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# **Customer and Ownership Value Creation at Hungarian Trade Companies: The Role of Logistics**

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**Abstract.** *Hungarian retail and wholesaler sector have substantially changed in the last 25 years. This was caused mainly by the appearance of multinational manufacturers as well as multinational trade companies.*

*Aim of the paper is to prove that if trade companies (retailers and wholesalers, too) have strong relationship with their suppliers that can result in a better customer, and at the same time, better ownership value creation capability. I describe the partnerships considering that although concentration dedicate huge power to retail and wholesaler chains, they have to harmonize the relationship with suppliers. I also take a look at that what results can be achieved by close supplier cooperation. The partnership analysis is based on the questionnaire of Hungarian Competitiveness Research which was filled out by 1200 managers of 300 companies in 2013. Participating firms were mostly small and medium size companies. There were 43 trade companies in the sample and my analysis is based upon these responses. Results say that just like in many other industries close cooperation with the partners pays off and can provide a better logistics and financial performance.*

**Keywords:** customer value, relationship, supply chain

## *Customer value, ownership value*

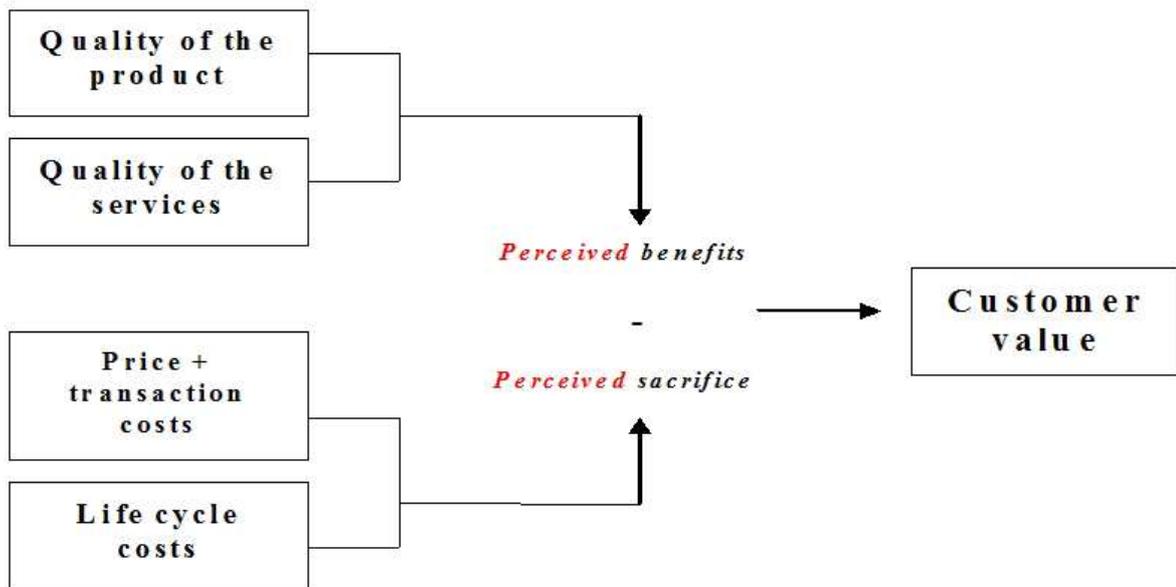
This last idea is the starting point of the current analysis. I am intended to explore that in what extent the trade companies work together with their suppliers, and can we find any performance difference - in customer and ownership value creation capability - between those who cooperate and those who do not?

Gelei (2008) thinks that the performance of companies' complex business processes can be evaluated by what value can be created for the companies' most important stakeholders. Primary stakeholders are the customers and the owners but strategic partners, environment and local communities are also to be mentioned. Now, in the paper I am focusing on the customer and ownership value creation.

According to Andersson et al. (2006) *customer value* is created when the overall perceived benefits of the customer from a given transaction exceed the total perceived sacrifice related to this transaction.

Perceived benefits are coming from the good quality of the product as well as the excellent service package connected to it. Since I am analysing trade companies, they have no effect on product quality in their case the primary focus is on the service package they are offering to their customers. I highlight *logistics services* from this service package which are essential in delivering the right product to its final destination.

Figure 1. Components of customer value (Gelei, 2013:64)



Perceived sacrifice consists of two kind of costs. First is the price and transaction costs associated with the product purchased by the customer. However, the experiences of the customer with the product-service package do not end as the transaction is closed. There are costs – like maintenance or repair – that are associated with the product bought and may raise long after the transaction itself. That is why the second cost category is called life cycle costs. So, if perceived benefits enhance the perceived sacrifices: customer value is created. I was primarily focusing on *logistics costs* in analysing perceived sacrifice and tried to point out that since logistics is one of the most important services the trade companies offer its level can affect price substantially.

