

Logistical and value chain strategies at philips



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1. 1 Introduction

Philips is the multinational enterprise that I have chosen for this assignment.

Philips is a company originated from Eindhoven, the Netherlands and was founded in year 1891 by Anton and Gerard Philips (Koninklijke Philips Electronics N. V, 2004-2010). Philips begun manufacturing carbon-filament lamps and by the turn of the century, had become one of the largest producers in Europe (Koninklijke Philips Electronics N. V, 2004-2010).

In year 1914 to 1945, the incandescent lamp, and gas discharge lamps proved more efficient in generating light after the improvements were made, so it has comes out new products there are X-ray tube and radio valve (Koninklijke Philips Electronics N. V, 2004-2010).

Start from 1970 until today, the revolutionary developments such like the introduction of CD, DVD and Blu-ray Disc show that Philips research has been tied much more closely to industrial and business activities (Koninklijke Philips Electronics N. V, 2004-2010).

Philips also continue innovating new products such as Ambilight which can brought a new dimension to TV viewing and developed Lumiramic which is a groundbreaking new phosphor technology for energy efficient white LEDs (Koninklijke Philips Electronics N. V, 2004-2010).

Based on Mapsofworld. com (2008), Philips is one of the biggest electronics companies in the world and known as market leader in energy saving lighting solutions, medical diagnostic imaging, consumer electronic and others. Although Philips have comes out many types of electronic products,

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such like television, radio, MP3 player but their core product are lamps.

Which means Philips is more expertise or profession in making lamps.

1. 2 Philips is a Multinational Corporate (MNC)

MNC is a company that has headquarters in one country has operations in other countries (Wall, Minocha and Rees, 2010, pg28). Besides, company that place their manufacturing, sales, or service subsidiaries in more than one foreign country are known as MNC too (Farlex, Inc., 2010).

Normally MNC will develop new products in home country after that manufactures those products in foreign country such as Third World country in order to gain the trade advantages and economies of labour and materials (Farlex, Inc., 2010). By operate business at foreign country, MNC also help in develop that particular country through create wealth, job opportunities, and improve technologies (Farlex, Inc., 2010).

Philips is one of the Multinational Corporate (MNC) too. There are more than 60 countries all over the world are the branches of Philips, including Brazil which is the place that produced equipment (Clarity Digital Group LLC d/b/a Examiner. com). The branches of Philips are located in Malaysia, Hong Kong, Thailand, Singapore, Korea and others country.

In addition, Philips maintains the research centre at home country, Netherland because they have the technology and are more expert in innovating and design new products. Philips placed their manufacturer in host country such as China and Thailand, to gain economies of scale by having a cheaper labour cost.

1. 3 Definition of Logistics Chain and Value Chain

At first I will define what is mean by logistics chain and value chain. Logistics chain is parts of the supply chain process such as transportation and inventory control. The logistics activities are repeated many times throughout the channel through which raw materials are transforming into finished goods and consumer value is added (Ballou, R. H., 2004, pg7).

Besides, logistic chain defines as the successive steps comprising a logistic-process in a particular industry (WebFinance, Inc., 2010).

Whereas, the value chain is the activities that convert raw materials into finished goods and creating value at each of the making process (Farlex, Inc., 2010). The primary activities that included in the value chain are inbound logistics, operations, outbound logistics, marketing and sales, and services (QuickMBA. com, 1999-2010). The secondary activities included in the value chain are firm infrastructure, human resource management, technological development and purchasing (QuickMBA. com, 1999-2010).

