The Role of Logistics in Retailers' Corporate Strategy-a Driver for Growth and Customer Value

This article explores the role of logistics and supply chain management (SCM) in retailers' corporate strategy and is based on reviewing multiple qualitative case studies of companies in the Swedish food retail sector. The article proposes that the role of logistics for what is referred to in this paper as modern retailers is twofold: to create profitability and to support growth and market expansion. International modern retailers are empirically compared with similar companies in the Swedish market. The dominating Swedish food retailers have taken command in the food supply chain but are primarily concerned with traditional logistics roles in cost cutting. This role is perfectly fine as long as the strategic intent of the companies is focused on market retention and not on geographical expansion and/or new marketing or store concepts. We argue that the success of modern retailers in terms of growth rate, profitability, and market expansion is explained to a large extent by the role of logistics in corporate strategy-when the role for supporting growth and increasing customer value from high-performance supply capabilities is a driver for market expansion. However, in many of our cases the traditional logistics roles of cutting costs and lead-times is still the dominating pattern that limits the possibility of expanding into new markets. Better knowledge of logistics' role in retail corporate strategy can help companies develop and improve their strategic intent as well as redefine the role of logistics.

Keywords: Logistics, retailing, Supply Chain Management, growth, profitability, food sector.

Introduction

In today’s dynamic business environment, many companies place an increasing importance on supply chain management (SCM). In line with a large part of SCM and logistics theories, SCM has a primary function of driving costs out of the supply chain and cutting lead-times by achieving a more efficient internal and external flow of goods. One problem with this traditional logistics view of SCM is that companies can miss the importance of designing their logistics to support customer value and company growth (Schramm-Klein & Morschett, 2006). For retailers in the fast-moving consumer goods sector, growth in terms of market share and/or international expansion is sometimes more important than profitability. To be successful in modern retailing, we argue logistics and supply chain management should be designed, to a higher extent than it is today, to support company growth and customer value.

An example of this from a neighbouring sector is Ahlsell AB, a...
Swedish wholesaler and retailer in installation material and maintenance, repair, and overhaul (MRO) supplies. Ahlsell have been growing by acquisition, acquiring some ten to twenty new companies annually in order to strengthen their position in the supply chain of the Nordic market. In their strategy the logistics platform is a driver for growth, where acquisitions that have logistics synergies are prioritised. From a pure logistics viewpoint Ahlsell’s logistics are not optimal because of a very large, broad, and overlapping assortment of driving costs in warehousing and also costs that are tied up capital and administration (Kihlén, 2005). The logistics practice is thus not aimed at minimising the wholesaler cost but in providing the company with a strategic leverage.

Similarly, the clothing retail companies H&M (Sweden) and Zara-Inditex (Spain), both of which have grown dramatically in recent years and annually open several hundred new retailing locations all over the world, have utilised logistics as a lever for growth. H&M’s growth model is to enter one market at a time in order to achieve a high density of shops in a region so that economies of scale can be reached in logistics and marketing (Kihlén, 2007). The entry market is typically supported by a logistics platform from a neighbouring region or country awaiting the volumes needed to set up a local distribution centre (DC). H&M’s strategy is to grow while maintaining profitability by offering customers value from fashion and quality at the best price. The goal is to increase the number of stores by 10 percent to 15 percent per year, equal to a yearly pace of 240 new shops added to the current number of about 2,000 shops spread throughout the thirty-five countries where H&M is present, while at the same time increasing sales in existing locations (H&M, 2010). H&M’s logistics is designed to control the whole chain from idea to store, providing high customer and shareholder value. Customers are getting new collections of fashion clothes at affordable prices much more frequently than the business standard of three to four collections annually, all of which are supplied in large volumes from low-cost Far East suppliers.

