THE COMPETITIVENESS OF THE TRANSPORT AND LOGISTICS COMPANIES BASED ON THE IMPLEMENTATION OF CUSTOMER ORIENTATION

Abstract
The article considers the concepts of competition in the freight traffic market and competitiveness of transport company, as well as addresses the need to increase the focus of transport operators on customers, especially in the circumstances of reduction of cargo volumes. The problem of the organisation of the customer service and the ways of the formation of customer orientation is discussed for the case of JSC ‘Russian Railways Logistics’.

Keywords: competitiveness, customer orientation, transportation and logistics services, PL providers.

1. Introduction

In modern conditions, the level of the transport business development in Russia is one of the most important factors in the competitiveness of the national economy, as it provides an opportunity to build economic relations with all regions of the world without transit countries. Meanwhile, in the transport sector, the decline of freight traffic is observed in recent years. Systemic problems (e.g., the quality of management, depreciation of fixed assets, poor transport infrastructure) cannot be solved completely in the context of the ongoing economic crisis, which resulted in the need for the research on the ways for the improvement of the competitiveness of transport organisations.

In accordance with the Federal Law ‘On competition and restriction of monopolistic activity on commodity markets’, the competition in the business of carriage can be seen as adversarial activities of companies in the transport industry for the use of individual techniques, effectively limiting the resources of each other and affecting the overall arrangement of services in the commercial market transportation that stimulate the fullest confirmation of customer requirements. Thus, the competitiveness of the transport companies provides the ability to meet the effective demand of clients in the transportation of certain volume and quality, allowing obtaining a leading position in the market of transport services and receiving the most beneficial effect.

The ability of the transport company to compete in the market of the carriage services depends on the competitiveness of transportation and
combined methods, which are used in the enterprise, both impacting on the results of competition. Competitiveness of the firm is determined by many factors that can be divided into the next groups:

– technical and economic: quality, tariffs and cost of ownership (use) or consumption of services, depending, in turn, on the productivity and the intensity of labour, the manufacturing cost, science intensity of services, etc.;

– commercial: market conditions, the level of service, technology, and marketing communications;

– legal and regulatory: the requirements of technical, technological, environmental, and other security of using the services on the market, as well as patent and legal requirements.

Additionally, a separate group of factors can be formulated by components, which define the customer loyalty to transport company: the availability and management of the client database, the level of allowance for requirements within customer segments, service standards, and information support of operations. Thus, competitiveness is the necessity, orienting the transport business to meet a broad range of customer needs in addition to the fact of delivery of goods for the purpose of ensuring the competitive position of the enterprise in the market.

In order to fully meet customers’ needs for transport services on a local (regional) level by monitoring the external environment, analysis of legislation, alternative technologies, social changes that may generate market opportunities or threats, the growth of adaptive ability to the evolution in the market environment should be at the basis of the strategic activities of transport enterprises, which are focused on the improvement of competitiveness.

In the context of increasing competition in the market of carriage, the offers of companies are aligning in price, quality, and range of services. The excess of supply over demand generates a buyer’s market when a customer makes a selection of the transport service provider, taking into account not only the basic conditions, but also a range of services for their willingness to cooperate (for purchase) in the form of timely information and quality of duty.

To ensure profitable growth, transport companies need a high-quality work with the client, based on a study of customer needs and the timely satisfaction. Customer-oriented philosophy or clienting differs fundamentally from other concepts by the new approach to the work with clients and business organisation. It is necessary to build continuously and upgrade package that considers the market situation.

Customer orientation should be viewed as a relationship management system with the clients and as a business strategy of customer reproduction, which is aimed at increasing the value added. The main objective of clienting in the transport business is to create groups of loyal customers (supporters) of the company. Thus, there is a need to develop a client-oriented management of services competitiveness in the transport business.
2. Customer focus in JSC ‘Russian Railways Logistics’

In 2016, Russia in terms of the development of logistics has taken 99th place in the world, having fallen by nine positions compared to 2014 (Arvis et al., 2016). In the Russian transport and logistics market, the share of basic services in the transport is 88%, value-added services equal 12%, including forwarding 6%, warehousing 3%, and contract and integrated logistics (3PL/ 4PL) services 3% (Volkov et al., 2014) The average annual growth rate of the transport and logistics market by 2030 market is forecasted at a level of 9%, which will allow by 2030 to reach a value of 11.4 billion Roubles.

