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## ПОЯСНИТЕЛЬНАЯ ЗАПИСКА

Пособие предназначено для студентов специальности 1-26 02 05 “Логистика”.

Целями пособия являются получение языковых знаний, расширение словарного запаса, совершенствование навыков письменной и устной речи, развитие навыков понимания оригинального английского профессионального текста.

Настоящее пособие является коммуникативно и профессионально ориентированным, тематика уроков и задания соответствуют профессиональным интересам и задачам специалистов в сфере логистики.

Данная дисциплина состоит из 8 уроков, основанных на оригинальных материалах, и включает следующую тематику: “Роль логистики в экономике”, “Обеспечение эффективной логистики”, “Глобальная логистика”, “Обслуживание потребителей”, “Каналы сбыта”, “Транспортная логистика”, “Складирование”, “Стратегия принятия решений в сфере складирования”.

Темы пособия и задания направлены на формирование умений и навыков владения английским языком, необходимых в профессиональной деятельности.

Творческие задания способствуют совершенствованию коммуникативных навыков.

# UNIT 1. LOGISTICS` ROLE IN THE ECONOMY

## Focus on Vocabulary

implement	packaging
cost-effective flow	return goods handling
storage	inventory
raw materials	in-process inventories
in-process inventory	demand
finished goods	forecasting
customer	distribution
requirement	consumption
traffic	standard of living
warehousing	interest rate
order processing	productivity
procurement	availability
salvage	compete
scrap	profit
proliferation	employment
currency	accounts receivable

## Focus on Reading

***Task 1. Read and translate the text. While reading the text, pay attention to the importance of effective logistics management.***

### THE ROLE OF LOGISTICS IN THE ECONOMY AND THE FIRM

Logistics is a significant component of a country's economy. Almost every sphere of human activity is affected, directly or indirectly, by the logistics process. Logistics was first examined in scholarly writing in the early 1900s, although as a human activity it is centuries old. In the past, the trade and academic press has given logistics a variety of names: distribution, business logistics, marketing logistics, materials management, supply chain management. All of these terms have referred to essentially the same thing: the management of the flow of goods from point-of-origin to point-of-consumption. But logistics management is the most widely accepted term among logistics professionals.

Logistics management is the process of planning, implementing and controlling the efficient, cost-effective flow and storage of raw materials,

in-process inventory, finished goods, and related information from point-of-origin to point-of-consumption for the purpose of conforming to customer requirements.

Efficient management of the flow of goods from point-of-origin to point-of-consumption at the macro (society) or micro (firm) levels requires planning, implementation, and control of a multitude of logistics activities. The activities may involve raw materials (subassemblies, manufactured parts, packing materials, basic commodities); in-process inventory (product partially completed and not yet ready for sale); and finished goods (completed products ready for sale to intermediate or final customers).

The rising affluence of customers has led to increased national and international markets for goods and services. Thousands of new products and services have been introduced in this century and are sold and distributed in every corner of the world. Business firms have increased in size and complexity to meet the challenges of expanded markets and the proliferation of new products and services. Multiple-plant operations have replaced single-plant production. The distribution of products from point-of-origin to point-of-consumption has become an enormously important component of the gross national product (GNP) of industrialized nations. In the United States, for example, logistics now contributes approximately 11 percent of GNP. Considering its consumption of land, labor, and capital, and its impact on the standard of living, logistics is clearly big business.

As a significant component of GNP, logistics affects the rate of inflation, interest rates, productivity, energy costs and availability, and other aspects of the economy. The average U. S. company can improve its logistics productivity by 20 percent or more. Improvements in a nation's productivity have positive effects on the prices paid for goods and services, the balance of national payments, currency valuation, the ability to compete more effectively in global markets, industry profits, the availability of investment capital, and economic growth – leading to a high level of employment.

Effective logistics management enhances the marketing effort of the firm (which can create differential advantage in the marketplace) by providing efficient movement of products to customers and time and place utility to products. It can be treated in accounting terms, as a proprietary asset of the company.

As part of the company's marketing effort, logistics plays a key role in satisfying the firm's customers and achieving a profit for the company as a whole. Customer satisfaction involves maximizing time and place utility to the firm's suppliers, intermediate customers, and final customers. Logistics' ability to provide customer service, coupled with marketing's skill in generating and completing sales, creates an acceptable level of customer satisfaction, which can lead to a differential advantage in the marketplace.

## Discussion Activities

**Task 2. Answer the following questions. Then discuss your answers in small groups:**

1. What factors underlie the development of interest in logistics management?
2. How can logistics management be defined?
3. What are the main components of logistics management?
4. How does effective logistics management influence the marketing effort of the company?
5. Which of the challenges facing the logistics professionals in the coming years do you believe will be the most significant? Why?

**Task 3. Explain how improvements in logistics productivity can influence the economic position of individual consumers and the population as a whole.**

**Task 4. Discuss the factors that have helped business to recognize the importance of logistics management to society and the firm.**

**Task 5. Discuss the relationship between logistics and technology. Why is it likely that the relationship will become more important in the future?**

**Task 6. Look through the text and think of the heading for each paragraph. Then write down key sentences from each paragraph and combine them into a summary.**

## Focus on Speaking Communication Activities

**Task 7. Exchange views on the role of logistics in the economy.**

**Task 8. Hold a round-table discussion on the significance of logistics in any national economy. Among other points discuss the following:**

- logistics as a significant component of a country's economy;
- the role of logistics management and its influence on different aspects of the economy;
- the key role of logistics in the firm.

**Task 9. Use the Internet or library resources and find additional information about the development of logistics in the Republic of Belarus. Make a presentation in class. Be ready to answer your partners' questions.**

Ask the speaker different questions, for example:

1. Recently the Free Economic Zone Minsk has been actively developing logistics. How promising is this sector for the metropolitan region?

2. How many logistics companies have been registered with the Fez Minsk?

**Task 10. Comment on the following quotations:**

1. "Creative thinking is not a talent. It is a skill that can be learnt. It empowers people by adding strength to their natural abilities which improves teamwork, productivity and where appropriate profits". – Edward de Bono.

2. "There is no doubt that creativity is the most important human resource of all. Without creativity, there would be no progress and we would be forever repeating the same patterns". – Edward de Bono.

### **Reading Practice**

**Task 11. Skim the text for getting the main idea. Then answer the comprehension questions that follow.**

#### **ACTIVITIES INCLUDED in LOGISTICS MANAGEMENT**

The following variety of activities are involved in the flow of product from point-of-origin to point-of-consumption: consumer service, order processing, distribution communications, inventory control, demand forecasting, traffic and transportation, warehousing and storage, plant and warehouse site selection, material handling, procurement, parts and service support, packaging, salvage and scrap disposal, return goods handling.

*Customer service* is defined as a customer-oriented philosophy which integrates and manages all of the elements of the customer interface within a predetermined optimum cost-service mix.

The components of *the order processing* activity may be broken down into three groups: operational elements, such as order entry (editing), scheduling order-shipping set preparation, and invoicing; communication elements, such as order modification, order status inquiries, tracing and expediting, error correction, and product information requests; and credit and collection elements, including credit checking and accounts receivable processing (collecting).

Success in today's business environment requires the management of a complex *communications system*. Effective communication must take place between: (a) the firm, its customers, and its suppliers; (b) the major functional components of the company—marketing, manufacturing, logistics, and finance (accounting); (c) the various logistics-related activities such as customer service, traffic and transportation, warehousing and storage, order processing, and inventory control; and (d) the various components of each logistics activity.

*The inventory control* activity is critical because of the financial necessity of maintaining a sufficient supply of product to meet both customer's needs and manufacturing requirements. Successful inventory control involves determining the level of inventory necessary to achieve the desired level of customer service while considering the cost of performing other logistics activities.

*Demand forecasting* involves determining the amount of product and accompanying service that customers will require at some point in the future. Logistic management forecasts of demand determine how much of each item produced by the company must be transported to the various markets the firm serves. Also, logistics management must know where the demand will originate so that the proper amount of product can be placed or stored in each market area. Knowledge of future demand levels enables logistics managers to allocate their resources (budgets) to activities that will service that demand.

*The traffic and transportation* activity refers to managing the movement of products and includes activities such as selecting the method of shipment (air, rail, water, pipeline, truck); choosing the specific path (routing); complying with various local, state, and federal transportation regulations; and being aware of both domestic and international shipping requirements.

*Warehousing and storage* are activities that manage the space needed to hold or maintain inventories. Specific storage include decisions as to whether the storage facility should be owned, leased, or rented; warehouse layout and design; product mix considerations; safety and maintenance; security systems; personnel training; and productivity measurement.

*Plant and warehouse site selection.* The strategic placement of plants and warehouses near the company's markets can improve the firm's customer service levels. The first consideration in selecting a site is the location of the firm's various markets. The needs of the customers and the location of raw materials, component parts, and subassemblies are also major considerations. Other important factors include labor rates; transportation services; city, county, and state taxes; security; legal con-

cerns; local factors, such as the attitude of the community toward new industry; land cost; and availability of utilities.

The objectives of *material handling* are to eliminate handling wherever possible; to minimize travel distance; to minimize goods in process; to provide uniform flow free of bottlenecks; and to minimize losses from waste, breakage, spoilage, and theft. Material handling plays a vital role in reducing inventory, lowering costs, and increasing productivity.

*Procurement* is the acquisition of materials and services to ensure the operating effectiveness of the firm's manufacturing and logistics processes. The procurement function includes the selection of supply source locations, determination of the form in which the material is to be acquired, timing of purchases, price determination, quality control, and many other activities.

*Parts and service support.* Part of the firm's marketing activity is to provide the customer with service after the sale. This involves providing replacement parts when products break down or malfunction.

From a logistics perspective, *packaging* serves a dual role. First, the package protects the product from damage while it is being stored or transported. Second, packaging can make it easier to store and move products by reducing handling and thereby material handling costs.

*Salvage and scrap disposal.* One by-product of the manufacturing and logistics process is waste material. If this material cannot be used to produce other products, it must be disposed of in some manner. Whatever the by-product, the logistics process must effectively and efficiently handle, transport and store it. If the by-products are reusable or recyclable, logistics manages their transportation to remanufacturing or reprocessing locations.

*Return goods handling* is an important part of the logistics process. Buyers may return items to the seller due to product defects, overages, incorrect items received, or other reasons. In many industries in which consumers return products for warranty repair, replacement, or recycling, reverse logistics costs may be high:

1. What are the main components of the order processing activity?
2. Why is inventory control activity so important?
3. What can improve the firm's customer service levels?
4. What does demand forecasting involve?
5. In what areas of logistics would the cost reduction be most likely to occur?
6. What area or areas of logistics do you believe offer the best potential for improving performance?



## Focus on Writing

**Task 12.** Write for a magazine or a newspaper an article about creating a logistics center in your area.

**Task 13.** Write an essay on the following subject “If I were the manager of the joint company “Logista”...”

## UNIT 2. CHANNELS OF DISTRIBUTION

### Focus on Vocabulary

distribution  
exchange  
surplus  
cost  
cornerstone  
discrepancy  
intermediary  
devise  
monitor  
pervasive  
valuable  
profitability

storing  
grading  
multiple  
align  
evolve  
utility  
inhibit  
rigidity  
core  
compel  
substitutability  
perishability

### Focus on Reading

**Task 1.** Read and translate the text. While reading the text, pay attention to the structure of a channel of distribution.

### WHAT IS A CHANNEL OF DISTRIBUTION?

In any society – industrialized or non-industrialized – goods must be physically moved or transported between the place they are produced and the place they are consumed. Except in very primitive cultures the exchange process has become the cornerstone of economic activity. Channels of distribution develop when many exchanges take place between producers and consumers.

In order to successfully market its products, a manufacturer must select the appropriate channel structure, choose the intermediaries to be used and establish policies regarding channel members, and devise information and control systems to ensure that performance objectives are met. Likewise,

wholesalers and retailers must select manufacturers' products in a way that will provide the best assortment for their customers and lead to the desired profitability for themselves.

Due to the dynamic nature of the business environment, management must monitor and evaluate the performance of the distribution channel regularly and frequently. When performance goals are not met, management must evaluate possible channel alternatives and implement changes.

A channel of distribution can be defined as the collection of organization units, either internal or external to the manufacturer, which performs the functions involved in product marketing. The marketing functions are pervasive; they include buying, selling, transporting, storing grading, financing, bearing market risk, and providing marketing information. Any organizational unit, institution, or agency that performs one or more of the marketing functions is a member of the channel of distribution.

