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# **Managing the Outsourced Supply Chain**

*Market Analysis of Major Third Party Logistics Providers  
on the European Market*

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# Summary

<b>Title</b>	Managing the Outsourced Supply Chain <i>Market Analysis of Major Third Party Logistics Providers on the European Market</i>
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<b>Key words</b>	Strategic alliance, Third Party Logistics, Value chain, Core competence, Supply Chain Management, Key Success Factors, Competitive advantage, Information and Communication Technology
<b>Problem</b>	What growth potential and possibilities for development exists for Third Party Logistics companies on the European market? What are the Key Success Factors? What threats exists? How have the leading Third Party Logistics providers in Europe attained their market position and what internal and external resources can they exploit for further development?
<b>Purpose</b>	Investigate and explore prominent Key Success Factors within the Third party Logistics industry on the European market. Clarify what resources and capabilities need to be successfully managed in order to achieve competitive advantage within the TPL industry.
<b>Method</b>	The report is built on a qualitative research study. Information gathering has been done from interviews in combination with secondary sources. Information from secondary sources was gathered from literature as books, brochures and articles in addition to the Internet.
<b>Objective</b>	To identify Key Success Factors for leading Third Party Logistics providers on the European market. Furthermore, throughout an empirical analysis identify a number of more visible factors for their positioning, development potential and growth possibilities within the TPL industry.
<b>Conclusions</b>	The increasing demands from the customers will most likely lead towards knowledge intensive and solution based logistics. When developing, implementing and managing these solutions co-ordination capabilities are of crucial importance where opportunities will be evident for TPL providers that stay closely aligned with customer demands. The TPL market will most likely be divided into various segments. The logistics systems will be more standardized from one perspective while another perspective is pointing towards more sophisticated and customer tailor made logistics systems. Successful TPL providers will most likely use leading edge technology to adapt to the new and rapidly changing market environment. TPL providers will take advantage of improved visibility throughout the supply chain and establish closer and more long-term relationships with customers.

# Preface

This report has been concluded within the department of Industrial Management and Logistics at Lund Institute of Technology. Certainly, this period have been a learning experience and have been most interesting as well as rewarding. Regarding this report, it would not have been possible to conclude to its extent without the assistance and forthcoming of certain persons. With these words, I would like to aim a most humble and grateful gratitude towards my tutor Carl-Johan Asplund who has given me inspiration and guidance as well as the people I have been in contact with at investigated companies.

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# Chapter 1 - Introduction

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This introductory chapter deals with several fundamental parts of an academic report. It should be considered as a way of thinking when writing an academic report. This chapter begins with a short background and the last part, a brief description of the report's disposition, will end it. Furthermore, this chapter states important issues like the report's problem setting and methods of securing gathered information. The aim of the report will also be presented in this introductory chapter, as the aim is the main driving force when writing a report.

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## 1.1. Background

Companies are bought, sold, merged, moved and outsourced. We are experiencing the perhaps strongest period of organizational restructuring as of this moment. What is going on? And why is this taking place? There are many corporate decisions that could be organized as corporate organizational structuring. However, these corporate decisions could be very different from each other regarding aim and scope. It is within this area we find the concept of Third Party Logistics (TPL) providers. I will clarify the certain attributes of TPL providers, what establishes a Third Party Logistics provider and what type of services these companies might offer the market. Furthermore, it is interesting to investigate in what way success is established and upheld in this business segment.

A new type of logistics-based alliance is quickly gaining speed driven, in large part, by the pressure for restructuring. These alliances represent formal or informal relationships between companies operating in a broad range of industries and markets as well as logistics service providers. This report is based on the alliance perspective between the provider and customer of outsourced logistics services on the Third Party Logistics market. For the purpose of this report, I define alliances as agreements that meet three conditions: they involve a long term of co-operation, cover both transportation and warehousing services and employ a single provider for the services.

### 1.1.1. What is a Third Party Logistics provider?

Companies that specialize within the logistics area and deliver service to customers are called Third Party Logistics providers. They offer a wide range of logistical services to companies like warehousing, distribution and inventory management.

A Third Party Logistics provider could be seen as a partner in a strategic alliance and as a form of corporate organizational structuring. A clear-cut definition of a Third Party Logistics provider is hard to establish, as this is included in a very broad concept. However, according to Virum (1993) the term Third Party Logistics provider can be defined as:

*“the services offered by a middleman in the logistics channel that has specialized in providing, by contract, for a given time-period, all or considerable number of the logistics activities for other firms”* Virum (1993)

Competencies, resources and activities are all very important factors when considering Third Party Logistics providers in combination with the compatibility and possibilities of exploiting and developing the service offered in an effective manner. It can be said it is about co-operation between two or more companies with the intention of value adding the service given and received for the companies involved (Burgers et al., 1993). The value-adding effects are created because of the dynamic effects from the alliance between the Third Party Logistics provider and the customer. In the alliance, resources are identified and developed, and the company organizes the foundation for competitive advantages that could not have been created as easily outside of the alliance. Strategic alliances could therefore be seen as an alternative to competitive advantage for the companies involved without costly and high-risk acquisitions and product development projects (Yang *et al.*, 1999). From an external as well as from internal perspective strategic alliances also often result in a reduction of insecurities.

Third Party Logistics providers are working in partnerships with their customers. However, as transparency between supplier and customer increases and trust and loyalty is developed a partnership may develop into a form of an alliance. An alliance is more about corporate and market strategic development and creates a common platform between the companies. While competition means that companies are working towards each other alliances means companies are tied closer together and co-operation between them is intense (Gummesson, 1998). The aim with co-operation is to solve problems that arise and to make improvements that strengthen their competitiveness on the market.

### 1.1.2. Why are Third Party Logistics providers and strategic alliances interesting?

The industrial environment of today is characterized by rapid and continuous changes. Technological evolution in information and communication technology (ICT) and deregulation are resulting in a new business climate with a global marketplace and intense competition. To keep the ultimate objective, to improve the competitive position, companies will have to reduce costs and offer a better service for meeting customers' demand. Furthermore, logistics is involved in several activities throughout a product's value chain. As a result logistics often contributes to a major part of a product's cost.

As mentioned earlier we are observing an increasingly number of corporate restructuring. Since the middle of the 1990's the number of inter-organizational relations have been booming with the emergence of Third Party Logistics providers establishing as major players on that arena. This combination makes it very interesting to study and to learn more about.

There are several possible reasons to why Third Party Logistics providers in alliances with customers are increasing phenomenon on the market. The globalization perspective, harder competition and the quick, dynamic and complex market of today (Bengtsson et al., 1998) are making it very hard to act as a single player and as an independent business entity. In order to meet this ever-changing environment companies have to expand their views and place the company horizon further away from the company. In a turbulent environment, alternative organizational arrangements are created in order to avoid the disturbing forces of surrounding elements. An increasing level of organizational co-working is often seen in this type of market landscape. An extension of this co-operation leads to the formation of strategic alliances.

Third Party Logistics providers must understand the deeper level of structural relationship, its character and opportunities when entering an alliance with a customer. However, this does not have to be a direct implication of the increasing phenomenon on the market but more of a general understanding of economical development within the alliance. As mentioned earlier these thoughts comprise a quite broad concept within the studied concept. A theoretical point of view investigates *how* and *why* alliances are formed, while a more practical perspective is focusing on the *forming* and the *performance* of the alliance.

