management (LM) and agile management (AM) concepts may prove useful in implementing the flexibility demand. These concepts may be used both in a company and in the whole supply chain. Lean management is aimed, first and foremost, at cost reduction. According to Taichi Ohno, the main supporter of the concept at Toyota, the main objective of lean management is the manufacturing of cars compliant with the detailed order of a customer, assuming very quick delivery and no shortages in stocks or buffers in between operations. Lean management generates value for the customer by eliminating all wastage like stocks of work in progress, manufacturing

losses, redundant movements, expectations, excessive production and production shortages, as well as redundant operations.

On the other hand, agile management is aimed, first and foremost, at quick response to changes in demand, i.e. customers' new needs, both in terms of their quantity and nature. In this case, an element of the company's strategy is perfect service rendered to the end customer. The key elements of this strategy include agility and time compression. Agile strategies of supply chains prove best in the case of differentiated products in the conditions of changing demand. This strategy is easiest to implement when the total lead time is shorter. If, in turn, demand is foreseeable, and the total lead time is long, naturally there are conditions for applying LM.

In this context one should not forget about the strategy based on ECR - efficient consumer response.

## **THE SPECIFIC NATURE OF LOGISTICS CUSTOMER SERVICE IN THE SUPPLY CHAIN**

Looking at the main objectives of the supply chain management, one can easily notice that they all have implications related to customer service. The following features are mentioned most often:

1. reduced order lead time;
2. ensured reliability, proper frequency, quality and flexibility of deliveries;
3. optimized stock level within the entire supply chain;
4. minimized total costs of goods flow.

Objectives no. 1 and 2 are actually the fundamental objectives of the logistic customer service. Objective no. 3 pertains to stock optimization, not minimization, meaning that stock management may not be treated as an autonomous activity, but the stock level must be flexibly adjusted to match customer preferences, as it determines the availability of goods, i.e. the basic element of the logistics service. Minimized total costs of goods flow, in turn, must always be confronted with the level of delivery service, as this is the basic trade-off of the whole logistics system.

The objectives of supply chains must, in turn, translate into appropriate strategies. This has been aptly rendered by J. Witkowski: "ever since push economy turned into pull economy, there has been a need to meet increasingly excessive expectations of customers as regards the level of delivery service. In order that it does not result in a cost increase exceeding an increase in profits resulting from higher sales volume, it is necessary that supply chain participants formulate a common strategy of customer service. It has been obvious for a long time now that the success of the supply chain is related to the need to identify and determine an appropriate level of the logistics partner service" [Witkowski 2002].

It should be noted that individual companies in the supply chain are suppliers and customers at the same time. Every supplier is a customer of another supplier, which means that they must all operate on two markets. They form part of the sales market as customers, whereas as suppliers, they operate in the field of procurement. Every company in the supply chain must listen to the signals from the customers' market - in this case, explore the needs of the next link, and, having obtained the necessary knowledge, seek to procure the necessary production factors, machines and equipment, raw materials and semi-finished products on the procurement market - in this case, from the previous link in the supply chain.

The dual role of manufacturers in the supply chain determines the specific nature of the logistics customer service in this configuration. The traditional concept of the logistics customer service involves two entities - the supplier and the customer. In this system, the rights are on the customer's side, and the duties on the supplier's side. The customer does not have to be interested in the supplier's problems, they are in no way dependent on the supplier's situation, they may even raise their demands, or, if dissatisfied, have the right to withdraw from further cooperation without any consequences or

make a one-off purchase from another supplier. The supplier, on the other hand, does not want to lose a customer, and must overcome various difficulties without any guarantee that these actions will prove successful. In the supply chain, on the other hand, the situation is completely different. The same entity has both the rights of a customer and the duties of a supplier, but with respect to different companies. They may thus use the privilege of being a customer and increase requirements with respect to their suppliers, but at the same time, are subject to the same restrictions imposed upon them by their customers.

Furthermore, the specific nature of the logistics customer service in the supply chain should be sought in the quality of requirements and activity of institutional clients. They do not restrict themselves to assessing the goods supplied and taking decisions on purchasing them as end consumers do, but very actively develop the offer presented to them. They thus very often turn into very difficult, demanding and troublesome customers. The pressure exerted on suppliers in order to, in particular, reduce the costs is even greater. Sometimes it is even described as oppressing the suppliers. From the point of view of internal conditions of the logistics customer service in the supply chain, such a situation should never take place, as harmonious cooperation with suppliers may be the source of many benefits for the recipient, e.g. in the field of innovation.

## **CONCLUSIONS FOR THE SUPPLY CHAIN PARTICIPANTS**

Such a broad and new approach to the issue of logistics customer service in the supply chain, is aimed at making all supply chain participants aware of their role not only with reference to trading partners but also to the end customer and at pointing to the fact that logistics customer service in the supply chain functions as communicating vessels. This means that changes in the market caused by changing demand, product lifecycle shortening or increased competition, require that supply chains develop strategies focused on the end customer. It is the end customer who decides whether the creation and functioning of the entire supply chain is justified. By purchasing the end product, the end customer justifies the existence of individual links of the supply chain. Hence, individual supply chain participants should not restrict themselves in their strategies to the short perspective imposed by their suppliers and recipients, but if they want to be successful, they must focus on end customers and their needs and expectations. It is only this longer perspective that will allow their tasks to be better defined and their role in the supply chain to be fulfilled more effectively.