The structure of a distribution channel is determined by which marketing functions are performed by specific organizations. Some channel members perform single marketing functions – carriers transport products, and public warehouses store them. Others, such as wholesalers, perform multiple functions. Channel structure affects control over the performance of functions, the speed of delivery and communication, and the cost of operations. While a direct manufacturer-to-user channel usually gives management greater control over the performance of marketing functions, distribution costs normally are higher, making it necessary for the firm to have substantial sales volume or market concentration. With indirect channels, the external institutions or agencies (warehouseers, wholesalers, retailers) assume much of the cost burden and risk, but the manufacturer receives less revenue per unit.

Most distribution channels are loosely structured networks of vertically aligned firms. The specific structure depends to a large extent on the nature of the product and the firm's target market. There is no "best" channel structure for all firms producing similar products. Management must determine channel structure within the framework of the firm's corporate and marketing objectives, its operating philosophy, its strengths and weaknesses, and its infrastructure of manufacturing facilities and warehouses.

Intermediaries evolve in the process of exchange because they can increase the efficiency of the process by creating time, place, and possession utility. Channel intermediaries enable the adjustment of the discrepancy of assortments by performing the functions of sorting and assorting. Marketing agencies form channels arrangements to make possible the routinization of transportation. Finally, channels facilitate the searching process by consumers.

Marketing channels develop because intermediaries (wholesalers and retailers) make the marketing process more efficient by reducing the number of market contacts. The advantage of an intermediary becomes more evident as the number of specialized producers increases.

Due to the influence of social, cultural, political, and economic variables, channels may not necessarily be as efficient or effective as they should be. The reasons for the existence of uneconomic channels are:

*Reseller solidarity.* Resellers in many lines of trade function as groups that tend to support traditional trade practices and long-established institutional relationships. The presence of a strong professional or trade association tends to reinforce conservative group behavior and inhibit innovation within the channel.

*Entrepreneurial values.* The large reseller, given sufficient time to adjust, tends to be responsive to innovation, but smaller resellers tend to have relatively static expectations.

*Organizational rigidity.* A firm, because of organizational rigidities, prefers to respond incrementally to innovation. It gradually will imitate the innovating firm or develop counterstrategies over an extended period of time. If the innovator has penetrated the firm's core market, however, it must respond quickly to this challenge in order to ensure continued operation.

*The firm's channel position.* Firms operating as members of the dominant channel are either unwilling or unable to develop an entirely new method of distribution. Thus, a firm completely outside the system is most likely to introduce basic innovations.

*Market segmentation.* Innovative methods of operation appeal to a limited number of market segments, and conventional institutions are not compelled to change.

## Discussion Activities

**Task 2. Answer the following questions. Then discuss your answers in small groups:**

1. When do channels of distribution develop?
2. How can you define a channel of distribution?
3. What determines the structure of a distribution channel?
4. What are the reasons for the existence of uneconomic channels?
5. How can communications technology be used to improve channel efficiency and effectiveness?
6. Why do intermediaries evolve in process of exchange?

**Task 3. Prove that a distribution channel plays an integral part in a firm's marketing strategy.**

**Task 4. Explain why channels of distribution develop.**

**Task 5. Single out the main points of the text. Use the following opening phrases:**

1. The text deals with the issue of ... .
2. It is clear from the text that ... .
3. The problem of ... is of great importance.
4. One of the main points to be singled out is ... .
5. Great importance is also attached to ... .
6. In this connection I'd like to say ... .

**Task 6. Sum up the contents of the text:**

- a) make a plan of your summary;
- b) make a list of key words which you may need.

### **Focus on Speaking Communication Activities**

**Task 7. Exchange views on the efficiency of channels of distribution.**

**Task 8. Speak on the new methods of distribution.**

**Task 9. Translate the dialogue into English and discuss it with your partner.**

**С:** Вы предъявили нам ряд претензий, г-н Браун, и мы готовы обсудить их. Вы сообщили нам о том, что якобы один из станков недопоставлен.

**Б:** Мы приносим свои извинения. Будем считать, что это недоразумение. Дело в том, что станок затерялся в порту по нашему недосмотру.

**С:** Мы рады, что станок нашелся. Но вы сообщили нам также о поврежденных станках.

**Б:** Дело в том, что акт приемки, подписанный в присутствии ваших специалистов, указывает на то, что вы несете ответственность за поврежденные станки.

**С:** Мы тоже попытались предварительно разобраться в этой ситуации. Видите ли, коносамент, по которому пришло оборудование, чистый.

Б: Да? Извините. Но мы не заметили этого.

С: Это доказывает, что повреждение станков произошло при транспортировке. Вы должны обратиться с претензией в страховую компанию.

Б: Согласны, но сначала мы выясним все с Перевозчиком.

С: Это вполне разумно. У вас больше нет к нам вопросов?

Б: Нет. Спасибо, мы все выяснили.

**Task 10. Use the Internet or library resources and find additional information about the structure of a distribution channel. Make a presentation in class. Be ready to answer your partners' questions.**

### Reading Practice

**Task 11. Read the text and explain:**

1. The difference between intensive distribution and exclusive distribution.

2. What is meant by selective distribution.

**Task 12. Give examples illustrating when each of these forms of distribution would be an acceptable strategy.**

### TYPES OF DISTRIBUTION

There are basically three types of distribution that can be used to make product available to consumers: intensive distribution, exclusive distribution, and selective distribution. In *intensive distribution* the product is sold to as many appropriate retailers or wholesalers as possible. Intensive distribution is appropriate for products such as chewing gum, candy bars, soft drinks, bread, film, and cigarettes where the primary factor influencing the purchase decision is convenience. All of these items fall into the convenience goods (convenience stores) category in the product-patronage matrix. Industrial products that may require intensive distribution include pencils, paper clips, transparent tape, file folders, typing paper, transparency masters, screws, and nails.

When a single outlet is given an exclusive franchise to sell the product in a geographic area, the arrangement is referred to as *exclusive distribution*. Products such as specialty automobiles, some major appliances, some brands of furniture, and certain lines of clothing that enjoy a high degree of brand loyalty are likely to be distributed on an exclusive basis. This is particularly true if the consumer is willing to overcome the inconvenience of traveling some distance to obtain the product.

Usually, exclusive distribution is undertaken when the manufacturer desires more aggressive selling on the part of the wholesaler or retailer, or when channel control is important. Exclusive distribution may enhance the product's image and enable the firm to charge higher retail prices. The specialty goods (specialty store) combination is the ultimate form of exclusive distribution. However, management sometimes chooses exclusive dealing for shopping goods, such as certain brands or lines of clothing, shoes, or stereo equipment, if sales to specialty stores or shopping stores enhance the product's image and provide sufficient margins to retailers.

Sometimes, manufacturers use multiple brands in order to offer exclusive distribution to more than one retailer or distributor. Exclusive distribution occurs more frequently at the wholesale level than at the retail level.

In *selective distribution*, the number of outlets that may carry a product is limited, but not to the extent of exclusive dealing. Shopping goods companies with established reputations commonly employ selective distribution, but this setup is also used by new companies or for new products as a means of gaining distribution. By carefully selecting wholesalers and (or) retailers, the manufacturer can concentrate on potentially profitable accounts and develop solid working relationships to ensure that the product is properly merchandised. The producer may also restrict the number of retail outlets if the product requires specialized servicing or sales support. Selective distribution may be used for products such as clothing, appliances, televisions, stereo equipment, home furnishings, and sports equipment.

In general, exclusive distribution lends itself to direct channels (manufacturer to retailer). Intensive distribution is more likely to involve indirect channels with two or more intermediaries.

***Task 13. Read the text and do the tasks that follow it.***

### THE PERSPECTIVE OF THE MANUFACTURER, WHOLESALE AND RETAILER

The manufacturer, wholesaler, or retailer may lead the channel design process, depending on the relative market power, financial strength, and availability of desired channel members.

A *manufacturer* has market power when customers demand its product. When consumers demand a manufacturer's brand, retailers and consequently wholesalers are anxious to market its existing and new products because such products are profitable. However, a small manufacturer of a little-known brand lacks market power when entering channel negotia-

tions. Small manufacturers usually cannot afford to distribute directly to retailers and must rely on wholesalers. Furthermore, in some locations acceptable middlemen may not be available in every line of trade.

In industrial markets, when deciding between a direct or indirect channel of distribution, the manufacturer must consider the customer and the customer's needs, the product line, the size of the geographic area to be covered, the number of customers, the nature of the selling job, and the projected profitability of each option. For a small manufacturer with geographically dispersed customers, the cost of a direct channel may be prohibitive. Firms in this situation include some manufacturers of electrical supplies and small hand and machine tools. Even the manufacturer of a full line of products who has geographically concentrated customers may find direct channels less profitable than indirect channels for some of the products and customers. For example, many pharmaceutical companies have increased their use of wholesalers, even in concentrated market areas, because of the high customer service levels required.

*Wholesalers* make it possible to efficiently provide possession, time, and place utility. Wholesalers are economically justified because they improve distribution efficiency by "breaking bulk", building assortments of goods, and providing financing for retailers or industrial customers.

Wholesalers' market power is greatest when retailers order a small amount of each manufacturer's products, or when the manufacturers involved have limited financial resources. For some products, such as Maytag appliances and some lines of jewelry and fashion apparel, per-unit prices and margins may be large enough to enable the manufacturer to sell directly to retailers, even when the number of items sold to each retailer is small. But manufacturers of low-value or low-margin items such as cigarettes and some food items may find it profitable to sell only through wholesalers, even though each retailer may order in relatively large quantities.

Wholesalers' and distributors' financial strength determines the number of marketing functions they can perform. Each function represents a profit opportunity as well as an associated risk and cost. The presence or absence of other firms offering comparable services influences the market power of individual wholesalers. Traditionally wholesalers have been regional in scope. In some industries like pharmaceuticals, wholesaler mergers have occurred.

*Retailers* exist in the channel of distribution when they provide convenient product assortment, availability, price, and image within the geographic market served. The degree of customer performance that a retailer enjoys in a specific area directly affects its ability to negotiate channel relationships. The retailer's financial capability and size also determine its

degree of influence over other channel members.

***Task 14. Answer the comprehension questions:***

1. Who may lead the channel design process?
2. What are the functions (duties) of the manufacturer?
3. What must the manufacturer consider when selecting a channel of distribution?
4. What is the role of the wholesaler?
5. What determines the retailer's degree of influence over other channel members?
6. What do retailers provide?

***Task 15. Explain why wholesalers are economically justified.***

***Task 16. Skim the text and explain how product characteristics influence channel design.***

## PRODUCT CHARACTERISTICS

In addition to market coverage objectives, product characteristics are a major consideration in channel design. Nine product characteristics should be analyzed by the channel designer: (1) the product's value, (2) the technicality of the product, (3) the degree of market acceptance, (4) the degree of substitutability, (5) the product's bulk, (6) the product's perishability, (7) the degree of market concentration, (8) seasonality, and (9) the width and depth of the product line.

*Value.* Products with a high per-unit cost require a large inventory investment. The requirement of large inventories limits the number of available intermediaries. In some cases the large dollar-per-unit margin may cover the cost of direct sales and result in the manufacturer's selecting direct distribution. But channels tend to be indirect when the unit value is low, unless sales volume is high enough to support direct channels. In general, intensive distribution is used for low-value products.

The product's value also influences its inventory carrying cost and the desirability of premium transportation. Low-value, low-margin grocery products may be shipped by rail car and stored in field warehouses. High-value component parts and products such as high-fashion merchandise may be shipped by air freight to minimize in-transit inventories and reduce inventory carrying costs by holding inventory at a central location.

*Technicality.* Highly technical products usually require demonstration



by a salesperson. In addition, prepurchase and postpurchase service often requires that repair parts be stocked. Technical products include such items as home computers, high-priced stereo components, expensive cameras and video equipment, imported sports cars, and a multitude of industrial products. Generally, direct channels and selective or exclusive distribution policies are used for these kinds of products.

*Market Acceptance.* The degree of market acceptance determines the amount of selling effort required. If a leading manufacturer offers a new product and plans significant introductory advertising, customer acceptance will be high and intermediaries will want to carry the product. But new products with little market acceptance and low brand identification require aggressive selling at each level of the channel.

*Substitutability.* Product substitutability is lowest for convenience goods and highest for specialty goods. When brand loyalty is low, product substitution is likely and intensive distribution is required.

