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Logistics in Russia: Supply chains in a fast-changing environment

An Executive Report

October 2005

Christopher Jahns
Inga-Lena Darkow
Tobias Weigl

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A collaborative publication from

 SMG™ Publishing AG



Verlag Wissenschaft & Praxis

The German Library – CIP-Affiliation

The German Library lists this publication in the German national bibliography; detailed bibliographic data is available on the Internet at <http://dnb.ddb.de>.

© SMG™ Publishing AG, 2005

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SMG™ Publishing AG
ISBN 3-907874-32-3



Verlag Wissenschaft & Praxis
ISBN 3-89673-332-X

Printed in Germany

About the Supply Management Institute SMI

The **Supply Management Institute SMI™** is one of the leading research institutes focusing particularly on the fields of purchasing, logistics and supply chain management. Connected to the Chair of Purchasing, Logistics and Supply Chain Management at **ebs European Business School**, Wiesbaden, Germany, the Institute also teaches on-campus students, arranges executive education and builds and maintains a worldwide network of academic and industry representatives. Since July 2005, the **SMI™** also has a research platform in Moscow which concentrates on the topics transportation and logistics.

About DHL Russia

DHL is the leading Logistics Service Provider in Russia. With core competencies in express forwarding, freight and logistics solutions, **DHL** offers a wide range of first class products to its customers. **DHL** helps companies to improve their overall performance and is a reliable partner for firms of all industries. With the expertise in logistics services, **DHL** increases efficiency and effectiveness along the entire supply chain.

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Executive Summary

The Russian logistics market is one of the most challenging and fastest growing environments for companies from all industries. In 2004/ 2005, DHL Russia and the Supply Management Institute SMI™ conducted a joint research project on the Russian logistics market so as to enable companies to improve their logistics performance in Russia. 46 key decision makers from 31 companies took part in the study. Additionally, qualitative research in the form of expert interviews was conducted. The goal was to find out how the market will develop, what is expected of logistics service providers and how companies can improve their logistics performance. In more detail, the research addressed the following questions:

- What are the drivers for the changing market?
- How will the Russian logistics market develop?
- Which selection criteria for choosing a Third Party Logistics Provider (3PL) exist in Russia today and which criteria will be important in the future?
- Which are the most important modes of transportation today and in the future?
- Which measures must be taken in order to successfully perform logistics activities?

The key findings of the study show that the Russian logistics market is changing significantly. Furthermore, strong differences between the Russian and Western European environments are highlighted. Additionally, the findings show that several improvements are necessary and actions must be taken by logistics service providers to remain competitive in the future and provide companies with a value adding service.

Key findings are:

- 68 % of the respondents point out that there are big differences between the Russian and the European logistics market.
- Global competition, mass customization and an explosion of customer service are the strongest drivers for the ongoing change.
- Even though cost is the core factor today, quality and customer relationship management will become more important in the future.
- Companies have to employ best-in-class logistics to stay ahead of competition and in order to gain competitive advantage.

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Foreword

There is little doubt among those dealing with the Russian logistics environment that the market is changing. Logistics service providers and companies face challenges due to changing conditions in their everyday work and in order to improve performance, several measures must be taken.

Growing trade relations between Russia and Western Europe as well as an increasing volume of transportation activities in the domestic marketplace put pressure on companies in all industries and demand an improvement of services, a broader product range and flexibility from the providers of logistics solutions.

In Russia, the recent shift from standardized mass production to small-scale production of customized high-value products involves smaller shipments and a market that favors road and air over rail and sea transport. Furthermore, recent changes in production methods such as just-in-time and flexible production specialization have created a need for flexible, fast, individually tailored transporting and logistics services with reduced shipment size at an increased shipment frequency to reflect coordinated supplier-customer operations.

Nowadays, logistics and transportation requires more than just pick-up, transportation and delivery; logistics and supply chain managers have to take into account the aligned coordination of a supply chain and reduce transit times at an increased flexibility to meet the customers' demand and also gain a competitive advantage over competitors. Logistics is becoming crucial to success and has shifted from a cost-center to a source of customer satisfaction and helps to outrun competitors in a challenging environment.

As the leader in transportation and logistics services, DHL works hard to provide its customers access to these opportunities and is constantly endeavoring to improve its performance. The core competencies of DHL in all relevant logistics issues enable DHL to offer solutions far beyond our competitors' possibilities. In order to combine DHL's practical expertise with an up-to-date theoretical point of view and use the advantages of both pre- and descriptive research DHL Russia teamed up with the Supply Management Institute.

The results of "*Logistics in Russia – A fast changing-environment*" provide invaluable insight for logistics and supply chain professionals into the ongoing changes of the Russian logistics environment. The findings enable companies to redefine their logistics strategies and evaluate their particular risks and chances of doing logistics in Russia.