Basic traffic/transport service will retain its importance in the market of outsourcing logistics, although the overall market share will decline and reach 80% by 2030. It is due to the scale of the country and the structure of goods with a high proportion of raw materials, which does not require complicated logistics. In Russia, the share of outsourcing in the total logistics cost is about 20%, while the average level for countries with well-developed logistics market is 40-45% (JSC ‘RZD’, 2013) Capacity segment of logistics outsourcing in Russia was estimated at 17 billion Roubles in 2014 (JSC ‘RZD’, 2013), with a growth potential of 15% annually, assuming the allowance of inflation. This segment is currently quite free from the competition due to the fact that Russian companies are reluctant to transfer to full outsourcing of logistics. Although 3PL/4PL-providers are the most clients oriented.

The Russian market has about 3.8 thousand companies, which provide freight forwarding services, including 2.8 thousand of carriers and 1 thousand of forwarders. About 800 companies are positioning themselves as warehouse operators (JSC ‘RZD’, 2013). Most of the freight forwarding and logistics companies are located in Moscow and St. Petersburg, as well as in the port cities and regional centres of Russia. About 30% of freight and logistics companies are located in the Central Federal District (with more than 20%, in Moscow), 28% – in the Volga Federal District, 18% – in the Urals Federal District, 10% – in the North-West Federal District (with 9% in St. Petersburg), and 14% – in other countries (Rview, 2005).

The competitive environment in the Russian market of transport and logistics services, in general, is defined by the activity of Russian companies, mainly transport operators and freight forwarders. The key players in the segment of 3PL services are considered to be the western logistics providers with experience in servicing large industrial and commercial multinational companies. The volume of transactions in the Russian market of western logistics providers is associated with the activity of their regular customers in Russia.

Based on the previous reasoning, further on, the problem of the formation of customer focus in JSC ‘Russian Railways’ (JSC ‘RZD’) will be addressed. The traditional business model of Russian Railways Holding, when the company
was just a carrier, is transformed into a model of the transport and logistics company. For this purpose, 12 subsidiaries and affiliated companies, two branches and one structural unit, which carry out the operation of the cargo fleet, sales services for rail freight transport, the provision of terminal and warehousing services and logistics have been allocated.

JSC ‘Russian Railways Logistics’ (RZD Logistics or RZDL) was founded on 19\textsuperscript{th} of November 2010 in the framework of logistics business direction of the Russian Railways Holding in order to ensure customer focus and high level of customer service. On November 24, 2014, RZD Logistics became a part of the Integrated Transport and Logistics Company ‘OTLK’. The founders of ‘OTLK’ were JSC ‘Russian Railways’, GO ‘Belarusian Railways’, and JSC ‘National Company Kazakhstan Temir Zholy’. One of the priority directions of activity of ‘OTLK’ is related to the carriage of containerized cargo in the framework of the single economic space, including transit routes between Europe and Asia.

Nowadays, RZDL is present in 23 cities of Russia and has more than 250 partners and four subsidiaries – ‘Far East Land Bridge’, ‘RZDL Multimodal B.V.’, ‘Euro Rail Trans’, and ‘Black Sea Ferries Limited’. JSC ‘Russian Railways Logistics’ mission is to provide for customers high-quality, effective and comprehensive solutions for the delivery of goods to any distance with reliability, professionalism, and individual approach. The nomenclature of transported cargo includes mass, general, regime, oversized and heavy cargo, containerized cargo, as well as small and partial consignments. Table 1 depicts a list of services provided by RZD Logistics.

Table 1. List of services provided by JSC ‘Russian Railways Logistics’.

<table>
<thead>
<tr>
<th>Main</th>
<th>Additional</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Transportation in Russia and the CIS</td>
<td>1. Cargo insurance</td>
</tr>
<tr>
<td>2. International transit</td>
<td>2. Truck forwarding</td>
</tr>
<tr>
<td>3. Logistics outsourcing</td>
<td>3. Port forwarding</td>
</tr>
<tr>
<td>4. Customs clearance</td>
<td>4. Cargo tracking</td>
</tr>
<tr>
<td>5. Warehousing logistics</td>
<td>5. Container trains</td>
</tr>
<tr>
<td>6. Partial consignments (RZD Express)</td>
<td></td>
</tr>
<tr>
<td>7. Delivery of perishable</td>
<td></td>
</tr>
<tr>
<td>8. Over dimensional loads</td>
<td></td>
</tr>
<tr>
<td>9. Ferry</td>
<td></td>
</tr>
</tbody>
</table>


Suppliers of services to RZD Logistics are subsidiaries and affiliates of JSC ‘Russian Railways’, as well as private operators of rolling stock, road transport and shipping companies, warehouse operators, stevedoring companies. Between JSC ‘Russian Railways Logistics’ and its subsidiaries also agreements
have been developed for the provision of services by third-party trucking companies, warehouse and port operators, as well as contractors engaged in the payment of charges in foreign countries.