## 1.2. Problem discussion

### 1.2.1. Alliance perspective

Logistics alliances, which can be seen as formal or informal relationships between companies and logistics providers, are rapidly emerging in Europe. The success of these alliances implies that they are poised to become a building block in the coming “network economy”. This perspective of economy is reflected by the increased partnerships and inter-organizational structures throughout the market segments. This could be described as a system in which companies focus on their core competencies and outsource other activities to external providers that can perform them more quickly, more cheaply and more effectively.

With the development in information and communication technology (ICT) follows vast possibilities and opportunities. The ICT business is characterized by turbulence and high-tech expertise. The companies in the industrial sector for which Third Party Logistics providers are appointed often see strategic alliances as a natural formation. When customers of Third Party Logistics providers develop an increase in demand for external contact towards other companies follows. However, the impact of information technology in the logistics sector also implies an increased level of insecurity. Since the ICT market changes rapidly and legal influence in combination with ever increasing competition strategic alliances is seen as a way of reducing insecurity (Stuart, 2000). This is also one reason why strategic alliances are seen as an important factor in businesses with development in high-tech markets.

Companies are focusing more and more on their competencies, resources and internal activities. The insecurity in acting as an independently, outside an alliance for instance, could prove to be devastating if changes in information technology on the market is turning against the company. In such situation the company has no way of broaden its resource base and competencies and is left with the internal resources in order to match the market movements. Companies that create alliances could for instance access resources and competencies through resource exchange and from this reduce insecurities from market fluctuations.

A strategic alliance is not only making the company better equipped regarding insecurities in respect of market fluctuations but is also enhancing the company’s resistance towards market competition.



### 1.2.2. Logistics implication

Logistics both delivers a physical product and information. Two of the most important activities in logistics can be related to the word flow and storage. Flow means transportation and storage can be replaced by another phrase, warehousing. A very basic activity, regarding information, is the inventory level. Furthermore, the logistics of a company has a great influence on many factors that affect costs throughout the entire value chain. Some examples of factors that are influenced by logistics are quality, time to market, on-time deliveries and reliability. To optimize logistics, and thereby costs and service, companies have to invest considerable financial resources and effort. In the new competitive environment margins are low and companies need to concentrate on making money in the areas where they can find advantages. By focusing on core business and outsourcing specific activities, companies can continue to be successful (Hamel & Doz, 1998). The outsourcing of processes results in an opportunity to keep optimal performance in business areas, which lacks in-house knowledge, by using specialized suppliers. The implication of this is that the company will get access to the latest logistics systems and materials handling technologies.

More specialized service providers in logistics arena, Third Party Logistics providers, are no doubt on the rise and faces a growing market. The importance of logistics, and custom made services, will most likely increase even more in the future. A catalyst for this is the emerging e-business. E-commerce changes the demands on logistics companies, especially in the area of information and communication technology (ICT). The costs of transactions decrease because of the deployment of ICT and outsourcing of processes is becoming more common in many businesses. Trends like globalization and ICT will change the way of doing business and affect logistics companies to a great extent.

### 1.2.3. Sourcing experience

Today it can be observed that companies that earlier used to expand their line of business in different business segment in order to broaden the company's service and product portfolio and spreading the risk nowadays are focusing increasingly on core business. This phenomenon is furthermore on the rise. Parts of business that are outside the company's core business are instead achieved through co-operations and exchange with other companies. It is in this arena we find companies allying with Third Party Logistics providers, creating strong bonds, building trust, and developing core activities.

However, alliances and co-operation can be different regarding durability and intensity. Alliances could be structured in project formed as a one-time event, or as a continuous co-operation through an extensive form of collaboration, which has similarities of a fusion (Gummesson, 1998). These different forms of co-operation are usually defined as strategic alliances (Bengtsson et al., 1998). The development process within a strategic alliance could therefore, from a number of reasons, be seen as successful for the companies involved. They find more powerful ways of positioning themselves on several markets and within several business segments. In order to understand the underlying factors for success in entering and developing within an alliance a thorough investigation of the company's strategies, resources and pre-requisites are necessary. It is important to study the structure of the logistics market and the position of investigated Third Party Logistics providers on that market. What factors can be seen that can lead to competitive advantage and how is this attained and nurtured?

### 1.2.4. How and why are alliances created?

Alliances are formed in order to create webs, internal and external networks. These networks are complex systems dealing with demands of different functions or systems of complicated products or services, which a separate organization could not offer. The foundation and the development of this co-existing system lie within the change in the relation of the companies involved. However, this change could also be a chosen instrument in order to attain changes on a different level of the system. As an example, a Third Party Logistics provider could be co-operating with a long-term customer in order to achieve a stronger market position regarding business development projects. Nevertheless, a Third Party Logistics provider could also be using the co-operation as a mean towards improving internal relations, for instance within research development.

When you are investigating benefits with alliances Bengtsson et al. (1998) describes these as the opportunity to bring new and more extensive resources to the companies through the alliance. A possibility of increased flexibility is also present in an alliance as well as reducing time-to-market regarding both products and services. Bengtsson et al. (1998) expresses the importance of co-operation and claims that the core in strategic alliances, which could be seen as synonymous with system provider, is the conviction of the benefits with co-operating over focusing on conducting business independently. Paradoxically, it is difficulties in co-operation that often are the reason why alliances shatter.

Trends during the last years are pointing out how companies are co-working in networks instead of trusting strategies built on competition alone. There are several reasons for this according to (Bengtsson et al., 1998):

- Need for increased efficiency: strategic alliances could offer advantages of scale and attain critical mass which is hard to reach on your own
- Speed: shorten time to market through development projects within the alliance
- Flexibility: co-operation in input and resources result in looser ties increasing space for maneuverability within the alliance
- Collective influence: strategic alliances have greater opportunities of getting solutions and suggestions accepted as standard

Imperative for success with the inter-organizational relation is how successful the provider and customer is in establishing the organization and logistics in order to handle flows in information and resources. Important questions arise. How many functions are to be included? How should the decision-making in the new organization be structured effectively? How to handle flows in information and resources?

Difficulties in co-operating and lack of control stand out when investigating the most profound negative effects with alliances. Furthermore, the resource dependence theory is describing lack of control (Pfeffer & Salancik, 1978). Cultural differences or too big differences between the involved companies are other reasons why alliances fail. In addition, a diversification in the alliance commitment or scope could be reasons for failure. It is not hard to imagine the difficulties in integrating different cultures not to mention the increased flexibility in migration of human capital.

The bottom line shows how a correct choice of alliance partner founds the long-term success of the alliance. The next stage includes a forming process of the alliance that conceptualizes the correct scope and purpose.

The forming process is a complex procedure where both strategic and social factors have to be taken into account. To express it simple, companies co-operates when they need to co-operate, when they have the possibilities to co-operate and when it is popular to co-operate. A shared and common view between these thoughts are as important as the thoughts are separately, if not more important.

### 1.2.5. Towards increased growth

Successful Third Party Logistics providers have had a tremendous growth on the European market. A TPL provider can with the right resource portfolio and sound potential development prospects reach organic growth quite swiftly. Growth is often what many organizations are looking for and through growth many companies can reach different synergy effects like advantages of scale and marketing opportunities (Bengtsson et al., 1998). However, growth can also be an effect from mergers and acquisitions. This is furthermore a factor that should most definitely be taken into account regarding the logistical market. Naturally, organic growth takes much more time in regards to growth from mergers and acquisitions. Organic growth demands investments in machinery, equipment, personnel and knowledge. However, in comparison to organic growth mergers and acquisitions have been booming the last couple of years. This phenomenon is also known as inter-organizational relations or organizational integration.