H&M’s Spanish competitor, Inditex group, is growing at an even higher pace than H&M with approximately one new store per day across their presence in sixty-four countries. The physical logistics structure of Inditex is organised around two distribution centres, both in Spain, that service the different retailing concepts (of which Zara is one) with direct deliveries to shops worldwide. The business model is based on intense information sharing upstream and downstream in the supply chain; this is a balanced supply chain in which every component sticks to the rhythm (e.g., delivery to retail stores twice a week in a standard format) to increase the supply chain flexibility (Kumar & Linguri, 2006). Inditex does this with a combination of having its own factories located in northern Spain for fashion garment and deliveries from low-cost countries for basic products. Excess capacity in manufacturing and logistics and subsuppliers stand by as needed to handle the growth pace and maximise the value for the customers in terms of high availability in the shops. For their own made fashion goods Inditex has the capability to change the collection in fifteen days if needed, including design, manufacturing, and distribution to retailers (Ferdows et al., 2004).

In all countries where Inditex is present, entry and expansion are made in a uniform manner. First, a flagship shop is opened in the capital. After about a year the concept is expanded to other locations in the new market. The first year is used to train the personnel in the Inditex philosophy and to gather a sense of the market. This is supported from a centralised and very flexible logistics platform that makes it possible to replenish individual stores in a country as well as countries or cities with multiple stores (Kihlén, 2007).

The aim of logistics and supply chain management in these fast-growing retail companies is to provide a platform for a profitable growth and high customer value—not only to have the most cost-efficient logistics. By focusing on the overall strategies for profitability, growth, and market expansion, we go beyond the traditional and operational view of logistics-to be a driver for cost rationalisation of operations and shortened lead-times to customers. The overall purpose of this article is to explore the role of logistics and SCM in retailers’ corporate strategy, which can be divided into two research questions:

- What is the role of logistics for a retailer’s profitability?
- What is the role of logistics in a retailer’s growth and market expansion?

**What are the roles of logistics and Supply Chain Management in retailers corporate strategy?**

Logistics-based SCM theories

Although the basic idea and definition in SCM literature aims at providing customer value, a lot of SCM practice as well as logistics-based SCM literature have in our opinion too large a focus on cost and lead-time reduction, and more important, too little emphasis on growth and value creation. According to Romano (2003) there has been increasing excitement and top management attention on SCM as a result of the impressive results.
achieved by supply chains orchestrated by large, high-performing firms. One stream of logistics theories tightly related to logistics research shows SCM as being a way of expanding logistics from an only internal concern to also including external flow of goods. Christopher (1998) argued that SCM is no more than an extension of the logic of logistics and claimed logistics management is primarily concerned with optimising flows within the organisation while supply chain management recognises that internal integration by itself is not sufficient. Although SCM has grown in importance from the mid-1990s until today, the definitions of logistics management and SCM have become more or less interchangeable; even the Council of Logistics Management (CLM), an organisation for logistics managers, was renamed to the Council of Supply Chain Management Professionals (CSCMP).

A common description of best practice logistics in a supply chain setting is shown by the use of the supply chain framework developed by Bowersox et al. (1999) and what they call world class logistics, which is close to the definition of supply chain management in which companies cooperate with a common logistics goal to serve the end customer with a smooth, flexible, and cost-efficient flow of goods. The assumption is that the performance of the supply chain is more important than the performance of each individual company and that the most cost-efficient supply chain will be the most competitive one (Christopher, 2000; Lambert & Cooper, 2000). To manage and balance the flow of goods and information through the whole supply chain is believed to be one of the most important issues for trade and manufacturing companies (Waller et al., 1999; Sabath et al., 2001).

In order to also include suppliers and customers in the supply chain, the information shared between companies in a supply chain is typically information such as inventory levels, point-of-sale (POS) data for more efficient replenishment, order status for tracking/tracing, sales forecasts for production and delivery schedules, and performance metrics (Lee & Whang, 2000). The fact that this kind of increased information sharing is positive in terms of logistics efficiency and effectiveness is a fundamental cornerstone in the SCM literature (Barratt, 2004; Lee & Whang, 2000; Yu et al., 2001). For the retail sector the diffusion of information among different actors has been seen as something that is an imperative to increase efficiency and customer value (Barratt, 2004; Aastrup et al., 2007; Kumar, 2008).