Meanwhile, none of the suppliers has a privileged status. The key factors for choosing a service provider should be business conditions. Market share of the logistics outsourcing of JSC ‘Russian Railways Logistics’ in 2012 amounted to 0.2%, in 2013, it was 0.3%, and in 2014 – 0.43%.

**Table 2**
The share of RZD Logistics in Russian rail traffic.

<table>
<thead>
<tr>
<th>Types of transportations</th>
<th>The percentage from the volume of internal traffic in wagons, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. For the confirmation of companies needs</td>
<td>6</td>
</tr>
<tr>
<td>2. Small and partial consignments</td>
<td>1</td>
</tr>
<tr>
<td>3. Freight logistics</td>
<td>0.32</td>
</tr>
</tbody>
</table>

*Source: JSC ‘RZD’(2013).*

The data in Table 2 show a small fraction of the JSC ‘Russian Railways Logistics’ in the provision of the freight rail traffic in Russia. In 2014-2015, RZDL actively developed a service for the transportation of small and partial consignments within the service called ‘Railways Express’.

According to experts, in 2014, the market of cargo in Russia amounted to about 68 billion Roubles. In the rail transportation of goods, approximately 22% is the percentage of the value of partial consignments in the market volume of 2014 (Dementev, 2013; Shcherbakov and Dandina, 2014; Yudnikova, 2013). In the basis of the developed logistics solutions of ‘RZD Express’ service is a set of operations, which include the reception of cargo from the clients, documentation, cargo consolidation at the warehouse of departure, sorting of cargo in relation to destinations, packing, and shipping of delivery to the destination in the most suitable mode of transport.

Activities of freight logistics involve forwarding services in the case of transportation by various transport modes in Russia, the CIS, and other international destinations, as well as a set of complementary and integrated services provided during multimodal traffic, bulk shipping, over dimensional and oversized, perishable and other types of cargo, which require specific conditions of transportation. The sub-segments of this trend, which the company considers as the priority for the development, include:

- Transportation of over dimensional and oversized cargo;
- Multimodal transportation;
- Terminal and warehousing services.

Competencies of the company in the field of transportation of oversized and over dimensional cargo are the following:
1. Transportations with the use of a specialised and uniform railway rolling stock.
2. The organisation of ‘windows’ for the passage of vehicles with oversized cargo through rail crossings, construction of crossings, and provision of all levels of coordination.
3. Transportation by motor transport of oversized and heavy cargo.
4. Overload with the use of cranes and specialised transshipment mechanisms at both the stations and on the sites of the shipper and consignee.
5. Transportations by the river and the sea.
6. Transportation of oversized and heavy cargoes using the ferry company ‘BFI’ Ltd (low level of oversize).
7. A survey of routes for transportation of oversized cargo by truck.
8. Development of various logistic schemes of cargo delivery.
9. Multimodal transportation by road, rail, and water transport.

The main customers are manufacturers of equipment for the sector of oil, gas, petrochemical, energy, construction equipment both in Russia and abroad. In the sub-segment of multimodal transport, the development is due to the construction of logistic schemes using rail-ferry subsidiary ‘BFI’ Ltd in the Black Sea basin and the Baltic Sea. Major customers in the area of the Black Sea are companies engaged in transit from Central Asia and Kazakhstan, as well as the transportation of oil.

In relation to the program of attracting additional cargo on the Russian railway network, RZD Logistics since the beginning of 2015 has shifted from road to rail about 500 thousand tonnes of cargo, which increased the company’s profits. In 2015, the profit growth rate was 47% compared to the year 2014 (Figure 1). In 2015, the company’s client base included more than 1,000 companies, ranging from large international logistics businesses and to small and medium-sized enterprises.