*Bulk.* Generally, low-value, high-weight products are restricted to markets close to the point of production. These products often require special materials-handling skills. With low weight and small cubes, more units can be shipped in a truck, rail car, or container, thereby reducing the per-unit cost of transportation.

*Perishability.* Perishability refers to physical deterioration or to product obsolescence caused by changing customer buying patterns or technological change. Perishable products are usually sold on a direct basis in order to move products through the channel more quickly and reduce the potential for inventory loss.

*Market Concentration.* When the market is concentrated in a geographic area, direct channels may be the most effective and efficient method of distribution. When markets are widely dispersed, however, specialized intermediaries are necessary. Because of widely dispersed markets, many food processing companies use brokers to market their products. This factor also explains the existence of pooling agencies, such as freight forwarders and local cartage firms.

*Seasonality* must be considered when applicable. For some products, sales volumes peak at certain times of the year (toy sales at Christmas); in other cases, raw materials, such as fresh fruits and vegetables, may only be available at specific times. Both cases require out-of-season storage. Manufacturers must invest in warehouses or provide incentives to intermediaries so that they perform the storage function. For example, manufacturers might offer a seasonal discount to wholesalers or retailers who agree to take early delivery.

*The width and depth* of a supplier's product line influence channel de-

sign. A manufacturer of products with low per-unit values may use intensive distribution with direct sales if the product line is broad enough to result in a relatively large average sales volume.

### **Focus on Writing**

***Task 17. Imagine that you are a lecturer of logistics at the Trade and Economic University. Prepare two lectures on:***

- a) Channels of Distribution;
- b) Channel Design.

***Task 18. Imagine that you are taking an exam in logistics. You are to speak on the structure of a distribution channel. You may prepare the report in written form.***

## **UNIT 3. CUSTOMER SERVICE**

### **Focus on Vocabulary**

utility	delivery
impact	invoicing
share	implementation
ultimately	long-range
imperative	promotion
order processing	impact
availability	stockout
after-sales service	complaint
shipment	installation
warranty	commitment
replacement	claim
repair	

### **Focus in Reading**

***Task 1. Read and translate the text. While reading the text, try to remember as much information about customer service as possible.***

### **WHAT IS CUSTOMER SERVICE?**

E. Grosvenor Plowman referred to the “five rights” of a logistics system as supplying the right product at the right place at the right time in the

right condition for the right cost to those customers consuming the product. Customer service represents the output of the logistics system and the place component of the firm's marketing mix. It is a measure of the effectiveness of the logistics system in creating time and place utility for a product. The level of customer service not only determines whether existing customers will remain customers, but how many potential customers will become customers. Thus the customer service level a firm provides has a direct impact on its market share; its total logistics costs; and ultimately, its profitability. For this reason, it is imperative that customer service be an integral part of the design and operation of any logistics system.

The meaning of customer service varies from one company to the next. In broad terms, customer service can be considered the measure of how well the logistics system is performing in creating time and place utility for a product, including postsale support.

In most corporations customer service is defined in one of three ways: as an activity that has to be managed, such as order processing, invoicing, or handling customer complaints; as performance measures, such as the ability to ship 95 percent of the orders received complete within 48 hours; or, as an element in the total corporate philosophy rather than as an activity or a set of performance measures. Customer service is a process for providing significant value-added benefits to the supply chain in a cost effective way.

Successful implementation of the marketing concept requires both obtaining customers and keeping them, while satisfying the firm's long-range profit and return on investment objectives. Creating demand-obtaining customers is often thought of solely in terms of promotion (selling and advertising), product, and price, but customer service can have a significant impact on demand. In addition, customer service determines whether customers will remain customers.

A firm's entire marketing effort can be rendered ineffective by poorly conceived customer service policies. It is essential that a firm adopt a customer service policy that is based on customer needs, is consistent with overall marketing strategy, and advances the corporation's long-range profit objectives.

A number of methods have been proposed to aid in establishing a profitable customer service strategy. But the following four methods have the most merits: (1) determining channel service levels based on knowledge of consumer reactions to stockouts; (2) cost (revenue) trade-offs; (3) ABC analysis of consumer service; and (4) the customer service audit. The customer service audit is a method of determining the existing service level,

determining how performance is measured and reported, and appraising the impact of change in customer service policy. Audit procedures should comprise four distinct stages: an external customer service audit, an internal customer service audit, the identification of potential solutions, and the establishment of customer service levels.

The levels of customer service a firm achieves can be improved by the following actions: (1) thoroughly researching customers' needs, (2) setting service levels that make realistic trade-offs between revenues and expenses, (3) making use of the latest technology in order processing systems, and (4) measuring and evaluating the performance of individual logistics activities.

### **Discussion Activities**

***Task 2. Answer the following questions. Then discuss your answers in small groups:***

1. How would you define customer service?
2. How can a firm improve the level of customer service?
3. What methods have been proposed to establish a profitable customer service strategy?
4. Why is the customer service audit important when establishing a corporation's customer service strategy?

***Task 3. Develop the following ideas and let your partners add to what you can say:***

1. Customer service represents the output of the logistics system and the place component of the firm's marketing mix.
2. The meaning of customer service in broad and narrow terms.
3. Successful implementation of the marketing concept requires both obtaining customers and keeping them.
4. The importance of the customer service function to a firm's marketing and logistics efforts.
5. Objectives of the customer service audit.
6. Opportunities for improving customer service performance.

***Task 4. Look through the text and think of the heading for each paragraph. Then write down key sentences from each paragraph and combine them into a summary.***

### **Focus on Speaking**

## Communication Activities

**Task 5.** Use the Internet or library resources and find additional information about customer service. Make a presentation in class. Be ready to answer your partners' questions.

## Reading Practice

**Task 6.** Skim the text for getting the main idea. Then make a brief summary of it.

### ELEMENTS OF CUSTOMER SERVICE

A number of elements are commonly associated with customer service, although the degree of importance attached to any of them varies from company to company depending on customer needs. Peter Gilmour developed the following list of customer service elements:

1. *Availability of item* represents the ability of the supplier to satisfy customers' orders within a time limit generally accepted by the industry for the particular item (e. g., a chemical from stock; an expensive piece of equipment in six weeks).

2. *After-sales service and backup* includes speedy and ready replacement of defective or damaged items; commissioning of equipment if the customer experiences difficulties; subsequent follow-up to ascertain if user is happy with the purchase.

3. *Efficient telephone handling of orders and queries* includes the availability of personnel within the organization who can be quickly accessed for intelligent handling of customer queries, whether of a technical nature or about availability, price, or status of an earlier order. It also includes the training of operator (receptionist) to immediately recognize the right contact to best handle the customer's call.

4. *Order convenience* represents the efficiency, accuracy, and simplicity of paperwork necessary to conform to legal requirements and interface with the firm's and the customer's business systems.

5. *Competent technical representatives* involve training, background knowledge, and the presentation of representatives calling on customers.

6. *Delivery time* is the elapsed time for the normal ordering procedure between receipt by the supplier of a firm commitment for an order and receipt of the goods by the customer. Naturally only ex-stock items are included here.

7. *Reliability* means the supplier's commitment to maintain a promised

delivery schedule and to advise customers if such deliveries subsequently cannot be made on time.

8. *Demonstration equipment* represents willingness of the supplier to allow a prospective customer to examine a particular piece of equipment on his own premises prior to signing a purchase contract. Also includes the willingness and competence of the supplier's staff to demonstrate equipment without any purchase commitment.

9. *Availability of published material.*

***Task 7. Scan the text and:***

1. Explain the importance of pretransaction elements of customer service.
2. Give the main reasons for an effective customer service strategy.

## PRETRANSACTION ELEMENTS OF CUSTOMER SERVICE

Bernard J. LaLonde and Paul Zinszer categorized the elements of customer service into three groups – pretransaction, transaction, and post-transaction.

*Pretransaction elements* of customer service, although not specifically involved with logistics, have a significant impact on product sales. The specific elements of pretransaction customer service include the following:

1. *A written statement of customer service policy.* The customer service policy statement would be based on customer needs, define service standards, determine who reports the performance measurements to whom and with what frequency, and be operational.

2. *Provide customers with a written statement of service policy.* It makes little sense to provide a level of service designed to improve market penetration and then fail to inform the customer of what is being provided. A written statement reduces the likelihood that the customer will have unrealistic expectations of performance. It also provides the customer with information on how to communicate with the firm if specified performance levels are not attained.

3. *Organization structure.* Although there is no organization structure best suited to successful implementation of a customer service policy, the structure selected should facilitate communication and cooperation between and among those functions involved in implementing the customer service policy. In addition, the firm should provide customers with the name and phone number of a specific individual who can satisfy their need for information.

4. *System flexibility.* Flexibility is required for the system to effectively

respond to unplanned events, such as snowstorms, shortages of raw materials or energy, and strikes.

5. *Management services*. Training manuals and seminars designed to help the customer improve inventory management, ordering, or merchandising are elements of customer service.

All of the above pretransaction elements of customer service are essential components of a successful marketing strategy.

***Task 8. Read the text and speak about the specific transaction and posttransaction elements of customer service.***

## TRANSACTION AND POSTTRANSACTION ELEMENTS OF CUSTOMER SERVICE

*Transaction elements* are the activities normally associated with customer service, including the following:

1. *Stockout level* is a measure of product availability. When stockouts occur, customer goodwill can be maintained by arranging for suitable product substitution and (or) expediting the shipment when the product is received in stock.

2. *Order information* is the ability to provide the customer with fast and accurate information about such considerations as inventory status, order status, expected shipping and delivery dates, and back-order status. A back-order capability allows orders that require immediate attention to be identified and expedited. The ability to back order is important because the alternative may be to force a stockout.

3. *Elements of the order cycle*. The order cycle is the total elapsed time from initiation of the order by the customer until delivery to the customer. Individual components of the order cycle include order communication, order entry, order processing, order picking and packing and delivery.

4. *Expedite shipments* are those that receive special handling in order to reduce the normal order cycle time.

5. *Transshipments* are the transporting of product between field locations to avoid stockouts. They are often made in anticipation of customer demand.

6. *System accuracy*. Mistakes in system accuracy – the accuracy of quantities ordered, products ordered, and billing – are costly to both manufacture and the customer.

7. *Order convenience* refers to the degree of difficulty that a customer experiences when placing an order. Problems may result from confusing order forms or using nonstandard terminology; both can lead to errors and

poor customer relations.

8. *Product substitution* occurs when the product ordered is replaced by the same item in a different size or with another product that will perform as well or better. In order to develop an appropriate product substitution policy, the manufacturer should work closely with customers to inform them or gain their consent.

*The posttransaction elements* of customer service support the product after it has been sold. The specific posttransaction elements include:

1. *Installation, warranty, alternations, repairs, parts* can be a significant factor in the decision to purchase; they should be evaluated in a manner similar to the transaction elements.

2. *Product tracing* is another necessary component of customer service. In order to avoid litigation, firms must be able to recall potentially dangerous products from the marketplace as soon as problems are identified.

3. *Customer claims, complaints, and returns.* A corporate policy should specify how to handle customer claims, complaints, and returns. The company should maintain data on claims, complaints, and returns in order to provide valuable consumer information to product development, marketing, logistics, and other corporate functions.

4. *Product replacement.* Temporary placement of product with customers waiting for receipt of a purchased item or waiting for a previously purchased product to be repaired is an element of customer service.

### **Focus on Writing**

#### ***Task 9. Render the letter in English.***

Уважаемые господа! Мы должны сообщить вам, что наши покупатели испытали серьезные затруднения с машинами, поставленными вами по нашему пробному заказу № 7231. Вышеупомянутый товар прибыл с опозданием на месяц. В течение долгого времени мы не могли провести испытание машин ввиду отсутствия инструкций по эксплуатации и уходу за ними.

Ваши инструкции были получены только в конце прошлой недели. Хотя мы точно их соблюдали, нам не удалось добиться нужной производительности. Испытания показали, что мощность машин ниже мощности, предусмотренной в спецификации. Ввиду этого мы вынуждены вернуть вам эти машины и просить вас прислать нам те, которые соответствовали бы нашей спецификации.

Мы хотели бы добавить, что новый товар должен быть получен нами не позднее 1 января, так как 1 января истекает срок импортной лицензии, выданной нам Министерством торговли Республики Беларусь.