The primary activities of value chain play an important role in the whole value chain, because the activities are start from getting raw materials and then through manufacture and process it to become a finished goods, then prepare to sell to customer and the last step is after sales service such like warranty. The secondary activities are supporting the primary activities, such as procurement means purchase raw materials to run the inbound logistics. Besides, logistics chain is the process that control the flow of stocks and storage of finished products, and also sent the finished products from point of origin to the point of consumption to meet customer requirements (Ballou,

R. H., 2004, pg4). Thus the logistic chain and value chain are so important for a company.

2. Logistical and Value Chain Strategies

2.1 Logistical Strategies

Logistics are the activities that including materials management and distribution. The materials management activity help Philips plan how to control their inventory level in the most effective ways and do not keep too many inventories which can add cost to the logistics activity. The example of logistical strategy that can manage the inventory of a company is Inventory Management Software (SAP). For the distribution activity, Philips can choose what transportation modes that is most suitable use in deliver the finished products from warehouse to distribution centres and lastly to customer. The example of logistic strategy that can help to manage the distribution activity is by outsourcing to the third party logistics. Logistics strategy of a company is to define the most cost effective of the service levels that perform by the logistics organization of the company (About. com, a part of The New York Times Company, 2010). Besides, the logistic strategies can give competitive advantage and help to specific product lines, specific countries or specific customers (About. com, a part of The New York Times Company, 2010).

By the way, Philips does have implemented few logistic strategies in its overseas operations. For example, the host country of Philips which is Philips Malaysia has implemented few logistical strategies, there are outsource logistics to third party logistics and adopt Inventory Management software. The reason that Philips Malaysia implements logistic strategy is to adapt to the flexibility of supply chain by make changes to organization to provide a

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best service levels (About. com, a part of The New York Times Company, 2010).

2. 2 Value Chain Strategies

Value chain is same as value-adding activities which are transform inputs into outputs, then add to the bottom line and leading to competitive advantage (WebFinance, Inc., 2010). The inbound logistics activities are materials handling, warehousing and inventory control of raw materials, operations are the processes such as packaging, assembly and machining, outbound logistics activities are delivery vehicle operation, scheduling and order processing (QuickMBA. com, 1999-2010). Besides, the secondary activities of value chain such as technology is an important source of competitive advantage, because company need to innovate to reduce costs and sustain competitive advantage , technology that were include are production technology, internet marketing activities, customer relationship management and so on (Marketing Teacher Ltd., 2010).

The value chain strategy can bring many benefits to a company. Those benefits are gain economies of scale, improved information, reduce cost of production and so on (Government of Alberta, 2008-2010). The value chain strategies implemented by Philips on its overseas operations are outsourcing value chain activity to China, joint venture with China and move all factories to Thailand.

3. Philips' Logistical and Value Chain Strategies

3.1 Logistic strategies that implemented by Philips Malaysia company

3.1.1 Outsource logistics activity to third party logistics:

The third party logistics defined as the activity of outsourcing activities which related to Logistics and Distribution (Logistics List, 2005-2010). From the logistic view, third party acts as the parties that help other company to transport products to retailers (Logistics List, 2005-2010). Philips in Malaysia does have outsourced their distribution activities to third party logistic, such as NST Logistic Company. That's mean Philips Malaysia do not have to take part in the process which is sending products to retailers from their manufacture factory. NST Logistic Company job is getting the products from manufacture factory of Philips Malaysia and deliver those products to retailers and customers of Philips Malaysia.

The reason that Philips Malaysia decided to outsource logistics activities to third party logistic is to reduce capital, which mean minimizing the level of investment in the logistics system and maximizing the return on logistics assets (Ballou, R. H., 2004, pg36). For example, by outsourcing logistics activities, Philips Malaysia do not have to own or rent a warehouse to store finish products that prepare deliver to customers because NST Logistic Company will help to store finish products and deliver to customer of Philips Malaysia. Another reason is Philips Malaysia found that NST Logistics Company is more expert in logistic activities. For example, NST Logistics Company manages more than 100, 000 sq ft of warehouse space through its subsidiary Smart Warehousing Service and also sub contracted trucks ranging from 1 ton box trucks to 20 tons containers (NST LOGISTICS SDN

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BHD, 2008). With the expertise, Philips Malaysia can ensure their customers have receive a best logistic services.