Many companies, however, seldom have enough of a base in terms of logistics organisation, IT/IS, and competence needed to support internal coordination among supply, manufacturing, and distribution. Without such a platform they don’t have the prerequisites for external coordination with suppliers and customers in a supply chain (Abrahamsson et al., 2003). This is confirmed by Mollenkopf and Dapiran (2005) from their logistics study in Australia and New Zealand as well as Carranza et al. (2002) from a similar study in Argentina (both studies are based on the world class logistics frame of reference and the supply chain framework defined by Bowersox et al., 1999), reporting that the majority of the firms are still focusing their efforts on cost-related logistics issues compared to external logistics integration issues. Renko and Ficko (2010) report the same findings in their study of the Croatian retail sector.

In our study of Swedish food retailing, this picture is confirmed with functional costs, mainly wholesaling costs, in terms of the logistics network. SCM and logistics are tools to reduce costs in wholesaler warehouses, for example, and to reduce logistics costs in the interface between the wholesaling function and retail stores. Compared with retailing cases that are often referred to in logistics literature, such as Zara, H&M, IKEA, Tesco, and so on (hereinafter referred to as modern retailing), there is a major difference in the focus on logistics and supply chain management. For these modern retailing companies, profitable growth and increased customer value are the drivers for their strategies resulting in a more flow-oriented focus with a clear SCM content and focus on external coordination (Fernie & Sparks, 2009; Burt et al., 2008; Smith, 2006).

Logistics is considered a distinctive and valuable capability (Olavarrieta & Ellinger, 1997) and is in the strategy of the firm, meaning that supporting growth is more important than traditional logistics and SCM efficiency and effectiveness. Schramm-Klein and Morschett (2006) argue the importance of aligning logistics and marketing strategy for retail firms, where logistics performance is seen as having a high relevance for marketing performance, customer satisfaction, and loyalty.

The theoretical underpinning in this article is that SCM is defined in terms of customer value but the track of the logistics-based SCM literature (such as Christopher, 1998, 2000; Bowersox et al., 1999, among others) is mostly cost and lead-time focused with less emphasis on customer value and company growth. Value creation in retailer-supplier relationships has been treated from a category management perspective by Aastrup et. al. (2007), in which closer interaction and trust between supplier and retailers are seen as important factors that affect operations, category management capabilities, the power situation, and the resulting division of surplus value between retailers and suppliers. By focusing on the role of logistics in modern retail companies, our ambition is to add the dimension of company growth and customer value to the traditional dimension on cost and lead-time reduction (Schramm-Klein & Morschett, 2006). This, we think, will make the theories more applicable to companies using these theories as guidelines for their logistics strategic development.
The role of SCM and logistics in a company's corporate strategy

Kihlén (2007, p 169) criticizes the traditional view of logistics, based on research on the role of logistics in the strategy of the firm and what he labels 'logistics based business models'. He recommends taking a step away from the pure integration-view of logistics to a more holistic view-from logistics being only about operational efficiency to logistics being part of the corporate strategy and thus being considered at a global level where overall effectiveness and global rather than local efficiency comes into focus.

Kihlén argues the main objective for logistics in a company is to provide 'operative excellence', defined as 'the ability of a firm to tailor its operations in terms of agility and leaness, accepting local inefficiencies in order to reach global efficiency and effectiveness', and which is about pursuing operations with an overall strategic objective in mind, thereby avoiding costly suboptimisation in order to meet their set goals and reach an intended level of efficiency in their operations leading to an overall efficiency. This means that firms that are operatively excellent may not be very efficient in a specific process, but they are highly efficient on an overarching global level (Kihlén, 2007, p. 189).

Similar to Carranza et al. (2002) we have found in our empirical studies that logistics in leading companies are very often aligned directly to corporate strategy, for example, profitability, diversification, growth, market defence, and so on. A conclusion from these findings is that in high-performance companies, logistics has the role of combining high operational excellence and low costs with high flexibility to market changes (Schramm-Klein & Morschett, 2006). With a corporate strategy perspective on logistics, logistics is not measured from the traditional logistics scale but from the same measures of the company as a whole-primarily profitability and growth.

