Real-World Example: FMCG (Fast-Moving Consumer Goods) Distribution

Company: A large FMCG company (e.g., Nestlé, Unilever, PepsiCo)

Context

The company delivers products to thousands of retail shops large supermarkets, medium wholesalers, and small corner stores (kirana shops). Each type of customer requires different logistics efforts.

How Costs Influence Logistics Strategy

Example:
Large supermarkets (e.g., Hyperstar, Imtiaz) place **big orders**, usually pallet-sized, and have fixed delivery schedules.
Small retailers (corner shops) place **very small orders**, often requiring frequent deliveries.

- **Serving large supermarkets:**
  - One truck can deliver an entire day's order in one trip.
  - Low delivery cost per unit.
  - Efficient route planning.
- **Serving small corner shops:**
  - Multiple stops with very small order quantities.
  - Higher fuel consumption, more time, more manpower.
  - High delivery cost per unit.

Therefore, the company develops different logistics strategies:

- Milk-run delivery routes for small shops
- Direct truckloads for big supermarkets
- Minimum order quantity policy to reduce cost
- Different service levels depending on profitability

How Inefficient Logistics Increases Cost-to-Serve

Example:
If the company uses the **same delivery truck** and **same service frequency** for all customers (one-size-fits-all approach):

- Small shops get daily deliveries even when they order only a few cartons
- Trucks run with low utilization (partially empty)
- Drivers spend more time navigating crowded streets
- Extra diesel cost, overtime, wear and tear
- Result: **The cost-to-serve small shops becomes very high**, possibly exceeding the profit from their sales

Inefficiency = Higher logistics cost = Lower or negative customer profitability

Textile Supply Chain (Pakistan, Apparel Manufacturer)

Company: A medium-to-large apparel exporter supplying brands in Europe/USA (e.g., H&M, Zara, Primark buyers)

The company serves two types of customers:

1. **Large international buyers** (bulk orders, long-term contracts)
2. **Small boutique buyers** (small, customized orders)

1. How costs influence logistics strategy

Scenario

Large buyers place **bulk orders** (e.g., 20,000–50,000 pieces per style).
Small buyers place **small, frequent orders** (e.g., 200–500 pieces) with high customization.

Cost Difference

- Large buyers allow **container-level shipments** (FCL).
- Small buyers require **LCL shipments**, higher freight rates per carton, and more paperwork.

Impact on Logistics Strategy

Because customer service cost differs, the textile company designs separate logistics strategies:

For large buyers

- Full-container loads (FCL) to reduce shipping cost
- Consolidated packing lines
- Fixed weekly dispatch schedules
- Priority booking with freight forwarders

For small boutique buyers

- Less-than-container-load (LCL) shipments
- High-frequency dispatches
- Extra quality inspections
- More sampling and documentation (packing lists, invoices, compliance forms)

Different logistics strategies are needed because the cost-to-serve each customer type is very different.

2. Inefficient logistics may increase cost-to-serve

Scenario

If the company tries to treat all customers the same to same dispatch frequency, same packing method, same documentation process to inefficiencies arise.

Example of Inefficiency

The company sends small orders (**10–12 cartons**) via LCL every week to a boutique buyer instead of consolidating shipments.

Cost Impact

- High LCL freight cost per cubic meter
- Repeated documentation cost (export forms, certificates, courier fees)
- Frequent QC checks and sampling
- Increased handling and labor time in the warehouse
- More truck trips to the port with partially loaded vehicles

Result

- The boutique buyer becomes **unprofitable**
- Logistics costs exceed the margin earned on the small order
- Resources are diverted from high-volume customers

Inefficient logistics = higher cost-to-serve = reduced customer profitability