#### ***Task 10. You are manager of the firm:***



1. Give a brief description of the customer service in your firm.
2. Prepare a written report on the implementation of the marketing strategy in your firm.

## UNIT 4. TRANSPORTATION

### Focus on Vocabulary

warehousing	impact
executive	staggers
be aware of	entry
mode	routing
auxiliary	scheduling
piggyback	merger
freight forwarder	rail
versatility	pipeline
flexibility	pilferage
shipper	

### Focus on Reading

***Task 1. Read and translate the text. Be ready to discuss it.***

#### THE ROLE AND IMPORTANCE OF TRANSPORTATION

Transportation, together with warehousing, adds time and place utility to products. It also affects many decision-making areas, including product, market area, purchasing, location, and pricing.

The five basic modes of transportation – motor, rail, air, water, and pipeline – provide movement of products between where they are produced and where they are consumed. Each mode varies in its economic and service characteristics, and has different cost structures based on product- and market-related factors. The logistics executive must be aware of the characteristics of each mode as well as various intermodal combinations, nonoperating third parties, and auxiliary transport modes (e. g., piggyback, containers, transportation companies, freight forwarders, shippers' associations, brokers, parcel post). Deregulation of the major modes of transportation has had significant impact on motor, rail, air, and water carriers.

Logistics involves the movement of products (raw materials, parts, sup-

plies, finished goods) from point-of origin to point-of-consumption. A product produced at one point has very little value to the prospective customer unless it is moved to the point where it will be consumed. Transportation achieves this movement.

Movement across space or distance creates value or place utility. Time utility is mostly created or added by the warehousing and storage of product until it is needed. But transportation is also a factor in time utility; it determines how fast and how consistently a product moves from one point to another. This is known as *time-in-transit* and *consistency of service*. If a product is not available at the precise time it is needed, there may be expensive repercussions, such as lost sales, customer dissatisfaction, and production downtime.

Transportation moves a firm's products to markets that are often geographically separated by great distances. By doing so, it adds to the customer's general level of satisfaction. Generally, the effective and efficient management of transportation becomes more important to a firm as transportation's share of product cost increases.

The following business decisions are affected by transportation: product decisions, market area decisions, purchasing decisions, location decisions, pricing decisions.

Customer service is a vital component of logistics management. Each activity of logistics management contributes to the level of service a company provides to its customers, although transportation's impact on customer service is one of the most significant. The most important transportation service characteristics affecting customer service levels are dependability; time-in-transit; market coverage; flexibility; loss and damage performance; and the ability of the carrier to provide more than just basic transportation service.

### **Discussion Activities**

***Task 2. Answer the following questions. Then discuss your answers in small groups:***

1. What role does transportation play in logistics?
2. What are the five basic modes of transportation?
3. What has had significant impact on basic modes of transportation?
4. What transportation service characteristics affect customer service levels?
5. What business decisions are affected by transport?

***Task 3. Exchange views on the following points. Give some examples***

**or additional information:**

- the role of transportation;
- the five basic modes of transportation;
- the importance of transportation;
- functions of transportation and its importance to logistics;
- the affect of deregulation on transportation.

***Task 4. Discuss the role and functions of brokers in the transportation system.***

***Task 5. Look through the text and think of the heading for each paragraph. Write down key sentences from each paragraph and combine them into a summary.***

### **Focus on Speaking Communication Activities**

***Task 6. Read the dialogue and act it out:***

*C:* Good afternoon, Mr..., we would like to discuss with you the question of the transportation of the equipment.

*S:* Good afternoon, Mr..., yes certainly.

*C:* We have agreed that the delivery of the equipment shall be carried out on c. i. f. terms.

*S:* You are quite right.

*C:* In this case we would like to clear up who will be responsible for what?

*S:* When the equipment is ready for shipment we'll inform you and you will open an irrevocable L/C (Letter of Credit).

*C:* What information (data) will you supply to us when we have opened the L/C?

*S:* After the equipment has been loaded we shall immediately inform you of the vessel's name, her sailing date, the port of destination, the description and quantity of the load, the number of the B/L and the contract number.

*C:* Are your obligations over, here?

*S:* Yes, at the port of unloading the Customer provides for prompt unloading of the equipment on time and transporting it from the port on the construction site.

*C:* Thank you for the clarification, Mr... .

***Task 7. Comment on the following quotation:***

“I emphasize the importance of details. You must perfect every fundamental of your business if you expect it to perform well.” – Ray Kroc, founder of McDonald’s.

***Task 8. Use the Internet or library resources and find additional information about the development of transportation in the Republic of Belarus. Make a presentation in class. Be ready to answer your partners’ questions.***

### **Reading Practice**

***Task 9. Read the text about modes of transportation and do the tasks that follow it.***

#### **THE TRANSPORTATION SYSTEM**

A variety of options is available for individuals, firms, or countries that want to move their products from one point to another. Any one or more of five transportation modes – motor, rail, air, water, or pipeline – may be selected. In addition, certain modal combinations are available, including rail-motor, motor-water, motor-air, and rail-water. Such intermodal combinations offer specialized or lower cost services not generally available when using a single transport mode. Finally, other transporters offer a variety of services to shippers. These transporters include freight forwarders, shipper cooperatives, parcel post, and other services. Special carriers usually act as transportation intermediaries and use one or more of the basic modes for moving their customers’ products.

During the late 1960s, *motor carriage* replaced rail carriage as the dominant form of freight transport in the United States. Motor carriers transport over 75 percent of the tonnage of agricultural products such as fresh and frozen meats, dairy products, bakery products, confectionary items, beverages, and cigars. Many manufactured products are transported by motor carriers, including amusement, sporting, and athletic goods, toys, watches, clocks, farm machinery, radios, televisions, phonographs, records, carpets and rugs, clothing, drugs, and office and accounting machines. Most consumer goods are transported by motor carrier.

Motor carriers are more flexible and versatile than other modes. Motor carriers are versatile in that they can transport products of varying sizes and weights over any distance. Virtually any product can be transported by motor carriers. Their flexibility and versatility have enabled them to be-

come the dominant form of transport in the United States and in many other parts of the world.

Motor carriage offers the customer fast, reliable service with little damage or loss in transit. Motor carriers generally give much faster service than railroads and compare favorably with air carriers on short hauls. Loss and damage ratios for motor carriers are substantially lower than for most rail shipments and are slightly higher than for air freight.

The industry can be classified into two general categories of carriers: general freight carriers and specialized motor carriers. General freight carriers generate the majority of all truck revenues and include intercity common carriers and other general carriers. Specialized motor carriers generate the remaining revenues. These include carriers of heavy machinery, liquid petroleum, refrigerated products, agricultural commodities, motor vehicles, building materials, household goods, and other specialized items.

The amount of freight transported by motor carriers has steadily increased over the years. Motor carriage is a vital part of most firms' logistics network, because the characteristics of the motor carrier industry are more compatible with the service requirements of the firms' customers than are other transport modes.

In some countries *rail* is the dominant transport mode. Rail service is available in almost every major metropolitan center in the world, and in many smaller communities as well. However, the rail network is not nearly as extensive as the highway network in most countries. Therefore rail transport lacks the versatility and flexibility of motor carriers because it is limited to fixed track facilities. As a result, railroads, like air, water, and pipeline transport, provide terminal-to-terminal service rather than point-to-point service for most shippers.

Rail transport generally costs less than air and motor carriage. For many shipments, rail does not compare favorably with other modes on loss and damage ratios. It has disadvantages compared to motor carriers in terms of transit time and frequency of service. An additional area in which railroads suffer in comparison to motor carriers is equipment availability. Railcars may be unavailable because they are being loaded, unloaded, moved within railroad sorting yards, or undergoing repair.

A number of developments in the rail industry have helped to overcome some of these utilization problems. Advances have included computer routing and scheduling; the upgrading of equipment, roadbeds, and terminals; improvements in railcar identification systems; cars owned or leased by the shipper; and the use of unit trains or dedicated through-train service

between major metropolitan areas.

Domestically, *air* carriers transport less than 1 percent of ton-mile traffic. Although increasing numbers of shippers are using air freight for regular service, most view air transport as a premium, emergency service because of its higher cost. But in instances where an item must be delivered to a distant location quickly, air freight offers the shortest time-in-transit of any transport mode.

Air carriers generally handle high-value products. Air freight usually cannot be cost-justified for low-value-items, because the high price of air freight would represent too much of the product cost. Air transport provides rapid time-in-transit, but terminal and delivery delays and congestion may appreciably reduce some of this advantage.

*Water transportation* can be broken down into several distinct categories: (1) inland waterway such as rivers and canals, (2) lakes, (3) coastal and intercoastal ocean, and (4) international deep sea. Water carriage competes primarily with rail and pipeline, since the majority of commodities carried by water are semiprocessed or raw materials transported in bulk.

Water carriage by nature is particularly suited for movements of heavy, bulky, low-value-per-unit commodities that can be loaded and unloaded efficiently by mechanical means in situations where speed is not of primary importance, where the commodities shipped are not particularly susceptible to shipping damage or theft, and where accompanying land movements are unnecessary.

Domestically, businesses primarily use water movements for inbound transportation. Internationally, water transport is used for both inbound and outbound product shipments. Often, water carriers transport bulk materials such as iron ore, grains, pulpwood product, coal, limestone, and petroleum internationally or domestically to points where they can be used as inputs into the manufacturing process.

Water carriers are limited in their movement by the availability of lakes, rivers, canals, or intercoastal waterways. Reliance on water carriage to a greater or lesser degree is dependent on the geography of the particular location. In the USA, for example, 16 percent of the total intercity freight is moved by water. In Europe water carriage is much more important because of the vast system of navigable waterways and the accessibility to major population centers provided by water routes.

Water carriage is perhaps the most inexpensive method of shipping high-bulk, low-value commodities. Because of the importance of energy resources to industrialized nations, water carriage will continue to play a significant role in the transportation of energy resources. In addition, con-

tainer ships have greatly expanded the use of water transport for many products.

Many domestic and most international shipments involve the use of containers. The use of containers in intermodal logistics reduces staffing needs, minimizes in-transit damage and pilferage, shortens time in transit because of reduced port turnaround time, and allows the shipper to take advantage of volume shipping rates.

*Pipelines* are able to transport only a limited number of products including natural gas, crude oil, petroleum products, water, chemicals, and slurry products. Natural gas and crude oil account for the majority of pipeline traffic.

In addition to the five basic modes of transport, a number of intermodal combinations are available to the shipper. The particular mode a shipper selects depends on the characteristics of the mode and the needs of the company and its customers.

***Task 10. Answer the comprehension questions:***

1. What are the basic modes of transportation?
2. What products are transported by motor carriers?
3. What are the advantages and disadvantages of motor carriage?
4. Why is rail the dominant transport mode in some countries?
5. What products do air carriers generally handle?
6. What categories can water transportation be divided into?
7. What commodities do water carriers transport?
8. What are the advantages and disadvantages of water carriers?
9. What products are transported by pipelines?
10. What does the particular mode a shipper selects depend on?

***Task 11. Describe each mode of transportation in terms of its economic and marketing characteristics.***

### **Focus on Writing**

***Task 12. Give a brief description of the transportation system in the Republic of Belarus. Describe each mode of transportation.***

***Task 13. Write a one-page article about the transportation system in your region for a local newspaper.***

## **UNIT 5. WAREHOUSING**

## Focus on Vocabulary

warehousing	commensurate
total cost	Just-in-Time program
link	vendor
evolve (v)	multiple
facet	facilities
store	shipment
point-of-origin	breakbulk
point-of-consumption	inbound
item	receipt
inventories	proximity
finished goods	outbound
goods-in-process	substitutability
seasonality	obsolescence
differential	demand fluctuations

## Focus on Reading

*Task 1. Read and translate the text. Be ready to discuss it.*

### NATURE AND IMPORTANCE OF WAREHOUSING

Warehousing is an integral part of every logistics system. It plays a vital role in providing a desired level of customer service at the lowest possible total cost. The warehousing activity is the link between the producer and the customer. Over the years, warehousing has evolved from a relatively minor facet of a firm's logistics system to one of its most important functions. Warehousing is that part of a firm's logistics system that stores products (raw materials, parts, goods-in-process, finished goods) at and between point-of-origin and point-of-consumption, and provides information to management on the status, condition, and disposition of items being stored.