Modes of strategic growth	<i>Synergy</i>	<i>Positioning</i>	<i>Control</i>	<i>Imitation</i>
<i>Organic growth</i>	↓  ↓  ↓	↓  ↓  ↓	More control	↓  ↓  ↓
<i>Acquisitions</i>			↑	
<i>Alliances</i>			↓	
	Lower cost	Increased flexibility		Faster

Figure 1.1. Strategic modes of growth (Bengtsson et al., 1998)

As mentioned earlier, a Third Party Logistics provider in an alliance with the customer are often seen as a more cost efficient way of growth since the resources from the alliance partner are received “for free” and could hence be exploited without having to build or buy these resources. Furthermore, this creates a more easily obtained strategic positioning since the service provider and customer could identify each other’s resource base, sizing needs and demands. Another benefit with alliances is the possibilities of combining existing business in different ways without having to build the business from the ground up. Furthermore, if one part would like to acquire the other this is more often done with less friction compared to a more or less unknown organization. Within the alliance cultural, strategic, personnel and other aspects are known and established which also makes it easier to understand why the resistance is less. The lack of control in an alliance compared to a fully owned organization is a problem not to oversee. Certainly, in an independently raised organization the opportunity to control the organization is great and established over long time. However, with the acquiring or allaying of an organization you always have the potential factor of “hidden surprises”. Collaboration is often synonymous with giving up self-control in favour for the combined business agenda.

### 1.2.6. The road towards a successful co-operation

Logistics alliances are rapidly emerging in Europe. In order of keeping up with competitors sustaining or building competitive advantages entering strategic alliances are more or less necessary. However, good intentions are not enough in order to make the alliance successful. Many alliances are shattering or are just not delivering the results that were expected. Certainly, many answers could be found for this but an imperative reason is believed to be insufficient knowledge regarding the function, purpose, opportunities and potential problems of the alliance. Despite lack of knowledge the alliance could prove to be successful since learning experience and broader visions are created along the forming and development of the alliance. No doubt, the way towards success for the alliance is not easy nor is it effortless (Bengtsson et al., 1998). Too much focus on the own organization could prove to be devastating. Examples of some question that should be asked are following (Unt, 2000):

- Where in the supply chain are costs emerging? Who is more cost efficient?
- Where lie the main risks? Who is better in order of handle and taking risks?
- Is this a time consuming activity? Who can or how can time be reduced?
- Where does profit in financial, experience or goodwill aspects take place?
- Who is better at taking advantage of profits?
- Do any unnecessary levels in the supply chain exist? Could Internet offer opportunities that could not be attained otherwise?

To participate in an inter-organizational relation require several pre-requisites. Both parties must be interested in obtaining the collaborated scope of the alliance. This is valid even if the parties have different aspects and scope when entering the relation. Value appreciation and knowledge about how each party can contribute to the combined success of the relation is necessary. This increases the possibilities of achieving scope and objective. The problem that might occur however is problems with formulating the scope and goals (Doz & Hamel, 1998).

The fundamental values in order to obtain a successful collaboration between companies and logistics providers are:

- Joined goals
- Long-term commitment
- Mutual creativity
- Focus on total cost

However, the first decision is always if an alliance really is the best alternative and from there start looking for the best alliance partner depending on what the situation requires and the scope of the parties in combination with the purpose of the alliance (Bergdahl, 1996).

### 1.3. Problem setting

This introductory chapter has been touching upon different aspects companies and logistics providers could face when entering a partnership in form of an alliance. In order to understand what competitive advantages an alliance between a company and a Third Party Logistics provider can structure - and how these advantages are structured - an introduction to strategies, resources and abilities is presented. This should lay the foundation for which following questions are illuminated and answered: What growth potential and possibilities in development exists for Third Party Logistics companies on the European market? What are the Key Success Factors? What threats exists? How have the leading Third Party Logistics providers in Europe attained their market position and what internal and external resources can they exploit for further development? What driving forces are affecting the development in the logistics industry? Is it mainly industry characteristics or certain resources that will decide whether a company will be successful or not? What path will the development in the logistics industry take? Are there many different outcomes that are likely or are there some factors that point out very clearly towards a distinct development?

### 1.4. Purpose

Investigate and explore prominent Key Success Factors within the Third party Logistics industry on the European market. From a mainly theoretical approach determine major characteristics of the TPL industry environment and consider different strategic possibilities and opportunities. Through a Resource Based View analyze major driving forces and evaluate the TPL industry from a competition perspective.

Furthermore, examine aspects of essential importance for the continuing development of Third Party Logistics providers on the European market. Clarify what resources and capabilities need to be successfully managed in order to achieve competitive advantage within the TPL industry.

### 1.5. Structure of the report

*Chapter 1* is an introduction to Third Party Logistics providers and strategic alliances. Especially strategic alliances have been discussed in this chapter as this concept found a rapidly emerging form of partnerships on the logistics provider arena in Europe. Also, a problem discussion is initiated and the framework of the report is structured. The purpose and problem setting for the report is furthermore presented in this introductory chapter.

*Chapter 2* comprises the used method in order of achieving the purpose of the report. Also in this chapter are the problems of conducting a research study and a description of the benefits and detriments from this. A general description of the formation of this research study is presented and the reader is given the authors picture of the report's credibility.

In *Chapter 3* a number of different theories are presented. These theories are covering areas from business and management to engineering logistics and information technology. These theories are the foundation for the completion of the report and are moulded together with gathered empirical material.

*Chapter 4* illuminates the results gathered from empirical studies. This chapter consists of a closer view of investigates companies. Furthermore, the theories from the former chapter is used in order to create a picture of how these companies have been successful in different aspects and how they have been using resources and competencies to achieve this position.

*Chapter 5* connects theory with gathered empirical data. An analytical process is then initiated and the pre-requisites, possibilities and opportunities of the alliances are presented. Then an analysis of drivers and Key Success Factors takes place. A successful partnership is analysed together with how drivers in this process could be found and exploited in order to obtain Key Success Factors.

*Chapter 6* concludes and recapitulates the report and personal reflections are presented. A summarising of imperative characteristics and the possibilities and opportunities for success in the Third Party Logistics industry on the European market is presented. The author's conclusions and recommendations for further research are also made in this chapter.

## Chapter 2 – Methodology

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This chapter serves as a guideline for the reader in order to explain and visualize how the data have been managed and what different methodological approaches have been used in order to complete this thesis. The theoretical and empirical framework is presented and the analytical approach for the thesis is furthermore described. This is followed by a description of the collection process of both primary and secondary data and finally criticism of the sources that have been used.

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### 2.1. Introduction to research methodology

When you are about to initiate a research study, several different ways of conducting the study are often available. However, this does not always come as a savior – you might feel confused regarding how to approach the study – and when you have chosen what research method to use, you still have to conduct the study correctly. Furthermore, often one method is not the only and most natural choice, several methods may seem appropriate at times. Also, different methods might be more correct to use along the research study. In most situations you choose between a qualitative study and a quantitative study. Regarding the latter, this is more characterized by fewer aspects with several observations and the former method as fewer observations with many in-depth aspects.

Patel and Tebelius (1997) states that every researcher must first identify the problem and then choose which method is best suited for the purpose of the research study. The term qualitative study relates to studies more focused on achieving in-depth and detailed descriptions as well as analysis of separate events (Lekwall & Wahlbin, 1993). However, in this thesis a combination of qualitative and quantitative research method was an intriguing choice of approach.