3. 1. 2 Adopt the SAP Inventory Management Software:

SAP is known as “ System Application & Products”, which creates a common centralised database for all the applications running in a company (EzineArticles. com, 2010). Philips Malaysia is adopting SAP Inventory Management software helps in manage their inventories such as raw materials and finished products. The functions of SAP Inventory Management software are record and track materials on the basis of both quantity and value (SAP). With the software, the warehouse workers can track the quantity and value of materials, perform physical inventory, and optimize warehouse resources (SAP). For example, the warehouse workers can plan, enter, and document warehouse and internal stock movements by managing goods receipts and issues, storage, physical stock transfers and so on (SAP).

Philips Malaysia implement the inventory management software is because they found that their warehouse management are not efficient. For instance, the inventory holding cost is high. Those inventory holding cost are capital cost, service cost and storage cost (WebFinance, Inc., 2010). Philips Malaysia needs to pay the costs of stock management, the raw materials, and insurance.

3. 2 Value chain strategies that implemented by Philips Company

3. 2. 1 Outsourcing:

Outsourcing means subcontracting a part of activity to a third party company to perform, although that activity could otherwise be performed by in-house

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workers (Hinzie Media Inc., 2008-2010). Normally a company decided to outsource some of the production activity is due to some reason such like lack of expertise, cost effectiveness and competitive advantage.

Philips does have outsourced their value chain activity to China. Philips decided to not make the gear lamps by themselves and choose to buy the gear lamps components from China. This is because Philips found that if make the gear lamps by themselves, it would more costly. For example, in the inbound logistic activity of Philips, Philips buys components which are known as gear lamps from China and use on assemble process and finally comes out a finished product such like lamps.

The reasons that Philips outsources gear lamps to China are due to the political environment, economic environment and technological environment. For the political environment, because there is no political risk in China such as inflation, so the operating cost won't be high (Wall, Minocha and Rees, 2010, pg134). In the economic aspect, due to the large population in China, Philips believed that the consumer purchasing power over there will be high. Besides, on the technological aspect China are more expert in making gear lamps compare to others country.

3. 2. 2 Joint- Venture with China:

Philips joint venture in China since 1985 and now Philips hold 23 joint ventures and wholly owned enterprise with employing 14000 people nationwide (Hangzhou Jiaoyu science and Technology Co., Ltd, 2005-2009). For example, Philips-Shanghai Yaming Lighting Co., Ltd in China is a joint-venture with Philips Lighting, Netherlands (Focus Technology Co., Ltd.,

2010). The “ Energy Saving Lamp” is manufacture by the joint venture corporate between Philips, Netherlands and China.

The reason that Philips joint venture with China is because in China their labour cost will be lower than in Netherlands. This is because China has a large population, so there are many people can work, and the salary of worker will be cheaper. Whereas, in Netherlands, the population are much lesser than China, and people over there are not willing to work in factory some more they require a high paid salary. Another reason is build a factory in Netherlands was too costly compare to China. Other than that, the infrastructure in China is so convenient. So that, Philips decided to joint venture with China, by operate their manufacturing with China corporate.

3. 2. 3 Move all factories to Thailand:

Philips decided close all the lamps manufacturing factory in Malaysia and Singapore, and shift to Thailand. Philips Thailand is the corporate that supplying lighting to Asia Pacific, such as Philips Malaysia and Philips Singapore (SIAM FUTURE DEVELOPMENT PLC., 1999-2004). Philips Thailand core activity is focusing in manufacturing and selling lamps (SIAM FUTURE DEVELOPMENT PLC., 1999-2004).