Warehousing is used for the storage of inventories during all phases of the logistics process. Two basic types of inventories can be placed into storage: (1) raw materials, components, and parts (physical supply); (2) finished goods (physical distribution). Also, there may be inventories of goods-in-process, although in most firms, goods-in-process constitute only a small portion of a company's total inventories. The warehousing of inventories is necessary for the following reasons:

1. To achieve transportation economies.



2. To achieve production economies.
3. To take advantage of quantity purchase discounts and forward buys.
4. To maintain a source of supply.
5. To support the firm's customer service policies.
6. To meet changing market conditions (e. g., seasonality, demand fluctuations, competition).
7. To overcome the time and space differentials that exist between producers and consumers.
8. To accomplish least total cost logistics commensurate with a desired level of customer service.
9. To support the Just-in-Time programs of suppliers, vendors, and customers.

Warehouses can be used to support manufacturing, to mix products from multiple production facilities for shipment to a single customer, to breakbulk or subdivide a large shipment of product into many smaller shipments to satisfy the needs of many customers, and to combine or consolidate smaller shipments of products into a higher-volume shipment.

In supporting manufacturing operations, warehouses often function as inbound consolidation points for the receipt of materials shipments from suppliers. Firms order raw materials, parts, components, or supplies from various suppliers, who ship large quantities to a warehouse located in close proximity to the plant. Items are then transferred from the warehouse to the manufacturing plant(s).

Warehouses can be used for *product mixing*, *outbound consolidation*, and (or) *breakbulk*. Product mixing often involves multiple plant locations that ship products to a central warehouse where customer orders for multiple products are combined or mixed for shipment. When a warehouse is used for outbound consolidation, shipments are made to a central facility from a number of manufacturing locations. The warehouse then consolidates or combines products from the various plants into a single shipment to the customer. Breakbulk warehouses are facilities that receive large shipments of product from a manufacturing plant. Several customer orders are combined into a single shipment from the plant to the breakbulk warehouse. When the shipment is received by the warehouse, it is subdivided or broken down into smaller shipments, which are sent to customers in the geographical area served by the warehouse.

The majority of firms utilize warehousing in order to accomplish least total cost logistics at some prescribed level of customer service. The use of warehousing enables management to select the transport modes and inventory levels that, when combined with communication and order processing systems and production alternatives, minimize total costs while providing

a desired level of customer service.

Factors that influence a firm's warehousing policies include the industry; the firm's philosophy; capital availability; product characteristics, such as size, perishability, product lines, substitutability, and obsolescence rate; economic conditions; competition; seasonality of demand; use of Just-in-Time programs; and the production process being used.

### **Discussion Activities**

***Task 2. Answer the following questions. Then discuss your answers in small groups:***

1. How can you define warehousing?
2. Why is it necessary to hold inventories in storage?
3. Why is warehousing important in the logistics system?
4. What types of inventories can be placed in storage?
5. What factors influence a firm's warehousing policies?

***Task 3. Develop the following ideas and let your partners add to what you can say:***

1. Warehousing is an integral part of every logistics system.
2. Warehousing is used for the storage of inventories.
3. Warehouses can be used for supporting manufacturing, for product mixing, outbound consolidation and breakbulk.

***Task 4. In pairs, discuss the following points:***

- the necessity of the warehousing of inventories;
- factors that influence a firm's warehousing policies.

***Task 5. Read and translate into Russian a letter of complaint. Then discuss it in small groups.***

Dear sirs,

Consignment Note 953251 262.

The above consignment was delivered to our premises, at the above address, on October 11. It consisted of twelve boxes of records and cassettes, four of which were badly damaged.

We have contacted our suppliers, and they inform us that when the goods were deposited at your depot, they were in perfect condition. Therefore we assume that damage occurred while the consignment was in your care.

The boxes were marked Fragile and Keep away from heat, but because of the nature of the damage to the goods, the consignment appeared to have been roughly handled and left near heat.

We estimate that loss on invoice value to be 9,830 pounds, and as the

goods were sent ‘carrier’s risk’ we are claiming compensation for that amount.

You will find a copy of the consignment note and invoice enclosed, and we will hold the boxes for your inspection.

Yours faithfully,

(Signature)

R. Brown

***Task 6. Look through the text and think of the heading for each paragraph. Write down key sentences from each paragraph and combine them into a summary.***

### **Focus on Speaking Communication Activities**

***Task 7. Comment on the following quotation:***

“I know the price of success: dedication, hard work and unremitting devotion to the things you do”. – Frank Wright.

***Task 8. Use the Internet or library resources and find additional information about the factors that influence a firm’s warehousing policies. Then make a presentation. Be ready to answer your partners’ questions.***

### **Reading Practice**

***Task 9. Look through the text and enumerate the main types of warehousing.***

### **TYPES OF WAREHOUSING**

In general, firms have several warehousing alternatives. Some companies may market products directly to customers (called direct store delivery) and thereby eliminate warehousing in the field. Most firms, however, warehouse products at some intermediate point between plant(s) and customers. When a firm decides to store product in the field, it faces two warehousing options: rented facilities, called *public warehousing*, or owned or leased facilities, called *private warehousing*.

Another option also exists, termed *contract warehousing*, which is a

variation of public warehousing. Contract warehousing is a partnership arrangement between the user and provider of the warehousing service. Resources provided by the contract warehouse firm can be customized to satisfy a specific client's requirements.

Firms must examine important customer service and financial considerations to choose between public and private warehousing. For example, operating costs for a public warehouse tend to be higher because the warehouse will attempt to operate at a profit; it will also have selling and advertising costs. However, there is no initial investment in facilities required when a firm uses public warehousing. From a customer service perspective, private warehousing can generally provide higher service levels because of its more specialized facilities and equipment, and better familiarity with the firm's products, customers, and markets.

There are six types of public warehouses: general merchandise warehouses for manufactured goods, refrigerated or cold storage warehouses, bonded warehouses, household goods and furniture warehouses, special commodity warehouses, and bulk storage warehouses. Each type provides users with a broad range of specialized services.

The *general merchandise warehouse* is probably the most common form. It is designed to be used by manufacturers, distributors, and customers for storing practically any kind of product.

*Refrigerated or cold storage warehouses* provide a temperature-controlled storage environment. Usually, they are used for preserving perishable items such as fruits and vegetables. However, a number of other items – such as frozen food products, some pharmaceuticals, photographic paper and film, and furs – require this type of facility.

Some general merchandise or special commodity warehouses are known as *bonded warehouses*. Goods such as imported tobacco and alcoholic beverages are stored in this type of warehouse. The advantage of the bonded warehouse is that import duties and excise taxes need not be paid until the merchandise is sold.

*Household goods warehouses* are used for storage of personal property rather than merchandise. Within this category of warehouses, there are several types of storage alternatives. One is the open storage concept. The goods are stored on a cubic-foot basis per month on the open floor of the warehouse. Household goods are typically confined to this type of storage. A second kind of storage is private room or vault storage, where users are provided with a private room or vault to lock in and secure goods. A third kind, container storage provides users with a container into which they can pack goods. Container storage affords better protection of the product than does open storage.

*Special commodity warehouses* are used for particular agricultural

products, such as grains, wool, and cotton. Ordinarily each of these warehouses handles one kind of product and offers special services particular to that product.

Bulk storage warehouses provide tank storage of liquids and open or sheltered storage of dry products such as coal, sand, and chemicals. The services provided by such warehouses may include filling drums from bulk or mixing various types of chemicals with others to produce new compounds or mixtures.

***Task 10. Read the text and in small groups discuss the advantages and disadvantages of public warehousing.***

### ADVANTAGES AND DISADVANTAGES OF PUBLIC WAREHOUSING

One of the major advantages of public warehouses is that they require no capital investment on the part of the user. The user avoids the investment in buildings, land, and material handling equipment, as well as the costs associated with starting up the operation and hiring and training personnel.

If a firm's operations are subject to seasonality the public warehouse option allows the user to contract for as much storage space as needed to meet peak requirements.

Public warehouses are often able to offer a number of specialized services more economically than a private warehouse. These specialized services include the following: broken-case handling; packaging of manufacturers' products for shipping; equipment maintenance and service; stock spotting of product for manufacturers with limited or highly seasonal product lines; a break-bulk service; consolidation of damaged product and product being recalled by the manufacturer in carload or truckload quantities.

The public warehouse consolidates orders of specific customers from the products of a number of different manufacturers on a single shipment. This results in lower shipping costs, as well as reduced congestion at the customer's receiving dock.

Another major advantage offered by public warehousing is flexibility. Public warehouses require only a short-term contract. Short-term contracts available from public warehouses make it easy for firms to change field warehouse locations due to changes in the market-place (e. g., population shifts), the relative cost of various transport modes, volume of a product sold, or the company's financial position. In addition, a firm that uses pub-

lic warehouses does not have to hire or lay off employees as the volume of business changes.

Finally, public warehousing makes it possible for the manufacturer to experiment with a warehouse location to determine its contribution to the firm's logistics system, and discontinue the operation with relative ease if cost savings or performance objectives are not realized.

When a manufacturer uses a public warehouse, it knows its exact storage and handling costs because it receives a bill each month. The manufacturer can also forecast costs for different levels of activity because the costs are known in advance.

However, there are a number of disadvantages associated with the use of public warehousing. Effective communication may be a problem with public warehouses, because all computer terminals and systems are not compatible.

The space or specialized services desired may not always be available in a specific location. Many public warehouse facilities only provide local service and are of limited use to a firm that distributes regionally or nationally. Consequently, a manufacturer that wants to use public warehouses for national distribution may find it necessary to deal with several different operators and monitor several contractual agreements.

Finally, public warehousing space may not be available when and where a firm wants it. Shortages of space do occur periodically in selected markets, and this can adversely affect the logistics and marketing strategies of a firm.

***Task 11. Skim the text for getting the main idea. Then make a short summary of it.***

#### ADVANTAGES AND DISADVANTAGES OF PRIVATE WAREHOUSING

In private warehousing, the company that owns the goods can exercise a greater degree of control. This greater degree of control allows the firm to integrate the warehousing function more easily into the company's total logistics system.

With this warehouse control comes a greater degree of flexibility to design and operate the warehouse to fit the needs of customers and the characteristics of the product. Companies with highly specialized products requiring special handling and (or) storage may not find public warehousing feasible. In such instances the firm must utilize private warehousing or ship direct to customers. In such instances the firm must utilize private

warehousing or ship direct to customers.

Another prominent advantage of private warehousing is that it can be less costly over the long term than public warehousing. Operating costs can be 15 to 25 percent lower if the company achieves sufficient throughput or utilization. The generally accepted industry norm for the utilization rate of a private warehouse is 75 to 80 percent. If a firm cannot achieve at least 75 percent utilization, it would generally be more appropriate to use public warehousing.

By employing private warehousing, a firm can make greater use of its present human resources. It can utilize the expertise of its technical specialists. In addition, the individuals working in the warehouse are company employees. Generally, there is greater care in handling and storage when the firm's own work force operates the warehouse. On the other hand, some public warehouses allow a firm to use its own employees in the handling and storage of products within the confines of the public warehouses. A company can also realize tax benefits when it owns its warehouses.

Finally, there may be certain intangible benefits associated with warehouse ownership. When a firm distributes its products through a private warehouse, it can give the customer a sense of permanence and continuity of business operations. The customer sees the company as a stable, dependable, and lasting supplier of products. This can give the firm marketing advantages.

The major drawback of private warehousing is the same as one of its main advantages – flexibility. A private warehouse may be too costly because of its fixed size and costs. Irrespective of the level of demand the firm experiences, the size of the private warehouse is restricted in the short term. A private facility cannot expand and contract to meet increases or decreases in demand.

If a firm uses only private warehouses, it also loses flexibility in its strategic location options. Changes in market size, location, and preferences are often swift and unpredictable. If a company cannot adapt to these changes in its warehouse structure, it may lose a valuable business opportunity.

### **Focus on Writing**

*Task 12. Write a one-page article about the development of warehousing in the Republic of Belarus.*

## **UNIT 6. DECISION STRATEGIES IN WAREHOUSING**

## Focus on Vocabulary

breakbulk	order-picking location
verification	staging
outbound	clerical
product staging	stating
replenishment	facility
semipermanent storage	order selection (order picking)
erratic demand	pallet
forward buying	destination
inbound shipment	consignee
outbound shipment	handling
put-away	retrieval
randomized storage	compatibility
dedicated storage	

## Focus on Reading

***Task 1. Read the text and describe the three basic functions of warehousing: movement, storage and information transfer.***

### FUNCTIONS OF WAREHOUSING

Warehousing serves an important role in a firm's logistics system. In combination with other activities, it provides the firm's customers with an acceptable level of service. The obvious role of warehousing is to store products. However, warehousing provides breakbulk, consolidation, and information services as well. These activities emphasize product flow rather than storage. Fast and efficient movement of large quantities of raw materials, component parts, and finished goods through the warehouse, coupled with timely and accurate information about the products being stored, is the goal of every logistics system.