In search of deep and detailed information regarding what effects Third Party Logistics providers have on the value chain and their customers a qualitative approach seemed correct. However, as market trends and background for long-term perspective analysis a more quantitative approach was hence appropriate to initiate. In order to establish a more certain foundation for gathered data from the quantitative method an internal view of the investigated companies would be necessary. From this perspective hypothetical test could have been done and evaluated. In accordance with estimated time frame for this study there was no possibility of testing the hypothesis.

### 2.2. Approach to the research problem

According to Eriksson and Wiedersheim-Paul, there are three levels for approaching a research problem, namely the general approach, the scientific approach and the practical approach. The general approach discusses different perspectives of a problem; the scientific approach refers to the scientific views, which the used methods are based upon, whereas the practical approach deals with different ways of collecting data (Wiedersheim-Paul & Eriksson, 1997).

### 2.2.1. General approach

The general approach refers to the way a scientist observes different things (Wiedersheim-Paul & Eriksson, 1997). The general approach consists of a frame of references. Frame of reference refers to one's total knowledge, norms, values etc. The frame of reference works as an individual scale of which the researcher's approach is based upon. This means that the conceptions on this scale for example perspective, theory and models affects the person who makes the research. It is very important that the researcher has an objective approach (Wiedersheim-Paul & Eriksson, 1997). To achieve an objective approach a wide study of literature within this field has been studied. A total objective perspective is impossible to accomplish as articles that have been studied may contain interpretations and opinions that possibly can have influenced me during the research process.

### 2.2.2. Scientific approach

The scientific approach refers to the scientific point of view, which the method used is based upon. Wiedersheim-Paul and Eriksson (1997) describes two fundamental perspectives, rationalism and empiricism. The rationalistic way of thinking is a deductive method i.e. the researcher starts with the theory by creating hypotheses and through observations reaches a logical conclusion (Wiedersheim-Paul & Eriksson, 1997). The empirical way of thinking relates to the inductive method. Induction means that general conclusions are based on empirical data. The method starts from an empirical point of view and relates to the theory. The approach used in this thesis is closer to a deductive method, as the research is based on the theoretical framework studied. By studying the theoretical framework, hypotheses have been derived. The hypotheses have been connected to the empirical framework in order to test the theories.

### 2.2.3. Practical approach

The practical approach refers to the way of obtaining data. Often there are many different ways and combinations to collect the data. The choice of method must be based upon the purpose of the thesis. A quantitative method has been used because an Internet study has been conducted. As mentioned earlier, fewer aspects with many observations of measurement play a central role in the analysis of quantitative information (Holme & Solvang, 1997). A qualitative method relates to the conducted interviews during the research process. These were primarily made in order to focus more on gathering in-depth information.

## 2.3. Theoretical framework

An industry analysis is an appropriate approach in order to be able to identify opportunities and possibilities for companies and actors on the logistics arena. A study of only a few companies would not be sufficient in order of identifying a number of parameters and consequences in the Third Party Logistics industry. The aim is to give a broad perspective of the TPL industry that includes many aspects that will give a profound understanding of the industry.



As the introduction to this thesis illuminates, a perspective of networks and alliances are forming the industry of today. Indeed, Third Party Logistics providers are a part of this and are structuring well-tied bonds with customers around the world. Consequently, a view of alliances is fundamental for this thesis. This perspective could be seen as generic for the market and concludes the other theories in the report.

The industrial analysis introductory relate to Thompson & Strickland's (1992) model for industry analysis. This model offers a broad perspective on the industry and was originally thought to be used as guidance for a specific company towards a strategy. However, in this thesis I am not focusing on a specific company. Instead, I am making a general industry analysis and will adjust the model slightly in order to fit my approach. I find a strategic point of view a good way of initializing the chapter as this often forms and appoints the direction of a certain company. Furthermore, it is of great importance to clarify the specific attributes of strategies related to the company itself at one hand and to the company's market at the other hand. This lay the foundation of many interesting and relevant aspects for TPL providers such as market responsiveness, risk diversifying and development incentives. Moreover, how TPL providers are to achieving and defend Key Success Factors are related to Grant's (1998) point of view, namely customer focus and surviving competition. This also takes us towards theories regarding market driven organizations and the importance of managing resources and capabilities.

Furthermore, complementing the industry analysis are theories regarding value chains. Included in the broad industry analysis are other very fundamental theories such as Value Chain Analysis (Porter, 1980) and Resource Based View (RBV) (Barney, 1991) theory. According to me, the introduction of these theories expands the analytical framework further and offers more depth to the analysis. As the RBV theory includes inter-firm activities it furthermore complements the external view of the industry analysis. The importance of managing and controlling resources and capabilities is illuminated, which moreover form an essential foundation for TPL providers. This is also something that can be achieved both in-house through internal resource exploitation as well as through alliances and forming of network. Transaction Cost Theory (TCT) is a fundamental theory explaining the existence and the organization of companies. Certainly, the information and communication technology (ICT) is influencing the emergence and developments within the TPL industry and is furthermore related to TCT. Also, this theory explains why companies are performing some activities in-house and outsource other activities. Resulting from this are the theories about outsourcing. Certainly, in the Third Party Logistics industry outsourcing is a major factor and is influencing the market to a great extent. However, it is not easy to find relevant theory regarding information and communication technology as this is still a quite new concept. As far as possible I am trying to uphold an adequate level of theory in relation to following analysis and conclusive parts in this research study.

Supply Chain Management (SCM) comprises theories regarding co-ordination of activities among different companies in the value system. In addition to theories within RBV, analyzing resources like value added services, geographical coverage and skills in Third Party Logistics are interesting. Furthermore, this is linked to the alliance perspective where globalization influences the logistics industry. When discussing SCM certain difficulties need to be uplifted and illuminated. For instance, this field of study is very wide with no firm boundaries, which makes it hard for me as a researcher to confine towards a few specific theories. Quite the opposite I am trying to present a wide theoretical foundation in general and within SCM in particular in order to avoid misunderstandings. This approach furthermore enhances the report's coherence and theoretical relevance according to me.

Naturally, an in-depth description of theories regarding Third Party Logistics providers is made within the theoretical part of the report. After a brief introduction and overview of the TPL industry, a description of industry forming is made. From this aspect it is clear how outsourcing and SCM interconnects with the TPL industry. Furthermore, a description of the certain skills and services provided by TPL's is made. A connection towards the alliances perspective concludes the theoretical part of Third Party Logistics.

## 2.4. From theory to reality

Connecting the established theoretical framework with the gathered empirical information during the research study is essential in terms of fulfilling the purpose and the problem setting of the report. This is why it is necessary to think through the validity and reliability of the investigated material for the thesis. How measurements and research are being done, together with the accuracy when working with the information decides the level of reliability.

### Validity

A research study has high validity if the study only contains what the researcher is out to study and nothing besides this (Holme & Solvang, 1997). Validity depends on if questions are presented in a clear manner and if the researcher really is investigating correct information regarding purpose and scope (Holme & Solvang, 1997). This means that the result would not change if the researcher extends the data in the study. This implies that the researcher have to use a well-balanced time-series, with enough data and a thorough theoretical discussion about earlier investigations. In order to increase the validity of the theoretical discussion and the empirical research, articles, which are published in well-known journals and which are required to have high standard concerning high validity have been used. Despite the fact that these articles are published in journals of good reputation, the authors from the articles influence the works with their valuations and interpretations. This problem is not to be overlooked.