The reason that Philips moves all lamps manufacturing factory to Thailand is due to the geographical location of Thailand. Since that Thailand is situated in a good location, which is nearby to Malaysia, Singapore, Hong Kong and others Asia Pacific. So, it's very convenient for Malaysia and Singapore to order inventory from Philips Thailand. For instance, Philips Thailand can deliver inventory to Philips Malaysia by using truck or ship. Another reason

is, by centralize all the lamps manufacturing factory to Thailand, it can help Philips to gain the economies of scale. The economies of scale define as the increasing efficiencies of the production of goods as the number of goods being produced increases and the average costs of producing a good will lower as each additional good is produced (Learnthat. com, 1998-2004). Other advantages that can obtain after centralize lamps production in Thailand are maximizing production capacity, improvement to a constant product quality, and improve order and delivery lead time to the respective country.

4. Recommendations

After found out all the logistical and value chain strategies that implemented by Philips on its overseas operations currently, I would like to suggest some changes that might be require to its logistical and value chain strategies over the next few years.

Firstly, the value chain strategies used by Philips are outsourcing and joint venture with China companies. In view of economic issue nowadays, China's economy environment keep on improving at a very fast pace and also getting more and more vibrant. So that, in the next few coming years you will realize that the cost of operation will be getting more and more expensive. For instance, workers demand for higher wages and more benefits. Other than that, the values of properties in China also keep on rising and double up, such as the prices of land and factories.

In order to solve this problem, I would like to recommend Philips to reduce the number of production centre's in China, which means reduce the number

of manufacturing factories in China. By this way, Philips can cut down the cost of operating and achieving the economies of scale in production. With the reducing numbers of operating factories, automatically the cost of workers and costs of management will be decrease too. Besides, Philips can also think of manufacturing more high-end products in China, such as the Philips LED lamps. With this high value products, it can helps to cover the rising workers costs that would going to be happen in years to come. Moving the operations to another country is not a good solution, because China has a large domestic market, moving out meaning losing that market.

Actually there is a risk to centralize all the factories in Thailand. As we know, Thailand is facing an unstable political environment now. It is forecast that the unstable political environment of Thailand would prolong and it will affect the operation of Philips Thailand in the next few coming years.

Hence, Philips can think of shift the manufacturing factories in Thailand to either Vietnam or Myanmar. The reason is because Myanmar and Vietnam are neighbor countries of Thailand. Both the countries are just situated nearby Thailand. It would not be a big impact in terms of geographical location. Firstly we talk about Vietnam, for the past ten years, Vietnam has an open trade policy which encouraged foreign direct investment (FDI) to their country. At the same time, infrastructures in Vietnam are keeping on improving too. Vietnam is not lacking of human resources as well such as technical workers, management teams and etc. The political situation in Myanmar is continues to improve and investment environment also getting better and better, so Philips can consider to move manufacturing branch to Myanmar as well.

5. Conclusion

In conclusion, Philips as a multinational corporate realizes that the logistics chain and value chain activities are so important for the whole logistic and supply chain management. The logistic and value chain activities are the whole processes of transform raw materials into finished goods then distribute to warehouses and finally deliver the finished products from the point of origin to the point of consumption. For example, from all the small component parts such as gear lamps go through the manufacturing process and finally become finished goods known as lamp.

In order to let the logistic and value chain activities run smoothly, Philips have implemented few logistical strategy and value chain strategy in the host country such as Philips Malaysia, Philips Thailand, and China. Philips Malaysia has outsourced the logistics activities to third party logistics which provide the transportation and warehouse services. Besides, Philips Malaysia are using SAP inventory management software to management their warehouse activities. Other than that, Philips had decided to buy the components parts from China rather than make it by own. Other than outsourcing to China, Philips does have joint venture with China corporate. Philips also centralized all the lamps manufacturing factories in Thailand.

Although Philips had implemented the logistical and value chain strategies in the overseas operations, but there are some external factors that can affect the operations of Philips corporate. Those external factors are such like political issue, economy issue, technological issue and etc. So, Philips need to have some changes on the current logistical and value chain strategies.

Lastly, Philips should always get ready to face the changes that might affect the current logistical and value chain strategies by find out the most suitable ways to overcome the problem.