*Creation value for the owner* is hard to capture, too. Equity owner usually invests in a company in order to increase his fortune (Gelei, 2013). This way he is interested in operating the company profitably, but not purely in increasing the profit rather in increasing the entire enterprise value. But how can we interpret enterprise value? The value of an enterprise can be set on the stock exchange or can be estimated from future net yields. Based on this, ownership value was enterprise value minus enterprise debts. The effect of logistics on ownership value can be twofold. First, by excellent logistics service more new customers can be convinced and the actual customers may order more that result in a

higher turnover. On the other hand, logistics costs can be optimized in order to be able to offer a competitive price on the market. However, I have to note, that excellent logistics service on low cost level does not exist (Nagy, 2013).

### *Sample of statistical analysis*

The analysis is based on the database of Hungarian Competitiveness Centre that collects data on firm competitiveness on a regular basis. The last sampling has been carried out in 2013 and resulted in answers from 1200 managers of 300 companies. The questionnaire consisted of five parts. The interviewer had a general questionnaire filled by the general manager of the firm, four additional questionnaires had been filled by the heads of different functions: CEO, financial, marketing-sales and production-logistics. This way we could get a very complex, detailed look at the companies. The most of the companies in the sample are small or medium-sized (74%), the largest sectors are processing industry (45%), and commerce (20%). The latter incorporate retailers and wholesalers but not the multinational, large store chains. Most of the surveyed companies are in private ownership.

### *Statistical analysis*

During the analysis I chose to take a closer look at commercial firms. I took the NACE numbers (statistical classification of economic activities) and selected wholesalers and retailers from the sample. It was important since commerce category in the sample also contained for example car dealers which are not targeted by the analysis. This way I reduced the sample to 43 trade companies. Unfortunately, I could not use all of them in analysing every selected questions since not all of them provided enough answer.

In the analysis I wanted to point out that the trade firms which have long term (contractual) relationship with their suppliers consequently a stable supply source can offer a better logistics service to their customers i.e. creating better customer value. The same time I suspected that better customer value and higher quality service can result in better financial performance i.e. higher turnover, that is responsible for creating ownership value.

First, I classified the reduced sample to two cluster along the share of long term contract they sign with their suppliers (K19). Only 33 of the selected 43 firms could be included in the cluster analysis. I used the Average linkage-method, which is a hierarchical cluster analysis method and is very useful when we do not know how many clusters to create in advance. The method suggests the appropriate number of clusters that was 2 in my case. The two clusters are obviously significantly different in

the shares of the long term contract with suppliers. Companies in Cluster 1 sign long term contract with 60-80% of suppliers, while the firms of Cluster 2 usually sign long term agreements with only 0-20% of suppliers. The population of Cluster 1 is 13 and Cluster 2 is 20 companies.

I could also analyse why trade companies contract for long term if they do so. The question K20 listed many reasons for long term contracting. From these reasons the companies of Cluster 1 contracts for long term in order to assure appropriate supply volume (K20c), assure flexible replenishment (K20k), ally strategically with supplier (K20l), reduce costs (K20m), gain competitive advantage on competitors (K20o). The difference in these aspects are significant between the two clusters (95% or better). Comparison was made by ANOVA test for comparing means, providing an F-probe for testing significance.

Table 1. Difference of clusters in reasons for long term contracts with suppliers

K20: If yes, Why do you apply long term contract with your suppliers?	K20c: assure appropriate supply volume	K20k: assure flexible replenishment	K20l: ally strategically with supplier	K20m: reduce costs	K20o: gain competitive advantage on competitors
Cluster 1	4.46	4.00	4.17	4.27	3.58
Cluster 2	3.63	2.75	2.75	3.63	2.63
Sig.	96%	99%	98%	96%	95%

Let us see the *customer value creation* in the different clusters! As it was mentioned in the literature review logistics can effect on one hand the quality of the service, on the other hand the level of transaction costs in the customer value model.

The quality of logistics service was captured by well-known customer logistics service performance indicators (T35) such as reliability of delivery deadline, delivery lead time, flexibility in time, accuracy of documentation, accuracy of information provided, OTIF (on time in full delivery), problem solving capability, overall customer logistics service level (CLSL). The respondents had to evaluate their own logistics performance towards their customers along these aspects. Table 2 summarizes the comparison of the two clusters. Only OTIF performance indicator seems to be significantly better in Cluster 1 than in Cluster 2.