According to me, the internal validity of this thesis is secured. The internal validity is secured through the quite substantial interview process used during the research procedure. Through this procedure a deeper empirical data collection has been accomplished. As mentioned earlier, a thorough preparation regarding the interviews was made in order to reduce the risk of misunderstanding.

In order to secure the validity of gathered information, the interview questionnaire was established and prepared with great consideration. Before the questions were formulated, a collection of the information that was needed about the company was made. Then the questionnaire was formulated. The questions were of an open nature not to lead the respondent in any direction. Regarding the external validity, empirical tests are necessary. The interviews could however been complemented with more in-depth company investigations and could from this point of view create a more solid foundation regarding the external validity. This way, the external validity could be secured and a total perspective of the thesis validity established.

Not being able to secure the external validity is perhaps the greatest scientific flaw regarding this thesis. However, as discussed earlier, the procedure of establishing the external validity would be quite time consuming and not possible within the time frame for this research study. Also important in this matter is the fact that this research does not use any positivistic instruments in order to measure or collect data hence the reduction of systematic miss-measurements.

## Reliability

Reliability means that the measurements are correctly made (Holme & Solvang, 1997). A method has a high reliability when one researcher come to the same answer independently of the another researcher making the research and independently of what element, business units or organizations etc. that have been studied. To attain high reliability the different parts in the measuring process must be very precise. In this research study both quantitative as well as a qualitative method are used. Regarding the quantitative method, the reliability of an Internet study is very hard to estimate. In order to estimate the fulfillment of reliability demands regarding information gathered from the Internet, a secure and valid source is needed. However, the Internet does not present this level of reliability, and probably never will. The reliability demands have to be set according to this fact and hence the knowledge that this standpoint is based upon the fact that earlier researchers have used the methodology when doing similar studies. However, the information from the Internet is complemented with information gathered from a qualitative research method, namely the interviews. The interviews are estimated to fulfill the reliability demands. The persons interviewed were very knowledgeable in their field of work and were able to answer the questions without hesitation.

This thesis is characterized by a theoretical approach based on an empirical research study. I have chosen to form the theoretical framework on some of the most established and respected researchers within the field. Their theories have been tested theoretically as well as empirically and their results have given them international recognition. From this perspective a theoretical fulfillment of reliability is secured. Certainly, as mentioned before, further empirical tests would be optimal in verifying the information gathered from the interviews. Furthermore, in line with increasing the reliability of the thesis, different ways of asking the same question was used. This way, I could secure the information and reduce the possibilities of the respondent misunderstanding the question. In further increasing the reliability, a researcher can perform the research study at different times and by different researchers (Holme & Solvang, 1997). However, in order of achieving this level of reliability it would demand resources, both from a financial and time perspective. Unfortunately, these resources were not available at the time of concluding this thesis.

## 2.5. Information and data gathering

Following the formulation of the purpose of the thesis and scope, as well as the theoretical framework had been established; a search for relevant and interesting information was initiated. To start with, literature of general character was studied in order of expanding my knowledge base and as an orientation of the subject. Furthermore, interesting information has been found at the library of Lund School of Management and Economics. Mainly, information has been gathered through vast literature studies, which in turn form the theoretical foundation of this thesis.

From the information search on the Internet and in databases as well as from reading industry articles and brochures, the empirical information has been gathered.

## Primary data

Primary data is data that has been collected and is required when there is a need to complement the secondary data (Wiedersheim-Paul & Eriksson, 1997).

Conducting interviews is not easily done and a high level of preparation is necessary. In a qualitative interview it is the respondent who is supposed to lead the conversation (Holme & Solvang, 1997). The questionnaire was made with great effort and commitment. Since no one really knows how the future will turn out and what success and competitive advantage, the company cannot have an explicit policy. Resulting from this, the respondent's personal thoughts, opinions and visions are presented during the interviews. If the interviews are getting to informal the researcher might risk losing focus on what he or she is searching for and risk hearing only what he or she understand or that fits in with the scope of the study. The flexibility in a personal interview is furthermore high as the researcher can ask supplementary questions and receive answers in a more explained manner (Lekwall & Wahlbin, 1993).

The purpose with a qualitative interview is to create a foundation for deeper and more complete view of the investigated phenomenon (Holme & Solvang, 1997). In accordance of receiving information with the highest possible reliability, only persons who were well informed on market trends, corporate strategy and resources were interviewed.

## Secondary data

Secondary data is data that is already collected and summarised (Wiedersheim-Paul & Eriksson, 1997). The data originated from sources such as Internet, books, databases and so forth. The main secondary data that have been used to deepen the theoretical knowledge within this area is earlier researchers' articles in different journals and other literature with regards to this subject. Articles, literature and databases have been used to find information. References from earlier articles are also an important source. The literature and articles used to explain the concept of a study is also secondary data.

## 2.6. Empirical framework

This research study is survey the Third Party Logistics market in Europe. Reasons for choosing Europe as scope for the research process is because it is a market large enough to see market trends within the major logistics companies. Furthermore, a European approach also makes it possible to identify differences within customer segments and competitive advantages within Europe. Most multinational Third Party Logistics providers work with large geographical coverage and market scope. However, an adequately broad view of the logistics market, the alliance perspective, the information and communication technology implications and resource developments could be established from the perspective of the European market.

The survey had, due to practical reasons, to be concluded as an Internet survey. Many companies have excellent information regarding their operations, market, strategies and the latest news regarding the company presented on their web site. The survey had to initiate from certain criteria in order to be equal and meaningful. Firstly, companies should be among the largest logistics companies on a global scale since if they are large actors globally they tend to be large on the European market as well.

Secondly, companies should possess a high level of technology. Practically, this means that companies should maintain a high level of information and communication technology (ICT). This is essential in order of keeping up with customer demands and competition in today's intense and high-tech competitive landscape.

Company descriptions contain basic facts, strategy, services, geographical coverage and important customers. This information is hard to mould and present in text and is therefore presented in a structured manner located in chapter 4.

## 2.7. Analytical process

The analysis emerged from the applicability of chosen theoretical framework for opportunities on the European logistics market. Furthermore, potential for competitive advantage and Key Success Factors was to be analyzed within the TPL business segment. The industry analysis will begin with a summary of gathered empirical material, which furthermore establishes the characteristics of the Third Party Logistics market. Consequently, the first part is descriptive in its form with an analytical perspective gradually evolving. Resulting from this are the thesis conclusions and recommendations for further reading and studies, which is found in the last chapter.

Introductory, a thorough analysis of the logistics market in Europe was made. The purpose was initially to investigate what effects the logistics industry has on the empirical result. Certain specific factors that were illuminated are discussed in this report. A comparison between the theoretical and empirical framework - the information gathered from the investigated companies - was made in order to find similarities or non-similarities among the companies. An analysis was then made in order to establish if the similarities or not could be tied to the specific company or to the logistics market as a whole. This was part of an analytical process made to identify any generic conclusions and from this decide if results and findings could be company specific or market specific. Certainly, in-depth analysis was necessary in order to establish a complete picture regarding what factors are responsible for the success of a logistics alliance and the foundation for market development and competitive advantage for a specific Third Party Logistics provider.

Following the introduction to the analysis a closer investigation of the supply chain is made since the supply chain form the foundation of the TPL business and the offered services and complementary products. This will furthermore illuminate the importance of supply chain integration within the TPL industry. From an investigation of the supply chain imperative, a number of interacting and relevant aspects are explored. For example, networking and forming of alliances characterize the industry, which is resulting in opportunities to release resources. However, when resources are released companies need to know what resources to seek and how to exploit them in order of expanding services and achieving competitive advantage, which relates to an increasingly need for coordinating resources. Essential and fundamental aspects such as geographical coverage and the importance of customers are also discussed in this chapter. Certainly, an investigation and exploration within the field of information and communication technology is made within this chapter as this increasingly is affecting the TPL industry of today. The more prominent and essential possibilities and trends conclude the analytical part of this research study.