In order to achieve perfection in customer service, an integrated logistic strategy is necessary in the whole supply chain. This applies in particular to customized goods and two most important competition factors today, i.e. product quality and delivery time. Hence every supply chain should develop a clear customer service policy depending on the specific nature of a given market. Unfortunately, such situations are very rare.

The supply chain may be considered to be effective if it is able to fulfil changeable and varied customers' requirements. Given the traditional methods of supply chain management it is very difficult, especially as regards quick response to customers' needs. Therefore, new ways of cooperation among supply chain participants are needed.

Logistics customer service in the supply chain is then a set of individual "tailor-made" solutions. However, one must go beyond that. An ideal system of logistics customer service in the supply chain should furthermore take into account the final effect of the most favourable form of the end customer service. A logistics service chain of individual links cannot be developed without paying attention to consequences it may have for the end customer. Usually, there are no considerable differences here and the correct mutual service of the supply chain participants benefits the end customer, but in an ideally functioning customer service in the supply chain one should additionally program and coordinate tasks from this field in the whole system, adopting the end customer benefits as the main criterion here. In some cases, it may mean giving up some benefits or additional undertakings of individual supply chain participants.

The quality of the end customer service mostly depends on the way the whole supply chain is designed, configured and managed. Therefore, in the supply chain evaluation it is important to focus on capturing the relations between the quality of logistics processes and the customer service level. Achieving a high level of customer service is a very difficult and complicated task, especially because of the multidimensional nature of the whole issue. It is, however, possible if an integrated strategy of logistics customer service in the whole supply chain is developed.

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## STRATEGICZNY CHARAKTER LOGISTYCZNEJ OBSŁUGI KLIENTA W ŁAŃCUCHU DOSTAW

**STRESZCZENIE.** Logistyczna obsługa klienta w łańcuchu dostaw zasadniczo różni się od opisywanej w literaturze binarnej relacji, w której jeden dostawca obsługuje rozproszonych odbiorców. Różnica ta wyraża się w tym, że klient instytucjonalny w łańcuchu dostaw ma znacznie większe i często inne wymagania od finalnego konsumenta, występuje równocześnie w podwójnej roli - dostawcy i klienta, a przede wszystkim winien aktywnie uczestniczyć w tworzeniu i realizacji strategii łańcucha dostaw. Strategia ta, jeżeli ma się przyczynić do sukcesu, musi być oparta na współpracy uczestników łańcucha dostaw zorientowanej na tworzenie wartości dla końcowego odbiorcy. Uczestnicy łańcucha dostaw powinni tworzyć relacje partnerskie wyrażające się w takiej obsłudze swoich odbiorców, która uwzględniałaby maksimum ich rozbudowanych kryteriów oceny dostawców. Nade wszystko jednak winni mieć na uwadze maksymalizację swojego wkładu w efekt finalny łańcucha dostaw. Dlatego każdy łańcuch dostaw powinien opracować jasną strategię określającą rolę poszczególnych firm w tworzeniu najkorzystniejszej oferty dla ostatecznego odbiorcy.

**Słowa kluczowe:** logistyczna obsługa klienta, łańcuch dostaw, strategia.

## STRATEGISCHER CHARAKTER DES LOGISTISCHEN KUNDENSERVICES IN EINER LIEFERKETTE

**ZUSAMMENFASSUNG.** Der logistische Kundenservice in einer Lieferkette unterscheidet sich grundsätzlich von der in der Fachliteratur beschriebenen, binären Relation, in welcher nur ein Lieferant zerstreute Abnehmer bedient. Diese Unterscheidung kommt dadurch zum Ausdruck, dass der institutionelle Kunde in einer Lieferkette viel größere und oft

andere als der Endabnehmer Anforderungen hat und in einer Doppelrolle - als Anlieferer und Abnehmer auftritt. Vor allem soll er sich auch an Ausgestaltung und Ausführung einer Strategie für Aufbau einer Lieferkette aktiv beteiligen. Die Strategie, wenn sie zum Erfolg beitragen soll, muss auf eine auf die Wertschöpfung bei dem Endabnehmer orientierte Zusammenarbeit der einzelnen Teilnehmer der Lieferkette gestützt sein. Denn die an einer Lieferkette Beteiligten sollten partnerschaftliche Verhältnisse aufbauen, welche in einer, ein Maximum deren ausgebauten Kriterien zur Einschätzung von Lieferanten berücksichtigenden Kundenbedienungs zustande kommen. Hauptsächlich dürfen sie jedoch ihren möglichst großen Einsatz in den Endeffekt der Lieferkette nicht außer Acht lassen. Aus dem Grunde hat jede Lieferkette eine klare Strategie zu bearbeiten, welche die Rolle der einzelnen Firmen bei der Schaffung des für den Endabnehmer günstigsten Angebotes bestimmen würde.

**Codewörter:** logistischer Kundenservice, Lieferkette, Strategie.

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