The role of logistics in the strategy of the firm is theoretically a combination of a resource-based view (inside-out) and an industrial organisation approach (outside-in). It also means that logistics has to develop 'distinctive capabilities', which Olavarrïeta and Ellinger (1997) define by using Barney's (1991, 2001) characteristics of resources leading to sustainable, competitive advantage. They argue logistics to be a distinctive capability if it is considered a valuable resource that fills the demands on rareness and is hard to imitate, as shown by the following:

- Logistics is a valuable resource, contributing to increased customer value, for example, in terms of high delivery service and lower costs, which could be seen as exercising value-based logistics in contrast to transaction-based logistics.
- Logistics capabilities are a complex combination of physical assets, organizational routines, people skills, and knowledge that require time to develop and integrate. In addition logistics capabilities may require the formation of collaborative relationships with suppliers and customers, which are not easily realised and fill the demands on rareness (scarcity).
- The complexity of logistics makes it hard to imitate the company's logistics capabilities, creating a competitive advantage.

This way of combining the outside-in and inside-out approaches is confirmed by Kihlén (2007) when considering control over logistics resources is a distinctive capability, and similar to Day (1994), who sees logistics as a distinctive and spanning capability in terms of horizontal processes or a set of activities that are defined both from inside-out and outside-in analyses. Day believes, what logistics researchers have also noticed for a while, that a traditional hierarchical and functional organisation very often is a barrier for a strategic view of logistics. Instead he argues that activities are organised around processes with focus on customer value.

Managing these horizontal processes so they become distinctive capabilities that competitors cannot readily match is very different from managing a vertical function in traditional hierarchical organization. (1994, p. 42)

A part of this strategic view of logistics is an operational set-up allowing companies to constantly adapt capacity to market size in order to balance cost of operations to revenue. This includes producing to customer order, but also finding the right balance between in-house capacity and outsourced operations and to manage the supply network to support a short time to market. Such a logistics platform gives the prerequisites needed to adapt advanced logistics concepts with a focus on value creation rather than on efficiency in individual transactions (Abrahamsson et al., 2003). Because the flow of goods is on focus, logistics is in one sense the core business and has a central role in the strategy of the firm; there is a direct connection between the overall goals of profitability and growth and the role of logistics in the company.

Methodology

This work is a part of an ongoing research programme on retail supply chains in Sweden including different retail sectors such as food, building materials, fashion, home electronics, furniture, MRO supplies, and so on. Modern retailers, who have fast growth and market expansion high on the agenda, are represented in this study with examples from case studies performed in the research programme and in related projects (e.g., Norelius, 2002; Kihlén, 2005, 2007; Sandberg, 2007). These cases were selected because of their characteristics of having long histories of profitable growth that is consistently higher than that of their respective industry average. This growth is performed in a uniform manner over time, and logistics have played an important role according to the management of the companies. These cases represent one set of empirical data.
The data collection has been made through semi-structured interviews with mainly top-management level representatives, that is, with those having the most profound insight into the strategic development in each company. This choice of respondents was made for the purpose of exploring the role of logistics in the strategic development of the company. All interviews were made in a team of at least two researchers in order to pick up different aspects of logistics and strategic development and to better understand the nuances of the interviews. In total fifteen interviews were conducted of which some were followed up via telephone or e-mail if deemed necessary for further clarification. The interviews have been complemented with other empirical data such as annual reports, brochures, leaflets, web sites, and so on.

The other set of empirical data is represented by the Swedish food sector, representing a more traditional approach to retailing, whereby administering the existing market position is more important than creating international growth and expansion. This study was done using a combination of secondary and primary empirical data to better understand the role of SCM and logistics in the strategy of the firm. The secondary data was collected for suppliers of different categories such as red meat, fruit, and vegetables for domestic and international retailers in the Swedish market (Rehme et al., 2008). Primary data collection was carried out through interviews with companies representing producers and retail chains in the food and grocery supply chain, with ten suppliers and two retail chains. A workshop with food manufacturers has also been conducted for data collection and to better understand how the retail chains are working in their supply chains. The food suppliers range from small suppliers to those who have a dominant position in the market (different food categories). The two largest Swedish retail chains have been interviewed and the sample of producers includes companies from these sectors: meat, dairy, fruits and vegetables, bread, and beverage. The retailers cover about 80 percent of the total food retail market in Sweden. In total fifteen interviews were conducted.