A systematic investigation concerning the company's resources and capabilities - and their ties to the market - is a common way of analyzing a company. This thesis will use chosen theoretical framework and from this identify factors and parameters in accordance to answer stated questions in the problem setting. This way, an interesting point-of-entrance to the analytical part of the thesis is presented. Certainly, there is always a chance of missing important factors of success for a company, or not being able to identify competitive advantages for another company when conducting a research study. To some extent a researcher could establish doubtfulness, as it is not likely the situation that this thesis will bring out every Key Success Factor, nor every competitive advantage. However, as far as possible I will do my very best in finding every aspect in accordance with stated purpose for the report. From this aspect I would like to uplift my awareness regarding the fulfillment of the thesis purpose. A traditional approach would imply that findings and results are applicable for many companies. However, in my research study it is possible I find key success factors and reasons for competitive advantages that only exist in that special alliance or for a certain company and geographical market. In accordance it is my intention to discuss - from a theoretical point of view - how these factors and aspects have been linked together creating a successful partnership.

Finally, the analytical observations are uplifted and conclusions are made. A discussion follows where aspects leading to the success of the partnership, alliance or logistics company are illuminated. From this discussion follows the results of the thesis and the fulfillment of the established purpose and objective.

## 2.8. Restrictions from a methodical perspective

The logistics industry is changing. With the emerging information and communication technology in combination with specialized logistics companies like Third Party Logistics providers, the market could be dynamic and turbulent. Regarding TPL providers, this is concluded in a broad area with many different aspects to analyze and discuss.

This is why restrictions are necessary in order of maintaining focus and uplifting the purpose of this report. This report is focusing on companies established and working on the European market. However, this is not their only field of work; many companies are global and are often very large corporations. However, focus will maintain on TPL providers on the European market.

Regarding financial facts, these have been given a summarized examination limited to the revenue of the companies. The reason for this is that the scope of this thesis would be very extensive. Implications for this are limitations in possibilities to draw conclusions about industry attractiveness. Instead much more focus is placed on more qualitative aspects of the industry attractiveness. According to me this will result in a more interesting report.

Furthermore, regarding the concepts of logistics and Third Party Logistics provider, there are no clear distinctions between these concepts. In this thesis, when discussing the TPL market, it implies the logistics industry and the operators in the logistics industry. All major logistics companies offer some kind of Third Party Logistics services even though different functions are separated in different business units. The distinction between what is Third Party Logistics and what is logistics in a major company are hard to make. This is due to organizational aspects and confusion about terminology.

## 2.9. Credibility of the thesis

### 2.9.1. Criticism of sources

#### Background

The purpose of the criticism of collected data is to determine if the source is valid, reliable and relevant (Wiedersheim-Paul & Eriksson, 1997). This thesis was intended to describe a logistics alliance and to observe how key success factors and market trends could be established from this. In a way this could be regarded as observing a phenomenon, which was to be illuminated and uplifted to a great extent. In these kinds of investigations the researcher's affect on the research process is of great importance. In some way I was, as a researcher, the foremost instrument for both gathering as well as analyzing the information. This is also the reason way a high degree of awareness of personal colouring is necessary. The more you focus on a qualitative study the higher the risk gets for colouring. Certainly, there is always a risk in misunderstanding the respondents, or that they provide miss-information on purpose, or not. However, as this study is made as a combination of both a qualitative as well as quantitative methods the risk for colouring is reduced. To the greatest possible extent my aim is to validate the conclusions drawn from this research study. This way a generic point of view is created and could be applied on similar companies and situations.

#### Criticism of primary data

The primary data that has been used is gathered from interviews. The interviews were conducted in the form of informal discussions. Supporting the interview process a comprehensive interview guide was used. The guide made it easier to structure the interviews and furthermore made certain the information I was looking for was discussed.

If the questions discussed with the companies were to be seen as controversial for the companies, a risk of receiving miss-information would be present. Personal colouring from the respondent affecting the results of the interview could also result from this. Furthermore, this affects the credibility of the thesis. Certainly, no respondent want to shed negative light on the organization they represent. This may lead to the problem that negative thoughts and opinions regarding the company is not discussed or wrongfully described by the respondent. This is why it is very important to be very critical when gathering information. My personal opinion is that the information gathered is very credible since this thesis does not want to criticize nor credit investigated companies.

#### Criticism of secondary data

Secondary data is dominated mainly by an Internet study in this thesis. When conducting an Internet study, which is focusing on company web sites, great care has to be taken how to interpret the information. Certainly, the company is trying to market itself through the Internet in reach of potential new customers. This might trigger some companies to exaggerate their capabilities and competencies. Another factor to be aware of is that the secondary information not always illuminates the specific area of interest for this research study or the problem setting around the study. As a consequence it might be hard to evaluate the usability of this data.

Several of the investigated companies are public companies and are therefore publicly offering information to market. Depending on the company's situation the information might be either too positive to trigger the market, or too negative to dampen the market expectations. As mentioned before, the information might also be not appropriate for this study, nor does the information be available from the Internet. Another implication is that the company presents material that is more or less biased.

The literature within this subject is very scattered, as there are different views and personal opinions and beliefs. The subject is relatively new, as there are relatively few established theories within this subject. The problems with the theories are that an overview of the subject was difficult to obtain. Most probably, the authors only consider their own point of view, which is highlighted or is the only point of view included in the literature.

## 2.10. Data analysis

Earlier I mentioned how this research study mainly has been structured from a deductive perspective. A theoretical framework assisting the empirical data collection has complemented this method of structuring the information. From then on the theoretical and empirical parts were molded together in accordance with my intention of maintaining focus on achieving the thesis purpose.

A qualitative method is used since my intention is primarily to find descriptive information. The level of complexity set high demand for deep and wide studies. A qualitative study is taking place in the world of people where the internal context is highly appreciated. In conclusion, it is important to question theoretical and empirical parts throughout the thesis according to me as it creates a deeper level of analytical frame.



## Chapter 3 - Theory

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In the theory chapter a number of theoretical approaches will be presented. A theoretical framework has been structured in order of achieving the purpose of this thesis. An introduction to strategic alliances is presented since this is a vital part of the logistics market as of today. Furthermore, a presentation of the Resource Based View is made and is linked to the alliance concept. Naturally, a presentation of Supply Chain Management in combination with Information and Communication Technology is made in this chapter. Finally, this chapter concludes important aspects like Outsourcing and different logistics theories. Different aspects of key success factors and competitive advantages related to the theories in chapter will act as the foundation for further analysis.

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### 3.1. Introduction to the theoretical frame work

This chapter uses Thompson & Strickland's industry analysis as a framework for which the analysis of this thesis later is constructed around. However, the industry analysis is complemented with different aspects, which are regarded as important in order of fulfilling the objective with this thesis. These supporting aspects are mainly the strategic views in terms of the alliance perspective and Barney's resource based view (Barney, 1991). The modified industrial analysis consists of following steps:

- Strategies & Strategic alliance perspective
- Identifying major characteristics of the industry environment
- Identify major driving forces
- Evaluate the strengths of competition
- Resource Based View analysis
- Pinpoint Key Success Factors

### 3.2. Introductory view

Regarding research within the area of strategy, this is normally aimed towards organizations in relation to *choice* of strategy. Furthermore, research in this field is striving towards increasing the knowledge for *how* and *when* the strategy ought to be implemented. Three dominating theoretical viewpoints can be established when it comes to the profitability of a company. These viewpoints are Industrial organisational competition, Chamberlain competition and Schumpeterian competition.