Table 2. Difference of logistics performance between Cluster 1 and Cluster 2

T35: Customer logistics service performance	T35a: reliability of delivery deadline	T35b: delivery lead time	T35c: flexibility in time	T35d: accuracy of documentation	T35e: accuracy of information provided	T35f: OTIF	T35g: problem solving capability	T35j: overall CLSL
Cluster 1	4.17	4.00	3.83	4.17	3.67	4.17	4.00	4.20
Cluster 2	4.33	4.11	4.11	4.22	3.89	3.78	4.33	4.00
Sig.	NOT	NOT	NOT	NOT	NOT	90%	NOT	NOT

Results are very interesting. The trade companies that do not contract for long term evaluate their own performance better in many aspects than those who do contract for long term. However, along the complex performance indicators like OTIF and overall CLSL long term contractors perform (significantly) better. This may suggest us that there is no real performance difference between short and long term contractor trading companies but I keep it very important to emphasize the role of OTIF where not only time but volume accuracy is also important, and this customer expectation can be filled by long term contractors significantly better.

Logistics can effect customer value through the level of price and transaction costs. Price must include all of the costs associated with the product and the logistics service, too since they are part of the service package. Logistics costs could be captured by question K45 in the questionnaire. The question asked that "How different cost types changed in the past 3 years at the company?" Answers were given on a 5-point Likert-scale, where 1 meant 1- significantly reduced, 3-did not changed, 5-significantly increased. Table 3 shows the difference between the clusters, however the results are not significant, since only 14 firms answered the question.

Table 3. Difference in logistics cost between Cluster 1 and Cluster 2

K45: How different cost types changed in past 3 years?	K45b: transportation cost	K45c: inventory cost	K45d: warehousing cost	K45j: coordination and information cost related to logistics
Cluster 1	3.71	3.14	3.14	3.14
Cluster 2	3.71	3.29	3.43	3.29
Sig.	NOT	NOT	NOT	NOT

The populations of clusters do not allow us to generalize results, however a tendency can be seen: Cluster 1 with more long term contracts faces less the growth of difference logistics cost types, so the reasoning behind short term contracting and through that reducing costs is not true in case of logistics costs. On the other hand, performing well in complex customer logistics performance indicators (OTIF, overall CLSL) does not necessarily cost more.

In sense of dual value creation *ownership value* is also an important question when analysing a firm's value creating potential. The easiest way to capture ownership value is turnover, margin or the net profit. These, however, are very sensitive information that cannot be detailed in a questionnaire as well as only 33 of the analysed 43 trade companies answered the question. Respondents provided data about the previous year's turnover and net profit, that is 2012 since sampling has been carried out in 2013.

In my analysis I compared the turnover and net profit data (P9) in both clusters. The results say that there is a large difference in the average level of turnover and net profit between the two clusters but since the standard deviations are very high the results are not significant (Table 4).

Table 4. Difference in ownership value creation between Cluster 1 and Cluster 2

P9: Please provide the necessary data about your company!	P9ab: turnover of 2012	P9jb: net profit of 2012
Cluster 1	66.47 m €	63 056 €
Cluster 2	10.06 m €	-30 140 €
Sig.	NOT	NOT

Despite the promising results it cannot be said that long term contracting does have a direct effect on ownership value creation. It can be however an additional research goal to find out what other capabilities Cluster 1 companies have that resulted in a much higher average income than Cluster 2.

## Conclusion

The aim of the paper was to find relationship between stable supplier base and therefore reliable customer satisfaction in case of trade companies. This way I tried to capture that contracting with suppliers for long term can assure the ability of creating customer value and through this, through stable sales, the ownership value also might grow.

Customer value creation was captured by the quality of logistics services that is an important part of the service package provided by trade companies. At the same time, customer value is also effected by the cost of these services built in the price of the product.

Results say that we could differentiate 2 groups of trade companies along the term they are contracting for with their suppliers. Cluster 1

contracts with 60-80% of their suppliers for long term, and can offer a significantly better logistics service in OTIF than companies in Cluster 2. Cluster 2 consists of firms that contract only with 0-20% of their suppliers for long term. Some say that short term contracting and making suppliers rush for the business helped decreasing costs. This was not supported by the results since companies of Cluster 2 faced with higher cost increase than Cluster 1 in the past 3 years, even if the results are not significant.

Regarding ownership value, it was impressive how better long term contractor Cluster 1 performed in turnover and net profit than Cluster 2. Results are also not significant but raise many new questions that can be subjects of further analyses. It would be very interesting that what capabilities at a trade company can lead to good financial performance.

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