![Fig.1. The dynamics of the profit of RZD Logistics, in million Roubles.](image-url)
The search of customers of JSC ‘Russian Railways Logistics’ is carried employing the bidding venues; applications received from call-centre ‘Infoservice’ on the company’s e-mail; proposals, posted on the company’s website with the help of the services of ‘How to become a client?’ The study of the procedures during the application process via the call-centre of Russian Railways Logistics showed that the lack of a standard form for the application increases the time for order processing, because of the extra calls to the customer to clarify missing information.

In the sales department of RZD Logistics in St. Petersburg, the following software is used: ETRAN, AC KTLO, Rail – tariff, E1 ‘Euphrates’, Dislocation, Rail-Atlas. Rail-Atlas program is designed to build a rail freight routes, station search, and information about them. The rest of the programs are associated with the documentation processing, the calculation of cargo rates, and the positioning of the trains.

The lack of software (CRM-system) for the automated interaction strategies with a customer creates difficulties in work related to the improvement of the services. Although on the site of JSC ‘Russian Railways Logistics’ the list of clients exist and is constantly updated, in the sales department, the ABC-analysis is not provided. Additionally, customer segmentation on the ground of different features, as well as the history of relations with clients, is not carried out, which does not allow developing long-term business proposals with the allowance of the customer preferences.

The improvement also requires the system of KTLO, for which on May 10, 2016, the competition in the electronic form to carry out the work on its completion and maintenance was opened. Due to these facts, so far there is a trend in a narrowing of the client market, which has a negative effect on the market share of RZD Logistics. The company serves mainly the coal and timber industries, the construction sector, and industry of building materials.

From year to year, the share of the ten largest customers accounted for almost half of the company’s revenue. Thus, in 2012, despite the fact that during the year, the number of clients of the company has grown by half, a key customer was a company of GEFCO, which shares in the income structure of JSC ‘Russian Railways Logistics’ was 19% (Volkov et al., 2014).

3. Conclusions

Based on the research the following conclusions can be drawn.

1. The created in 2010 RZD Logistics for the enhancement of customer focus of the company occupies an insufficient share of the transport market: in 2012 – 0.2%, in 2013 – 0.3%, in 2014 – 0.43%. The share of transportation as the percentage of the total domestic traffic in wagons include the fraction of traffic for the provision of own needs of the company – 6%, as well as the share of small and partial consignments – 1%, and for freight logistics – 0.32%.

2. One of the obvious reasons for failure on the market is a narrowing of the client market. JSC ‘Russian Railways Logistics’ serves mainly the coal and timber industries, the construction sector, and industry of building materials. Taking into account the contribution of the sector ‘Trade’ in Russia’s gross domestic product of 20% and the share of transportation of small and partial consignments 22%, there is a necessity to increase the number of clients among major retail chains.

3. Insufficient activity of ‘sales department of RZD Logistics is determined by the presence of a number of shortcomings: the lack of a standard application form for the client, as well as the software for the strategic interaction with customers, and malfunctions of the current software (AC KTLO). Delays in order processing are forcing customers to contact other companies that provide a faster service.

4. The depersonalization of clients due to lack of the segmentation according to various criteria (e.g., regional, order volumes, types of goods, etc.) on the ground of ABC-analysis by each of manager does not provide the ability to develop effective commercial offers, allowing to meet customer needs better.

5. RZD Logistics positions itself as a 3PL-4PL provider. However, 3PL-providers are characterized by the implementation beyond the basic functions of logistics, another services, concerning the design of information systems, the selection of information provision, support of information systems, inventory management, and order management procedures, etc. 4PL-integrator acts as the department for the provision of supply chain management of a focused company, as well as operates a variety of suppliers to obtain economies of scale, performs coordination, analysis, and planning of the supply chain. Many of the functions mentioned above, JSC ‘Russian Railways Logistics’ does not perform due to the presence of an incomplete set of 3PL-provider services, since primarily there is the lack of terminals at railway stations.

6. So as to move to a new level of customer focus and in order to increase the competitiveness of RZD Logistics it is appropriate to provide:
   – Creation of the investment attractiveness for the construction of terminals at railway stations;
   – Efficient management of a single database segmentation of customers, with the conduction of ABC-analysis to identify key areas of work with clients;
– Development of customer service standards;
– Improvement of the acceptance procedures of the application;
– Advancement of document management software;
– Introduction of CRM-system;
– Creation of personal client cabinet.

References