The analysis is the condensation of the empirical data into recognisable patterns that can be compared with and contrasted to existing theory. Here we have used a pattern-matching analysis method (Yin, 2003). The analysis was performed in two steps. In the first low-abstract analysis we have created a cross-case analysis between the two sets of empirical data in order to define the empirical pattern. In the second step and at a higher level of abstraction the analysis was matched to the theoretical pattern represented by the frame of reference.

The project employs an explanatory approach in which results from empirical studies have been used together with a theoretical framework to explain empirical patterns and to get a deeper understanding of how to design logistics according to the role of logistics in the company (Yin, 2003; Ellram, 1996).

**The Swedish food retailing versus modern retailing**

In order to better understand the different roles of SCM and logistics in the strategic development of a retail company, we have compared the Swedish food retailing industry, which is mainly domestic, with modern retailers. The Swedish food retail sector is a heavily consolidated market with three chains (ICA, Coop, and Axfood), all with very similar retail and supply concepts, representing some 90 percent of the total Swedish food retail market (the four largest retailers have about 97% of the market). Furthermore, one of these actors, ICA, has almost 50 percent of the total market. Only recently have the international low-price companies Netto and Lidl entered the Swedish market, with a quite rapid expansion in term of number of retail shops, challenging the existing retailers with different retail and supply concepts.

The size of the Swedish market for food was about 208 billion Swedish krona in 2008, or around 20 billion euros, with a year-by-year 5.8 percent increase in sales basically based on price increases (i.e., 6% in prices). Since 2000 there has been a substantial growth in big box retailing. Because ICA has such a dominant position, other retailers have followed their practice and strategic development. This retailer is a traditional purchasing group, which was formed by shop owners in order to be able to exercise purchasing clout. This also means that the Swedish retail market has a strong influence from shop owners. The purchasing group is thus managed as a wholesaler, with stores as customers, although recently there has been a development with central initiatives and more standardisation (e.g., assortment) across different store concepts. The largest food suppliers in the Swedish market are farm owner and there has been a trend of these kinds of companies merging with similar companies in other countries (e.g., Arla Foods, a dairy company) or acquired by international actors (Andersson et al., 2008).

The Swedish grocery retailing industry has changed extensively in the last few years with a shift in the power balance from manufacturers to retailers. The international retail chains that have entered the market are still fairly small but have acted as change agents for some of the initiatives in the Swedish market. One of these initiatives is that retailers are acting more as professional purchasers, although this has up until now primarily meant applying an increasing price pressure on suppliers.

The supply base in Sweden has become divided into two different supply groups. One is the group of national scale suppliers that have the ability to deliver the total demand of the retailers. They have been under pressure in terms of...
prices and also have had to adapt to a new strategic orientation from the retailers, particularly in terms of a new distribution structure and a more centralised professional selling regime. From a situation in which a majority of the distribution has been handled by the supplier, and then preferably locally together with the individual stores, we discern more coordination initiatives taken on by the centrally controlled chain or wholesaler. For the second type of suppliers the situation is quite the opposite, with high prices and local agreements with local food producers. This assortment is used to differentiate between stores and typically involves a communicated value in terms of quality and environmental sustainability.

This means that Sweden is following international trends but maintains some unique particulars (Fernie & Sparks, 2009; Smith, 2006). Sweden is an extremely consolidated market, dominated by one retailer/wholesaler with privately owned stores. The production side is still dominated by a few farmer-owned large suppliers. From a supply chain perspective, yesterday’s food supply chain in Sweden was dominated by the large producers with the logic that a price or cost increase upstream in the supply chain was pushed downstream towards wholesalers and retailers, resulting in high consumer prices (the upper part of Figure 1). In today’s Swedish food supply chain (middle part of Figure 1), the large retailer chains have used their exceptionally powerful position to take command of the supply chain in a power game. This, however, is not done according to the SCM principles of coordination by sharing information such as point-of-sales information. Rather the opposite: the retail chains are using their power position in order to reduce their transaction costs in the interface with the suppliers by forcing the suppliers to reduce their prices and shorten their delivery lead-times. In terms of logistics, the traditional wholesaling function has been well defined and is cost efficient but the wholesaling and retailing functions have not been fully integrated. Consequently, they have been transaction based not only in the interface towards the suppliers, but also internally between their own wholesaling and retailing functions.