The most influential factor of competition in regards to a company's profitability is the industrial analysis according to the industrial organisational standpoint (Barney, 1986; Porter, 1980). The industrial analysis will therefore act as a central part of the theoretical framework and will be described in-depth later on in this chapter. The industrial segments are different from each other hence they have certain characteristics.

For example, segments could be sensitive towards volatile in price, high and low entry barriers as well as towards the size of existing actors on the market. Attention was aimed towards the Chamberlain, resource based view in regards to competition. This theoretical framework states that the creation of competitive advantages primarily takes place through the internal resources in combination with organizational capabilities (Barney, 1991). From this perspective a landscape of the industry is created where the companies are seen to be heterogeneous and in control of unique competitive advantages. The companies may differ in terms of level of knowledge, capital and organizational structure, but may also differ in so called legal competitive advantages like patents and trademarks. Since these differences do exist the company always should choose the strategy that best supports the strengths it embraces.

In regards to the other two competitive theses, the Schumpeterian competitive framework have a different approach since it reflects on the fact that industrial segments, as well as total economies, are constantly changing. Certainly this aspect makes it very hard to predict future developments in a longer time horizon (Barney, 1986). The changes, for examples like new technologies and innovations, can knock out entire companies or industrial segments as competitive advantages are totally destroyed or simply turn obsolete. These unpredictable events are also known as Schumpeterian chocks. A problem with the Schumpeterian view on competition is that it lacks enough information in order to formulate a strategy. Instead, the company's ability to create innovations and a maintaining a flexible and quickly adjustable organization is crucial for the company in order of succeeding under the Schumpeterian conditions.

As mentioned earlier, a perspective of the Third Party Logistics market - with the ever-increasing influence of information and communication technology - can be seen as quite knowledge intensive industry. This industry could be characterized as turbulent with high level of change and unpredictability. Success and survival in that kind of competitive environment demands a new breed of strategies. In order of understanding the new logic in strategies a brief presentation is made regarding the development of the theories behind competition and strategies. Once again the increasing need for forming alliances and creating relations are seen in order of surviving the intense competition in the logistics arena. Doing so, the companies can actually turn the situation around and use the relation's dynamics to its benefit. Competitive advantages and key success factors are results of this process, if achieved and maintained properly.

### 3.3. Strategy from a competitive perspective

The traditional strategic theories are limited in a certain perspective; these models cannot explain and lead companies in today's markets with rapid changes. Major driving forces that explain the different pre-requisites are globalisation, deregulation of markets and the technological development (Chakravarthy, 1997). In the past, possibilities of identifying the best strategy for a certain situation existed in order to manage and control companies and organizations. Today, this seems like a far more complex task. Moreover, this reveals the necessity for a high level of adaptability and flexibility for the company. The company needs to develop a flexible strategy that can be changed in time with market volatility and the competition it is exposed to.

### 3.3.1. Increased competitiveness

The vision has been distorted, as stated earlier, from alone and strong - towards stronger by collaboration and through forming of alliances. Certainly this is true in businesses with rapid changes in technology. The emerge of information and communication technology and its profound effect on the development and potential of Third Party Logistics providers certainly has made a leap towards creating a more turbulent and dynamic market characteristics. It is easy to imagine the difficulties for a company outside a partnership to maintain a resource base in order to develop product innovations in a cost efficient manner. The drive towards co-operation and innovative thinking increases in a turbulent and insecure environment. Furthermore, the effect in lowering high development costs, reducing risks in product introductions and higher accessibility to new technology makes strategic alliances a very interesting alternative. An important aspect to study is the relation between companies in order to understand competitiveness. From a “relational view” four potential ways of achieving competitive advantages through collaboration is presented:

1. Investment within relation specific assets
2. Exchange of knowledge
3. Combine complementary - but rare - resources and capabilities
4. Reduce transaction costs more than competing alliances

The major reason why a company should formalize an alliance is founded on the beliefs in combining the partners’ unique resources as well as investing in relation specific assets. From this a strong corporate culture is built which in turn may reduce opportunistic behaviour. Through a long and close relationship the parties receive experience and develop a new specialized information base and a common language. The aftermath of this is higher level of effective communication. Furthermore, the alliance also reduces misunderstandings and from this an increase in quality and speed to market can be obtained.

### 3.4. Strategy from a resource based perspective

In quest of understanding the developments within strategies a perspective based on capabilities and resources seems to be an interesting alternative. According to more traditional strategic research, a corporation always should aim towards strategic coherence, *strategic fit*, in regards to the internal characteristics and the external environment. However, the resource based view focuses more on the internal relations in comparison to external relations.

As the resource based view importantly states the character of companies is described as none homogeneous. According to Barney (1991) many strategic models, which are in a large part focusing on analysing the companies’ external environment and industrial segment are automatically making the unrealistic assumption that companies are homogeneous. This is a major flaw in these models. A company’s strategy should be structured and formulated in terms of the company’s combined resource base, instead of being defined from competitors and their environment.

The resource-based view emerges from two assumptions:

- Resource heterogeneity: resources and capabilities are divided heterogeneous among competitive corporations
- Resource immobility: differences in resources and capabilities can be stable over time

All financial, physical, human and organizational assets that are being used to develop, manufacture and deliver products or services to the company's customers are generally seen as the resources and capabilities of that particular company.

The level of specialization of an asset may be a reasonable proxy for whether the asset constitutes a strategic resource to an organization. Strategic resources are the focus of a major theory that competes with transaction cost theory, TCT, (see 3.10 *The transaction cost approach*) to account for the sourcing decisions made by organizations - namely, the Resource Based View (RBV) of the firm.

While TCT focuses on the costs associated with conducting exchanges between two separable entities, the RBV concentrates on those factors that enable firms to gain a competitive advantage. Its proponents (Barney, 1991, 1995) observe that some companies appear to earn sustained, abnormal returns. Barney argues this outcome arises because companies and organizations have access to key resources (Barney 1991). These strategic resources share four characteristics, which are furthermore concisely presented in the VRIO framework (see *Figure 3.1*). Within this framework there are four characteristics: valuable, rare, imperfectly imitative, and have no easy substitute. In addition to these characteristics, the characteristic of effective organization is also included in the VRIO framework. The purpose is to evaluate what resources and capabilities that could create competitive advantages for the company.

The value of different resources affects the boundary decisions of a firm (Barney, 1999). Firms will try to retain in-house activities that take advantage of their strategic resources. Outsourcing these resources would deprive organizations of their competitive advantage and subsequent abnormal returns. Where resources are not strategic, however, they will look to outsource them (see 3.13. *Outsourcing*).

Obviously, there is little hope for a company achieving a competitive advantage from a resource that already are controlled by competitors. Therefore it is wise to ask how many competitors are already in control of these valuable resources and capabilities. In the situation a resource is valuable as well as unique a company can at least achieve a temporary competitive advantage. Regarding the imitation level of a resource this can occur through copying or through utilization of substitutes. Either way, when choosing to imitate resources it is important to be aware of the risk of the cost overshooting the benefits that might be achieved. A company's resources are often a result of different paths the company has made throughout the years and incremental steps are created. The importance of numerous, small decision are often underestimated by many but is nevertheless an important reason to why a resource is hard to imitate. Again, the smaller decisions, perhaps resulting from daily work procedures, are often not visible to an outside observer in comparison to major decisions. Consequently, the resources are hard and foremost costly to imitate. In order of achieving an optimal level of exploitation of resources, which are seen as valuable, unique and costly to imitate, a company need to be well organized. Very important in this aspect is the presence of a formal structure.