Warehousing has three basic functions: movement, storage, and information transfer. *The movement function* can be further divided into four handling activities: receiving, transfer, order selection, and shipping. The receiving activity includes the physical unloading of products from the transportation carrier. It also includes the updating of warehouse inventory records, inspection for damage, and verification of the merchandise count against orders and shipping records. Transfer involves the physical movement of the product into the warehouse for storage, movement to areas for



specialized services such as consolidation, and movement to outbound shipment.

Customer order selection is the major movement activity and involves regrouping products into the assortments customers desire. The last movement activity, shipping, consists of product staging and physically moving the assembled orders into carrier equipment, adjusting inventory records, and checking on orders to be shipped.

The second function of warehousing-*storage*-can be performed on a temporary or a semipermanent basis. *Temporary* storage emphasizes the movement function of the warehouse and includes only the storage of product necessary for basic inventory replenishments. The extent of temporary inventory storage depends on the design of the logistics system and the variability experienced in lead time and demand.

Semipermanent storage is the storage of inventory in excess of that required for normal replenishment. The most common conditions leading to semipermanent storage are (1) seasonal demand; (2) erratic demand; (3) conditioning of products such as fruits and meats; (4) speculation or forward buying; and (5) special deals, such as quantity discounts.

*Information transfer*, the third major function of warehousing, occurs simultaneously with the movement and storage functions. Information on inventory levels, throughput levels, stockkeeping locations, inbound and outbound shipments, customer data, facility space utilization, and personnel is vital to the successful operation of a warehouse. Within the warehouse it is important to eliminate any inefficiency in movement, storage and information transfer.

Today's competitive marketplace demands more precise and accurate handling, storage, and retrieval systems, as well as improved packaging and shipping systems.

### **Discussion Activities**

***Task 2. Answer the following questions. Then discuss your answers in small groups:***

1. What role does warehousing play in a firm's logistics system?
2. What functions does warehousing have?
3. What is movement function subdivided into?
4. What does the receiving activity include?
5. What does the extent of temporary inventory storage depend on?
6. What conditions lead to semipermanent storage?

***Task 3. Change the indirect questions into direct ones, answer them***

***and discuss the answers with your partner:***

***Ask A:*** 1. If they ever received damaged goods.

2. What the cause of the damage was.

3. Where the damage occurred.

4. If the firm eliminated the defects or replaced the defective goods.

5. How long it took the firm to do it.

***Ask B:*** 1. How their goods are usually packed.

2. In what way they mark cases.

3. If their goods require special marking.

4. If the Buyers sometimes ask for special packing or marking of the goods.

***Ask C:*** 1. What a packing sheet is.

2. Why it is necessary to put a packing sheet in each case.

3. If sheets are ever missing.

4. In what way drawings and all kinds of instructions are usually sent.

***Ask D:*** 1. If they have ever had to pay storage expenses.

2. What they were caused by.

3. What the sum amounted to.

***Ask E:*** 1. If the weight of the delivered goods may be different from that indicated in the bill of lading.

2. What can cause the difference.

3. In what way the matter can be settled.

***Task 4. Look through the text and think of the heading for each paragraph. Then write down key sentences from each paragraph and combine them into a summary.***

### **Reading Practice**

***Task 5. Read the text and explain how layout and design affect warehousing efficiency and productivity.***

#### **WAREHOUSE LAYOUT AND DESIGN**

A good warehouse layout can increase output, improve product flow, reduce costs, improve service to customers, and provide better employee working conditions. The optimal warehouse layout and design for a firm will vary by the type of product being stored, the company's financial resources, competitive environment, and needs of customers. In addition, the

warehouse manager must consider the various trade-offs between labor costs, equipment costs, space costs, and information costs. Considering all of the possible factors and their combinations, it is imperative that the firm develop an optimal warehousing system for itself using a logical and consistent decision strategy.

Whatever layout the company finally selects for its warehouse, it is vital that all available space be utilized as fully and efficiently as possible. Good space utilization practices begin with a layout design to provide the optimum balance between space utilization and handling efficiency.

Randomized and dedicated storage are two examples of how products can be located and arranged. Randomized or floating slot storage, places items in the closest available slot, bin, or rack. This approach maximizes space utilization, although it necessitates longer travel times between order-picking locations.

Another example is dedicated or fixed slot storage. In this approach, products are stored in permanent locations within the warehouse. Three methods can be used to implement the dedicated storage approach including storing items by (a) part number sequence, (b) usage rates, or (c) activity levels. In terms of overall warehouse layout, products may be grouped according to their compatibility, complementarity, or popularity.

*Compatibility* refers to how well products may be stored together. For example, pharmaceuticals cannot be stored with bagged agricultural chemicals.

*Complementarity* refers to how often products are ordered together and therefore stored together. Computer disc drives and monitors, pens and pencils, and desks and chairs are examples of complementary products that are usually stored in close proximity to each other.

*Popularity* relates to the fact that products have different inventory turnover rates or demand rates. Another term used for this turnover rate is *velocity*. Therefore, items that are in greatest demand should be stored closest to shipping (receiving) docks. Slow-moving items should be stored elsewhere.

In addition to internal space layout, it is also important to analyze a warehouse's external configuration. Four aspects of external layout are critical: truck docks, rail requirements, external security measures, and physical features such as roof and windows.

***Task 6. Read the text and identify the role of packaging in marketing and logistics.***

## PACKAGING

Packaging is an important warehousing and materials management concern, one that is closely tied to warehouse efficiency and effectiveness. The best package optimizes service, cost, and convenience. Good packaging can have a positive impact on layout and design – and overall warehouse productivity.

Packaging serves two basic functions: marketing and logistics. In its marketing function, the package provides customers with information about the product and promotes the product through the use of color, sizing, and so forth.

From a logistic perspective, the function of packaging is to organize, protect, and identify products and materials. In performing its function it also takes up space and adds weight. Industrial users of packaging strive to gain the advantages packaging offers while minimizing the disadvantages, such as added space and weight.

More specifically, packaging performs six functions:

1. Containment – products must be contained before they can be moved from one place to another.
2. Protection – to protect the contents from outside environmental effects and to protect the environment from the product.
3. Apportionment – reducing the output from industrial production to a manageable, desirable “consumer” size.
4. Unitization – permitting primary packages to be unitized into secondary packages (e. g., placed inside a corrugated case) and then for these secondary packages to be unitized into a tertiary package (e. g., a stretch-wrapped pallet).
5. Convenience – allowing products to be used conveniently.
6. Communication – the use of unambiguous, readily understood symbols is imperative.

The package should be designed to provide the most efficient storage. Good packaging affects materials handling in terms of load stability and compatibility with the different forms of mechanization and automation. It satisfies warehousing requirements through dimension and stackability for good pallet patterns and efficient storage.

The factors governing good package design can be conveniently categorized into the following characteristics: (1) standard quantities, (2) pricing (cost), (3) product or package adaptability, (4) protective level, (5) handling ability, and (6) product packability. The importance a firm places on each of the factors varies by industry.

The distribution package is the result of many components of the firm’s operations. The ultimate goal in designing the distribution package is to

develop a package that optimizes service, cost, and convenience factors for all elements of the marketing and logistics systems. In the broadest approach, distribution packaging begins with the design of the product, and it ends with the re-use or disposal of the package. The channel of distribution and (or) institutional requirements also influence the product package.

***Task 7. Read the text and describe the factors that affect the specific size of a firm's warehouse.***

## SIZE AND NUMBER OF WAREHOUSING

One of the most important decisions a logistics executives faces is how to develop an optimal warehousing network for the firm's products and customers. Such a decision encompasses a number of significant elements. Management must determine the size and number of warehouses, and must also ascertain their location. Finally, each warehouse must be laid out and designed properly in order to maximize efficiency and productivity.

The size and the number of warehouse facilities are interrelated decisions in that they typically have an adverse relationship; i. e., as the number of warehouses increases, the average size of a warehouse decreases.

Many factors influence how large a warehouse should be, although it is first necessary to define how size is measured. In general, size can be defined in terms of square footage or cubic space. Some of the most effective factors affecting the size of a warehouse are:

1. Customer service level.
2. Size of market served.
3. Number of products marketed.
4. Size of the product(s).
5. Material handling system used.
6. Throughput rate.
7. Production lead time.
8. Economies of scale.
9. Stock layout.
10. Aisle requirements.
11. Office area in warehouse.
12. Types of racks and shelves used.
13. Level and pattern of demand.

Typically, as a company's service levels increase, it requires more warehousing space to provide storage for higher levels of inventory. As the markets served by a warehouse increase in number or size, additional space is also required. In general, greater space requirements are necessary

when products are large; a high throughput rate exists; production lead time is long; manual material handling systems are used; the warehouse contains office, sales, or computer activities; or demand is erratic and unpredictable.

Demand also has an impact on warehouse size. Wherever demand fluctuates significantly or is unpredictable, inventory levels must be higher. This results in a need for more space and thus a larger warehouse. The warehousing space need not all be private. Many firms utilize a combination of private and public warehousing. Inventory velocity and the maximization of “direct deliveries” to customers can also have great impact on the size of a warehouse.

In deciding on the number of warehousing facilities, four factors are significant: *cost of lost sales*, *inventory costs*, *warehousing costs*, and *transportation costs*. Although lost sales are extremely important to a firm, they are the most difficult to calculate and predict, and they vary by company and industry. *Inventory costs* increase with the number of facilities, due to the fact that firms usually stock a minimum amount of all products at every location. This means that both slow and fast turnover items are stocked, and thus more total space is required. *Warehousing costs* also increase, because more warehouses mean more space to be owned, leased, or rented. *Transportation costs* initially decline as the number of warehouses increase. But they eventually curve upward if too many facilities are employed due to the combination of inbound and outbound transportation costs.

Other factors affecting the number of warehouses are the purchasing patterns of customers, the competitive environment, and the use of computers. If customers order small quantities on a frequent basis, the firm will sometimes need more warehouses located closer to the marketplace. A firm will usually also have more warehouses if the level of competition is high.

### **Focus on Speaking Communication Activities**

***Task 8. Hold a round- table discussion on the nature and importance of warehousing. Among other points discuss the following:***

- warehousing as an integral part of every logistics system;
- functions of warehousing;
- the main types of warehousing;
- advantages and disadvantages of public warehousing;
- advantages and disadvantages of private warehousing;
- warehouse layout and design;

- the role of packaging in marketing and logistics;
- factors affecting the size and the number of warehouses.

**Task 9.** *Use the Internet or library resources and find additional information about the development of an optimal warehousing network for the firm's products and customers. Make a presentation in class. Be ready to answer your partners' questions.*

### Focus on Writing

**Task 10.** *Give a brief description of warehousing as an integral part of every logistics system.*

**Task 11.** *Express your opinion on developing an optimal warehousing network.*

## UNIT 7. ORGANIZING FOR EFFECTIVE LOGISTICS

### Focus on Vocabulary

challenge	value-added claim
asset	outward
span	private fleet
material handling	downstream
procurement	advisory
crucial	extreme
constraint	matrix

### Focus on Reading

**Task 1.** *Read and translate the text. Be ready to speak on a logistics organization as a vital part of a firm's strategic management process.*

## TYPES OF LOGISTICS ORGANIZATIONAL STRUCTURES

Strategic management requires that there be organizational units to which resources can be allocated and which have the capability of carrying out a strategy once agreed to. The specific structure may vary, but even when two companies possess the same outward organizational structure,

they usually differ in some important area, e. g., personnel quality, capital costs, management style, etc. All organizations are not alike, although they may be similar. For example, the logistics function is often viewed in the same way in many organizations, but they may use many different names to describe it.

Logistics management is that phase of administration responsible for the effective functioning of the overall logistics process. Organizationally, logistics management consists of: *the top logistics executive in the business unit, the managers of support services* reporting through the logistics organization (such as the logistics controller, manager of logistics systems, manager of logistic engineering) and their respective staffs, *the logistics project services groups, field operations management personnel*.