Swedish food supply chains are primarily dyadic and transaction oriented. They have adopted international brand strategies and concepts for stores but SCM and logistics are used as tools or concepts for internal cost reduction and replenishment of retail stores. Like the modern retailers, they have not analysed their supply chain at several levels in order to find out what is driving costs in the whole supply chain and from that defined a ‘the ideal price per item’ and methods required to drive costs out of the whole supply chain to achieve that price over time (Fernie & Sparks, 2009; Burt et al., 2008; Smith, 2006). In the Swedish food industry as a whole, logistics efforts have primarily been internal in the manufacturers’ production processes and in the retail chains’ wholesaling processes.

Despite somewhat lower food prices during the last few years, Sweden still has among the highest food prices in Europe and the choices for the customers are...
about the same as before with exception for some new low-price retailers (still with a very small market share). Consequently, the scope of logistics is rather narrow in the companies and mainly functional, with the outspoken goal to reduce wholesaler costs as shown in Figure 2.

The difference between Swedish retailers’ supply chains and modern retailers can be described as follows. The modern international retailers

- Design their supply chain primarily with the purpose of growth and creating customer value, not cost and lead-time reduction only
- Combine and integrate wholesaling and retailing in one company
- Use standardised logistics throughout the supply chain
- Use multiple marketing channels in the same logistics system
- Have combined IT systems, POS-data, and automatic replenishment
- Are using transparency in information instead of stockholding
- Have a clear division of roles in the supply chain with logistics separated from sales

With a logistics system including multiple tiers of suppliers the modern retailers can offer to their customers a higher value for money compared to transaction-based retailing. In this context value could be, for example, high-quality products for low costs (like IKEA) or a product mix adapted for different customer segments (like Lidl), but also a wide range of well-known brands in combination with high-class private brands (like Tesco). Irrespective of the value, modern retailers are working with their entire supply chain and therefore a very large logistics system in order to create this value. One example of this is the Swedish furniture retailer IKEA, who define a target consumer price for the product to be sold in their retail shops based on both customers' expectations and an analysis of all including materials (based on world market pricing) and manufacturing and logistics activities from raw material to sold product. This 'ideal' price is then a target for their purchasing and logistics department to achieve within three to five years by taking the unnecessary costs out of the supply chain (lower part of Figure 1).

The modern retailers and manufacturers are facing not only much more pressure on cost effectiveness and high productivity from hard competition from the central European market, for example, but also a pressure on more proactive product development and most of all to grow the business and to provide the highest customer value. These skills have resulted in fast but also profitable growth internationally, which gives IKEA the financial strength to roll out, for example, a complete retail chain covering the major demographic areas in a country rather quickly in a standardised format.

Several of the fast-growing and highly profitable companies of today, for example, IKEA, H&M, Inditex, Tesco and Lidl, are what could be described as flow-oriented companies, in which managing the flow of goods throughout their supply chain is the key to their competitive advantage. A prerequisite for this is the ability to constantly adapt their operational resources and capacity in manufacturing and logistics to customers' demands. A part of this is done through a close cooperation with suppliers with

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**Figure 2**
The narrow logistics scope of Swedish food retailers

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extensive information sharing, not only in order to drive costs out of the supply chain, but even more important to also improve customers’ experience and to support fast growth. Consequently, their SCM and logistics scope is wider and more strategic as shown in Figure 3.

