

Value Added Logistics (VAL)

Value Added Logistics (VAL) are a combination of logistics and industrial activities. They are implemented to customize products to meet individual European country requirements. Ideally, such operations are carried out as much as possible downstream in the supply chain. They should increase the producer's market flexibility and reduce logistic costs, obsolescence risks and import duties. VAL are mainly implemented in combination with European Distribution Centers for the execution of customization and localization activities further downstream the supply chain.

VAL can be divided into two groups as part of postponed manufacturing:

- General VAL for products for the pan European market place
- VAL to customize the products per country, region and market segment

VAL can offer different benefits for a producer:

1. It reduces the costs and risk of keeping stocks: few if any country-specific or customer-specific stocks are needed. Only generic end-products or components are kept in stock, and these can be reduced to a minimum safety stock by centralization.
2. It enables a larger range of products to be offered: with VAL, country-specific or customer-specific products can be delivered rapidly (order-driven) without the high costs and risk of keeping them in stock. This makes it possible to respond quickly to changing market requirements. Flexibility is the keyword. In almost one-third of the EDCs in the Netherlands VAL activities are performed.
3. Less Import duties, in case the VAL activities are executed from a bonded warehouse. This is called inward processing and in order to be able to execute these VAL activities one needs a license from customs

Figure 1 below, gives a framework of product-market-process combinations (PMP's) with which different PMP's can be distinguished where a successful implementation of VAL is possible.

The first question to be answered is, if a production process can be divided into a primary and secondary process which can be separated in time and location. The process industry is an example of a sector with non-dividable processes.

Crucial for the application of VAL is the substance of the secondary production in terms of process times and labor intensity. Expensive labor cost in Western Europe can be compensated by logistics advantages.

The presented framework is a help in designing a supply chain network. It can be used for decisions regarding the localization of final production processes within the network.

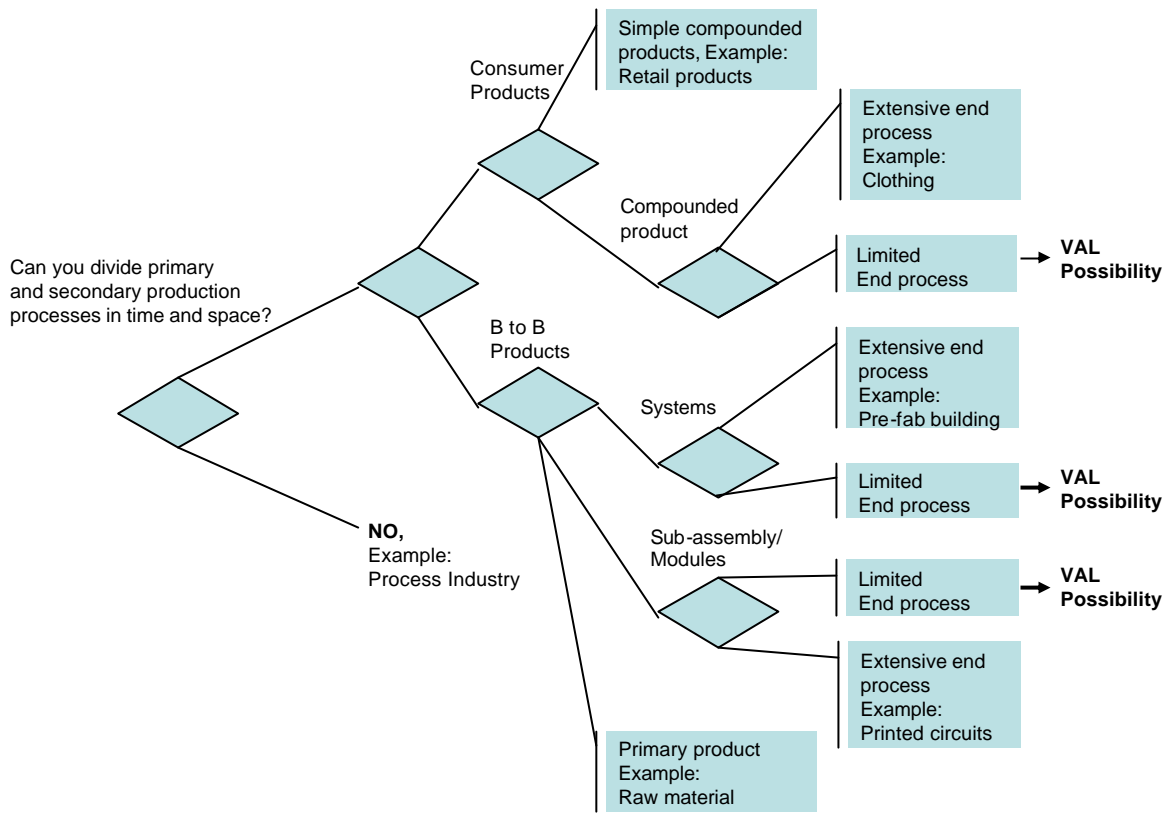


Figure 1 VAL preconditions

Source: Van Hoek, Commandeur (1995) Het verval van de logistiek Handboek Logistiek