Manufacturers, wholesalers, and retailers all perform logistics activities but are often organized differently. Manufacturers may use one of three organizational strategies: process-based, market-based, or channel-based.

*Process-based strategy* is concerned with managing a broad group of logistics activities as a value-added chain. The emphasis of a process strategy is to achieve efficiency from managing purchasing, manufacturing scheduling, and physical distribution as an integrated system.

*Market-based strategy* is concerned with managing a limited group of logistics activities across a multi-division business or across multiple business units. The logistics organization when following a market-based strategy seeks to (1) make joint product shipments to customers on behalf of different business units or product groups, and (2) facilitate sales and logistical coordination by a single order-invoice. Often the senior sales and logistics executives report to the same senior manager.

*Channel-based strategy* focuses on managing logistics activities performed jointly in combination with dealers and distributors. The channel orientation places a great deal of attention on external control. Firms that concentrate on a channel-based strategy typically have significant amounts of finished inventories forward, or downstream, in the distribution channel.

Wholesalers are structured differently from manufacturers because of their position in the channel of distribution and the nature of the activities they perform. In addition to the traditional wholesaling functions (e. g., transport, storage), a number of value-added services are being done by wholesalers, including light manufacturing and assembly, pricing, order processing, inventory management, logistics system design, and development of promotional materials.

Retailers, because of their direct contact with final customers and the high level of competition they face, often place more emphasis on inventory, warehousing, and customer service activities than do manufacturers.



They tend to be more centralized than manufacturers and wholesalers.

Additionally, many retailers are becoming more involved in direct-to-store deliveries from manufacturers and are purchasing many logistics services from third parties rather than performing those activities themselves.

Coordination of the various logistics activities can be achieved in several ways. The basic systems are generally structured utilizing a combination of the following:

1. Strategic versus operational.
2. Centralized versus decentralized.
3. Line versus staff.

*Strategic versus operational* refers to the level at which logistics activities are positioned within the firm. The term *centralized distribution* can reflect a system in which logistics activities are administered at a central location, typically a corporate headquarters, or a system in which operating authority is controlled under a single department or individual. Firms with homogeneous products or markets usually have centralized organizational structures. Centrally programming activities, such as order processing, traffic, or inventory control can result in significant cost savings due to economies of scale. On the other hand, decentralization of logistics activities can be effective for firms with diverse products or markets.

Within the three basic types of organizational structures, logistics activities can be line, staff, or combination of line and staff. Many companies are grouping line distribution activities only, thus forming another line function comparable to sales and production. When this is done, one individual is made responsible for doing the distribution job. In the staff organization, the line activities, such as order processing, traffic, and warehousing, are housed under production, marketing, or finance (accounting). The various staff activities assist and coordinate the line functions.

In the typical staff approach to organization, logistics finds itself in primarily an advisory role. In line organizations, logistics responsibilities are operational; that is, they deal with the management of day-to-day activities. Combinations of line and staff organizations are possible, and most companies are structured in this fashion.

Other organizational approaches are possible. Examples include logistics as a function, logistics as a program, and the matrix organization approach. When logistics is organized as a program, the distribution activity assumes the role of a program in which the total company participates. Functional areas are subordinate to the program.

The optimal logistics organization lies between the two extremes represented by the functional and program approaches. This middle approach has been termed the matrix organization. The matrix management ap-

proach requires the coordination of activities across unit lines in the organization. Therefore it is essential that top-level management wholeheartedly support the logistics executive. In general, matrix organizations result in a larger corporate staff, more regional offices, and more constraints on local managers.

The optimal system for a company is one that maximizes its efficiency and productivity. The logistics executive must not only determine the firm's organizational structure but also evaluate its performance and effectiveness.

### **Discussion Activities**

***Task 2. Answer the following questions. Then discuss your answers in small groups:***

1. What does logistics management consist of organizationally?
2. What organizational strategies do manufacturers use?
3. Why are wholesalers structured differently from manufacturers?
4. What are the basic types of organizational structures?
5. What is the optimal system for a company?

***Task 3. Explain why an effective and efficient logistics organization is a vital part of a firm's strategic management process.***

***Task 4. Prove the importance of strategic management for performance of a firm.***

***Task 5. Describe the structure of logistics management.***

***Task 6. Look through the text and think of the heading for each paragraph. Then write down key sentences from each paragraph and combine them into a summary.***

### **Focus on Speaking Communication Activities**

***Task 7. Read the dialogue and act it out.***

#### **SHIPPING**

*Jones:* ...So you feel that the documentation isn't complete yet?

*Brown:* No, I am afraid, not. I'm not at all sure what transport has been

arranged to get the goods to Liverpool.

*Jones:* I'll ask our shipper—we're using Carson and Napier this time—and I'll get them to let you know.

*Brown:* Please make sure that we get a list of the marks stenciled on the container.

*Jones:* Yes, I'll do that. And we have the export licence, which we'll send on to you. We've made the declaration at the consulate, so we're getting the consular invoices which will confirm the ex-works cost of the consignment. Will you send it through to the importing customs authorities, or shall we?

*Brown:* We'll do that for you. Have you sent a copy, with the other documents, to your banks so that they can present them all through the Bank of South America?

*Jones:* Not yet, because there's been a delay with the bill of lading. For some reason they've put the wrong number of packages on it, so we're just waiting for that to be cleared up. We'll get it off as soon as we can.

*Brown:* Good. And there should be no trouble with the terms since they've already seen a pro forma invoice.

*Jones:* No, there was no problem at all.

***Task 8. Hold a conference “Organizing for Effective Logistics”.***

***Discuss the following points:***

- the main types of logistics organizational structures;
- organizational strategies;
- developing an optimal logistics organization.

***Task 9. Speak on the three organizational strategies.***

***Task 10. Use the Internet or library resources and find additional information about the importance of an effective logistics organization. Make a presentation in class. Be ready to answer your partners' questions.***

## **Reading Practice**

***Task 11. Read the text and be ready to describe components of an optimal logistics organization.***

### COMPONENTS OF AN OPTIMAL

## LOGISTICS ORGANIZATION

An effective and efficient logistics organization is a vital part of a firm's strategic management process. Many factors can influence the effectiveness of a logistics organization. In general, the factors contributing to organizational effectiveness can be summarized as (1) organizational characteristics, (2) environmental characteristics, (3) employee characteristics, and (4) managerial policies and practices.

*Organizational characteristics.* Structure and technology are the major components of a firm's organizational characteristics. Structure refers to the relationships that exist between various functional areas – interfunctional (marketing, finance, operations, manufacturing, logistics) or intrafunctional (warehousing, traffic, purchasing, customer service). The relationships are most often represented by a company's organization chart. Examples of structural variables are decentralization, specialization, formalization, span of control, organization size, and work-unit size. Technology refers to the mechanisms used by an organization to transform raw inputs into finished outputs. Technology can take several forms, including variations in the materials used, and variations in the technical knowledge brought to bear on goal-directed activities.

*Environmental characteristics.* The effectiveness of the organization is influenced by environmental characteristics of factors internal and external to the firm. Internal factors, which are basically controllable by the logistics executive, are known as organization climate.

Organizational climate is related to organizational effectiveness. This is particularly evident when effectiveness is measured on an individual level (e. g., job attitudes, performance, satisfaction, involvement).

External factors, sometimes referred to as uncontrollable elements, include the political and legal, economic, cultural and social, and competitive environments.

*Employee characteristics.* The keys to effective organizations are the employees who "fill the boxes" on the organization chart. The ability of individuals to carry out their respective job responsibilities ultimately determines the overall effectiveness of any organization.

Different employees possess different outlooks, goals, needs, and abilities. These human variations often cause people to behave differently from one another, even when placed in the same work environment. Moreover, these individual differences can have a direct bearing on two important organizational processes that can have a marked impact on effectiveness. These are organizational attachment, or the extent to which employees

identify with their employer, and individual job performance. Without attachment and performance, effectiveness becomes all but impossible.

***Task 12. Scan the text and discuss the role of managerial policies and practices in logistics effectiveness.***

## MANAGERIAL POLICIES AND PRACTICES

Policies at the macro (entire company) level determine the overall goal structure of the firm. Policies at the micro (departmental) level influence the individual goals of the various corporate functions, such as warehousing, traffic, order processing, and customer service. Macro and micro policies in turn affect the procedures and practices of the organization. The planning, coordinating, and facilitating of goal-directed activities – which determine organizational effectiveness – depend on the policies and practices adopted by the firm at the macro and micro levels.

A number of factors can aid the logistics executive in improving the effectiveness of the organization. Six of the most important factors that have been identified are:

1. Strategic goal setting.
2. Resource acquisition and utilization.
3. Performance environment.
4. Communication process.
5. Leadership and decision making.
6. Organizational adaptation and innovation.

*Strategic goal setting* involves the establishment of two clearly defined sets of goals: the overall organization goal(s), and individual employee goals.

*Resource acquisition and utilization* includes the utilization of human and financial resources, as well as technology, to maximize the achievement of corporate goals and objectives.

The *performance environment* is concerned with having the proper organizational climate that motivates employees to maximize their effectiveness and the effectiveness of the overall logistics function. Strategies that can be utilized to develop a goal-directed performance environment include proper employee selection and placement, training and development programs, task design, and performance evaluation, combined with a reward structure that promotes goal-oriented behavior.

One of the most important factors influencing logistics effectiveness in any organization is the *communication process*. Without good communica-

tion, logistics policies and procedures cannot be effectively transmitted throughout the firm, and the feedback of information concerning the success or failure of those policies and procedures cannot take place. Communication flows within the logistics area can be downward (boss-employee), upward (employee-boss), or horizontal (boss-boss or employee-employee).

Comparable to the importance of effective communication in an organization is the quality of *leadership and decision-making* expertise exercised by the senior logistics executive. In many companies the logistics department or division is a mirror image of the top logistics executive. If the top executive is a highly capable and respected individual, and one who makes thoughtful, logical, and consistent decisions, then the logistics organization that reports to him or her will most likely be highly effective.

Finally, *organizational adaptation and innovation* is an important attribute of effective organizations. The environment that surrounds the logistics activity requires constant monitoring. As conditions change, logistics must adapt and innovate to continue to provide an optimal cost-service mix to the firm and its markets. Examples of fluctuating environmental conditions include changes in transportation regulations, service requirements of customers, or degree of competition in the firm's target markets, economic and (or) financial shifts in the marketplace, and technological advances in the distribution sector. It is important, however, that adaptation and innovation not be haphazard and unplanned.

An effective organization must also exhibit stability and continuity. Management is charged with the responsibility for maintaining a dynamic equilibrium by diagnosing situations and designing adjustments that are most appropriate for coping with current conditions. A dynamic equilibrium for an organization would include the following dimensions:

1. Enough stability to facilitate achievement of current goals.
2. Enough continuity to ensure orderly change in either ends or means.
3. Enough adaptability to react appropriately to external opportunities and demands, as well as changing internal conditions.
4. Enough innovativeness to allow the organization to be proactive (initiate changes) when conditions warrant.

### **Focus on Writing**

***Task 13. Prepare an article "How to organize effective logistics".***

## **UNIT 8. GLOBAL LOGISTICS**

## Focus of Vocabulary

excess	outlay
access	terminate (v)
assembly	cancellation
freight	subsidiary
quote (v)	commitment
advent	incur (v)
influx	acquisition
exposure	

## Focus on Reading

***Task 1. Read and translate the text. While reading the text, pay attention to the reasons for a firm to enter international markets.***

### INTERNATIONAL DISTRIBUTION CHANNEL STRATEGIES

Many factors can influence a company's decision to enter international markets. They include:

1. The market potential of world markets.
2. Geographic diversification.
3. Excess production capacity and the advantage of a low-cost position due to experience-curve economies and economies of scale.
4. A product that is near the end of its life cycle in the domestic market that is beginning to generate growth abroad.
5. Overseas markets that can be the source of new products and ideas; companies in foreign markets that can become joint-venture partners, providing capital and market access.

An additional reason for a firm to enter international markets is sourcing of raw materials, component parts, or assemblies.

Companies which enter the international marketplace have four principle channel strategies available to them: exporting, licensing, joint ventures, ownership. There are also several options available within each channel strategy.

Successful completion of the various logistics activities in the international distribution channel can contribute to the development of global markets in many ways, including.

Offering goods delivered to the customer gives a competitive advantage and sharpens the marketing approach.