Discussion and conclusions

Our logic in this discussion is that the more dynamic the business environment is with quick changes in demands, internationalisation, and keen competition, the more important it becomes to ensure cost effective, flexible, and adaptive logistics platforms (Abrahamsson et al., 2003) and more adaptive and agile supply chains (Christopher, 2000). The primary role of logistics is consequently to secure profitability from economies of scale and scope from efficient differentiated delivery systems making the products available for customers on different markets but also to be a platform for growth and market expansion through the ability to scale up the delivery system to a high dynamic of effectiveness (Abrahamsson & Brege, 2004). This has been shown to be true for the group of modern retailers in this study and goes beyond the findings of Schramm-Klein and Morschett (2006), who argue the strategic importance of logistics from a customer satisfaction and loyalty perspective.

For the other group, the Swedish retailers, the market is more stable with less competition and the strategic focus is on profitability rather than on growth and market expansion. The role of logistics is primarily to create a cost-efficient logistics set-up. This means constantly redefining internal logistics activities and structures, including the interface between the whole function and the retail shops, in order to achieve a maximum of economies of scale in logistics operations (Chandler, 1990).

In companies that we refer to in this article as modern retailers, the role of logistics in their corporate strategy is twofold:

1. To create profitability from the logic that long-term and stable profitability are created through efficient operational processes. Profitability from growth only is of course welcome, but deceptive because it usually adds costs at the same pace or a higher pace and will not hold over time.

2. To support growth and market expansion from the logic that growth is created in marketing and in product development but needs flexible logistics platforms to be fast and to add value to customers. Market expansion is considered to be from existing logistics platform at a marginal cost.

These modern retailers are combining these two logistics strategies, enabling them to add new business at a marginal cost and having their operational resources and logistics systems designed to support their corporate strategies.

Market-expansion logistics has shown to have an important role in companies’ market expansion (Schramm-Klein & Morschett, 2006). For the modern retailers, this is represented by a focus on upstream logistics performance in order to be able to be proactive in the downstream market. “To be in pole position in our supply chain”, as one of the managers described it, is a matter of being best in class in purchasing and supply logistics, then the business can be expanded with a high pace in terms of volume increase and market coverage. If the supply of goods is not solid and trustworthy, the market expansion will be too risky. This means that the logistics and supply chain performance is an important prerequisite and driver for the establishment of new strategic positions. Widening the system borders for the logistics to include both upstream and downstream logistics is a part of their supply chain management, which is a clear distinction between modern retailers and Swedish food retailers in our research. For the modern retailers logistics and SCM is in this sense a core business and has a central role in the strategy of the firm. This is a development in the logistics-based SCM theories, concluding that the logistics development agenda is driven by the company’s targets on growth, but at the same time logistics sets the prerequisites for the pace growth rate. This is supported by the theories on dynamic effectiveness (Abrahamsson & Brege, 2004), in which the interplay between strategic positioning and operational performance is crucial for a profitable growth.

The food retailers in our study however have a much more narrow logistics focus. Logistics is a traditional functional responsibility
with a focus on cost-efficient logistics activities such as warehousing and transportation and to shorten replenishment lead-times in order to contribute to the company’s profitability. This role of logistics as a cost driver is perfectly fine as long as the strategic intent of the companies is focused on market retention and not on geographical expansion and/or new marketing or store concepts. However, if competition increases or if the Swedish grocery retailers want to expand to new geographical markets, they will need to rethink their logistics systems because it will become important to control interfaces in the supply chain and from that define how to use logistics capabilities and thus SCM to a competitive advantage. Matching the logistics strategy with the company’s growth-strategy and value creation processes is then more important than merely optimising logistics (cost and lead-time reduction).

We show that the success of modern retailers in terms of growth rate, profitability, and market expansion to a large extent is explained by the role of logistics in corporate strategy—when the role of supporting growth and increasing customer value from high-performance supply capabilities is a driver for market expansion. However, in many cases the traditional logistics roles of cutting costs and lead-times is still the dominating pattern, which limits the possibility of expanding the business to new markets. This study has been done from the perspective of logistics and existing SCM literature with an understanding that supply chains are there to create customer value. To further understand the role of logistics in retailing, it would be fruitful to attach another frame of reference that speaks of the value properties of logistics in the retail sector (Aastrup et al., 2007) and more specifically the role of logistics to create, appropriate, and sustain value in supply chains.

References