Reduced delivery costs if the manufacturer is able to organize consoli-

dated loads.

Door-to-door freight services offer speed and reliability of delivery.

The advent of containerization, rapid transit times, specialist freight equipment (e. g., refrigerated containers), and new freight services has created the opportunity to expand into new world markets which were previously out of reach.

The economies of consolidated freight services have led to the development of marketing activities in oversea countries, based on the influx of product from the domestic base.

Companies may compete for short-term individual export orders, with the confidence that, if they win, they will be able to arrange rapid distribution from the domestic base.

Marketing may now offer, with confidence, a reasonable after-sales service or replacement policy to international markets.

Inventory-holding policies in overseas markets may lead to a situation where demand could be considerably stimulated by offering immediate delivery.

Once captured, an overseas market may be held and expanded in face of intense competition by high levels of customer service offered through distribution services.

The most common form of distribution for firms entering international markets is *exporting*. Exporting requires the least amount of knowledge about foreign markets, because the domestic firm allows an international freight forwarder, distributor, customhouse broker, trading company, or some other organization to carry out the logistics and marketing functions.

There are many advantages associated with exporting. Typically, the company that exports is able to be more flexible. In addition, exporting involves less risk than other international distribution strategies. Also, no investment is required to establish a logistics network in the various markets.

Another advantage of exporting is minimal exposure to the political uncertainties of some environments. Perhaps one of the major advantages of exporting is the experience the domestic firm gains.

Exporting is not without disadvantages. It is sometimes difficult to compete with other firms located in the foreign market. For example, tariffs, import quotas or unfavorable currency exchange rates may adversely affect the price or availability of imported goods. In addition, the domestic firm has very little control over the pricing, promotion, or distribution of its product when it exports. Success in international markets depends to a large degree on the capability of the exporting intermediaries. A firm involved in exporting often has to deal with a number of intermediaries who provide a variety of exporting services.

### **Follow-up Assignments**



**Task 2. Answer the following questions. Then discuss your answers in small groups:**

1. What factors influence a company's decision to enter international markets?
2. What channel strategies are available to companies which enter the international marketplace?
3. How can successful completion of the various logistics activities in the international distribution channel contribute to the development of global markets?
4. What is the most common form of distribution for firms entering international markets?
5. What are the main advantages and disadvantages of exporting?

**Task 3. Match the documents with their definitions:**

- |                             |  |
|-----------------------------|--|
| 1. Air waybill...           | a) a request for goods;  |
| 2. Bill of lading...        | b) a document accompanying imports, which has been certified correct by an official of the importing country's government; |
| 3. Bill of exchange...      | c) a request for payment;  |
| 4. Certificate of origin... | d) a ticket, receipt and document of title;  |
| 5. Combined transport...    | e) a ticket and receipt for goods sent by more than one means of transport;  |
| 6. Import license...        | f) a ticket and receipt for goods sent by land;  |
| 7. Invoice...               | g) a ticket and receipt for goods sent by air;   |
| 8. Consignment note...      | h) a sort of post-date cheque used to pay for goods sold abroad;   |
| 9. Consular invoice...      | I) a promise by a bank to pay a certain amount of money for goods sold abroad;   |
| 10. Statement...            | j) proof that goods have come from a certain country;  |
| 11. Policy...               | k) official permission to bring goods into a country;  |
| 12. Order...                | l) a form showing all the transactions between a company or a bank and an account-holder;                                  |
| 13. Customers entry form... | m) proof that something is insured;  |
| 14. Letter of credit...     | n) a form describing imported goods so that duty can be calculated.  |

**Task 4. Look through the text and think of the heading for each paragraph. Then write down key sentences from each paragraph and com-**

*bine them into a summary.*

## Reading Practice

***Task 5. Read the text and be ready to give a short talk on licensing.***

### LICENSING

*Licensing* is a method of foreign operation whereby a firm in one country (the licensor) agrees to permit a company in another country (the licensee) to use manufacturing, processing, trademark, know-how, technical assistance, merchandising knowledge, or some other skill provided by the licensor. Unlike exporting, licensing allows the domestic firm more control over how the product is distributed, because distribution strategy is usually part of the preliminary discussions. The specific logistics functions are carried out by the licensee using the established distribution systems of the foreign country.

Licensing does not require large capital outlays. In this way it is similar to exporting in that it is less risky and provides more flexibility than other forms of international marketing. Licensing is a strategy frequently used by small and medium-sized businesses, and can be an excellent approach if the foreign market has high tariff barriers or strict import quotas. The licensor is usually paid a royalty or a percentage of sales by the licensee.

Licensing is not without disadvantages. Although licensing does provide the domestic firm with flexibility, it does not mean that licensing agreements can be terminated quickly. Although the agreement with the licensee may include termination or cancellation provisions, there is usually a time lag between the decision to terminate and the actual date of termination.

Another drawback is that the licensee has the potential of becoming a competitor. As licensees develop their own know-how and capabilities, they may end the licensing agreement and compete with the licensor.

One way of avoiding the danger of strengthening a competitor through a licensing agreement is to ensure that all licensing agreements provide for a cross-technology exchange between the licensor and licensee.

***Task 6. Read the text and discuss the role of joint ventures in international logistics.***

### JOINT VENTURES AND OWNERSHIP

Management may wish to exercise more control over the foreign firm than is available in a licensing agreement. On the other hand, management may not desire to establish a freestanding manufacturing plant or other facility in a foreign market. If so, the joint venture offers a compromise.

A joint venture can be attractive to an international marketer: (1) when it enables a company to utilize the specialized skills of a local partner; (2) when it allows the marketer to gain access to a partner's local distribution system; (3) when a company seeks to enter a market where wholly owned activities are prohibited; and (4) when the firm lacks the capital or personnel capabilities to expand its international activities otherwise.

The joint venture may be the only method of market entry if management wishes to exercise significant control over the distribution of its products. This would be especially true if wholly owned subsidiaries are prohibited by the foreign government. Such restrictions occur frequently in less developed countries, which often attempt to promote internal industrial or retail development.

Complete ownership of a foreign subsidiary offers the domestic firm the highest degree of control of its international marketing and logistics strategies. Ownership can occur through acquisition or expansion. Acquisition of a foreign facility can be advantageous because it minimizes the start-up costs – locating and building facilities, hiring employees, and establishing distribution channel relationships.

Direct ownership in the foreign market allows the company to compete more effectively on a price basis, due to the elimination of transportation costs incurred in shipments from domestic plants to foreign points of entry. Customs duties and other import taxes are also eliminated.

There are drawbacks associated with direct ownership. The firm loses flexibility because it has a long-term commitment to the foreign market. Fixed facilities and equipment cannot be disposed of quickly.

Another drawback with ownership, especially in politically unstable countries, is the possibility of government nationalization of foreign-owned businesses. Although such events do not occur frequently, management must consider the possibility when entering some international markets.

In general, firms follow more than one market entry strategy. Markets, product lines, economic conditions, and political environments change over time, so it stands to reason that the optimal market entry strategy may also change. Furthermore, a good market entry strategy in one country may not be so good in another. Only after a complete analysis of each market-entry strategy a firm should decide on a method of international involve-

ment.

**Task 7. Read the text and explain the role each of the following exporting organizations has in global logistics:**

- a) Export distributor;
- b) Customshouse broker;
- c) International freight forwarder;
- d) Trading company.

## MANAGEMENT OF THE EXPORT SHIPMENT

Management of a global distribution system is much more complex than that of a purely domestic network. Managers must properly analyze the international environment, plan for it, and develop the correct control procedures to monitor the success or failure of the foreign distribution system.

The overall objective of the global logistics management process is to develop the optimal logistics system for each international target market. It involves examining the various characteristics of the foreign market and developing a set of alternatives or strategies that will fulfil the company's objectives.

There are many facilitators or organizations that are involved in the exporting activity. The types of organizations utilized most extensively are:

1. Export distributor.
2. Customshouse broker.
3. International freight forwarder.
4. Trading company.

Other facilitators are also used, including export brokers, export merchants, foreign purchasing agents, and others.

A company involved in international markets often utilizes the services of an *export distributor*. An export distributor (1) is located in the foreign market; (2) buys on his or her own account; (3) is responsible for the sale of the product; and (4) has a continuing contractual relationship with the domestic firm.

The distributor frequently is granted exclusive rights to a specific territory. He or she may refrain from handling the products of competing manufacturers or may sell goods of other manufacturers to the same outlets.

The following functions are often performed by the distributor:

1. Obtaining and maintaining agreed-on levels of channel and sales effort.
2. Obtaining import business and handling the arrangements for customs clearance.

3. Obtaining the necessary foreign exchange for payment to the supplier.
4. Maintaining necessary government relations.
5. Maintaining inventories.
6. Providing warehouse facilities.
7. Performing, or overseeing, the inland freight and delivery functions.
8. Performing break-bulk operations.

The customhouse broker performs two critical functions: facilitating product movement through customs and handling the necessary documentation that must accompany international shipments.

When selecting a customhouse broker a number of factors should be considered. Typical of the most important questions or issues that should be addressed are the following:

1. Does the broker specialize in certain commodities and (or) shipping methods?
2. How long has the broker been in business?
3. What resources does the broker have to ensure speedy clearance and delivery of your products?
4. How does the broker advise his or her clients of delays in handling or clearance?

International freight forwarders serve an important role in the export distribution strategies of many firms. International forwarders:

1. Prepare government-required export declarations.
2. Make cargo-space bookings.
3. Provide for transportation from the exporter to final destination.
4. Prepare consular documents in the languages of the countries to which the goods are shipped, and provide for certification.
5. Prepare and process air waybills and bills of lading.
6. Provide for warehouse storage when necessary.
7. Arrange for insurance upon request.
8. Prepare and send shipping notices to banks, shippers, or consignees as required.
9. Complete shipping documents and send them to shippers, banks, or consignees as directed.
10. Provide general assistance on export traffic matters.

Most trading companies are primarily involved in exporting, with some in the import business as well. The export trading company finds buyers for goods or services and takes care of all or most of the export arrangements, including documentation, inland and over-seas transportation, and foreign government requirements.

### **Discussion Activities**

**Task 8. Exchange views on the following points:**

- factors influencing a company's decision to enter international markets;
- four principle international distribution channel strategies;
- the role, importance and significance of logistics activities in the international distribution channel;
- the forms of distribution for firms entering international markets;
- the advantages of exporting;
- licensing, its role, advantages and disadvantages;
- a joint venture and its attractiveness to an international marketer.

**Focus on Speaking  
Communication Activities**

**Task 9. Hold a conference on managing global logistics. Have an exchange of views on the following:**

1. The role and importance of managing global logistics.
2. The primary objective of the global logistics management process.
3. The strategies of management of a global distribution system.

**Task 10. Read the dialogue and act it out:**

A: Can you supply us with machine- tools BH-68?

B: Certainly. When would you like them to be delivered?

A: I'm sorry to say we shan't be able to dispatch them until the middle of January. Will that suit you?

B: Well, I think it will have to, if you can't send them sooner. And what's your price?

A: It's ... pounds per unit c. i. f. Liverpool including packing.

B: I'm afraid that's rather high, it's higher than the price of your competitors.

A: But you should take into account the high efficiency of our machine-tools.

B: Certainly, but still I hope you'll reduce the price.

A: Well, probably, we can meet you half way, we'll grant you a discount for a confirmed irrevocable Letter of Credit.

B: Thank you.

A: You're to open a Letter of Credit in our favour for the full value of the goods intended for shipment with the Vnesheconombank.

B: All right, let's consider the matter settled. When will you be able to make us a formal offer?

A: In about three or four days.

B: Fine, thank you.

**Task 11. Use the Internet or library resources and find additional information about global market opportunities. Make a presentation in class. Be ready to answer your partners' questions.**

### **Focus on Writing**

**Task 12. Give a brief description of global logistics.**

**Task 13. Write an essay on the following:**

- a) My ideas of how to improve managing global logistics;
- b) How to develop an optimal logistics organization.

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## **СОДЕРЖАНИЕ**

Пояснительная записка.....	3
Unit 1. Logistics role in the economy .....	4
Unit 2. Channels of distribution.....	10
Unit 3. Customer service.....	19
Unit 4. Transportation.....	26
Unit 5. Warehousing .....	33
Unit 6. Decision strategies in warehousing.....	41
Unit 7. Organizing for effective logistics.....	48
Unit 8. Global logistics .....	56
Список рекомендуемой литературы .....	64

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