Furthermore, the structure needs to be supported by a well performing management control system in addition to a leadership that is accustomed to the field of work that is being done. In spite of a well-structured organization companies with certain kind of resources could achieve sustainable competitive advantages. A company with valuable resources, but that is neither unique nor costly to imitate has a market position which is decided on the quality of the organization. A description of the resource-based view is presented in *Figure 3.1*.

<b>Valuable?</b>	<b>Rare?</b>	<b>Costly to imitate?</b>	<b>Exploited by the organization?</b>	<b>Competitive implications</b>	<b>Economic performance</b>
No	-	-	-	Competitive disadvantage	Below normal
Yes	No	-	-	Competitive parity	Normal
Yes	Yes	No	-	Temporary competitive advantage	Above normal
Yes	Yes	Yes	No	Sustained competitive advantage	Above normal

*Figure 3.1. VRIO framework. (Barney 1991)*

### 3.5. Strategic alliances

As stated in the introduction, strategic alliances have lately been an important factor when it comes to the strategic management of a company. International expansion could be seen as a quest for competitive advantages, which in turn has furthermore intensified usage of strategic alliances (Brouthers et al. 1995). According to Ring (2000), higher costs and risks, reduced times to market and promises of easily gained market shares and technologies some reason why companies find it attractive to co-operate instead of acting as independent players.

Strategic alliances between companies, whether they are from different parts of the world or different ends of a supply chain, are a major strategic consideration business today. Strategic alliance is a widely used but loosely defined term that encompasses a wide range of collaborative business activities. Strategic alliances may take any number of forms; joint-ventures, contractual licensing, exclusive supply arrangements, co-branding and other similar arrangements. Parkhe defines strategic alliance broadly, as including “any form of inter-firm co-operative arrangement beyond contracts completed in the ordinary course of business” (Parkhe, 1993). Another way of looking at strategic alliances is in the way that they represent a continuous scale between free market on one extreme and total internalisation on the other. Varadarajan, Rajan and Cunningham (1995) define strategic alliances as “the pooling of specific resources and skills by the co-operating organisations in order to achieve common goals, as well as goals specific to the individual partners”. However they all agree on that strategic alliances have one goal in common, i.e. enabling the parties to use their complementary resources effectively to pursue their strategic objectives.

### 3.6. Why to use strategic alliances

It is now appropriate to introduce thinkable motives and benefits with entering a strategic alliance. An introduction has been made to the concept of alliances and how they work as well as the strategic point of view. In this part a description is made of the most common intentions and benefits with strategic alliances.

#### 3.6.1. Potential benefits of strategic alliances

There are many potential benefits with the formation of corporate alliances. It is not only profit that motivates this increase. Other factors include an increasing intensity of competition, a growing need to operate on a global scale, a fast changing marketplace, and industry convergence into markets, e.g., the financial service industry; banks, investment firms, and insurance companies are overlapping more and more with regards to the services and products they offer. Especially in a time when growing international marketing is becoming the norm, these partnerships can leverage their growth through alliances with international partners. Rather than take on the risk and expense that international expansion can demand, one can enter international markets by finding an appropriate alliance with a business operating in the marketplace one desire to enter.

The range of benefit accruing via strategic alliances is extensive but can be organised into the following three theories:

- Transaction cost economics:  
Williamson (1975) develops a theory and suggests that firms chose alternative arrangements that minimise the sum of production and transaction costs.
- Resource dependence theory:  
Pfeffer and Salancik (1978) suggest that firms enter into alliances in search for valuable resources that they themselves lack. The formation of strategic alliances is a means for stabilising the flow of resources that a company needs and for reducing the risk and uncertainty confronted by the company.
- Business strategy:  
The third approach to strategic alliances deals with competitive strategies of firms. Porter stated that the formation of strategic alliances depends on five forces; the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products, and rivalry among firms.

The three generic strategies provided by Porter, cost leadership, product differentiation, and focus, are used in conjunction with the five forces in order to outperform competitors (Porter, 1985). The competitive strategies approach states that alliances are formed also as a defensive mechanism in order to hedge against strategic uncertainty (Kogut, 1988).

Strategic alliances represent a medium that can create scale and scope advantages necessary to be competitive on a global basis.

Alliances allow firms to conserve their resources as compared to forming a wholly owned subsidiary and allow firms to gain local identity giving them an advantage over wholly owned subsidiaries when dealing with local governments and businesses. The case for collaboration is stronger than ever. It takes much capital to develop new products and to penetrate new markets and only a few companies can manage it in every situation.

Three more general aspects could be highlighted when observing different purposes behind alliances. Within these three aspects all other purposes could be subordinated. The general purposes are described below:

- Market - Within this area all the alliance aimed in improving the market position for the company are sub-ordered. Accessibility to new markets and customers, stronger position in the value chain or larger market shares are all examples of improvements of the company's market position. This could be achieved through forming alliance with suppliers, actors in different markets and even competitors.
- Development - In this area most focus is aimed at knowledge exchange. Alliances that fulfil these objectives are categorised by a general knowledge exchange where the parties are trying to obtain resources, routines and capabilities from each other in order of improving and developing internally.
- Risk diversifying - If a project is experienced as too costly or risky one alternative for the company is to look for a partner to share to project with. Through this partnership the risks are diverse while the capital cost is dramatically lowered since every actor is sharing the cost for the project.

### 3.7. Resources based motives

A company that implement a value creating strategy is said to have a competitive advantage in the situation that this strategy has not been implemented at the time by an existing or potential competitor. Barney (1991) states that the main reason to why competitors have not implemented a certain strategy depends on that they rarely has the resources it takes to implement the strategy. There is a great probability of an actor trusting the market and continuing independently if there is an effective market exchange of resources. Furthermore, it should be stated that not all resources are appropriate for perfect exchange. Resources that are not (1) easily moved, (2) easily imitated or (3) possible of finding substitutes for, could in fact be obtained through alliances.

The probability that a company want to ally with another company increases with the size of the three factors regarding a company's resources: easily moved, easily imitated and easily substituted. In other words you could see the resource-based view as a way of getting access to other companies' resources through strategic alliances. This way the company creates values and competitive advantages that else would be very hard to achieve single-handedly (Das & Teng, 2000). Moreover, the resource-based view even motivates what circumstances alliances are to prefer over mergers and acquisitions. These circumstances are primarily tied with obtaining and keeping resources (Das & Teng, 2000).

## 3.8. Important factors for the success of alliances

### Key Success Factors

There are many ways of identifying Key Success Factors in a company. One way according to Grant (1998) is to try and answer two questions:

- What does the customer want?
- How is the company going to survive the competition?

Competitive advantages are created from being able to offer the customer what they want better or cheaper than the competitors. How and why to achieve competitive advantages is interrelated to the survival rate in terms of winning the competition. In this sense internal and external factors are interrelating. The customer is asking for better or cheaper products, which are why the competitive advantage is created through the performance in being able to offer this to the customer. Furthermore is this also implying that a way of identifying competitive advantages is to look at what differentiates success from failure, and especially investigate what events are creating astonishing results.

### Resources and capabilities

It is necessary for the company to maintain resources and capabilities that are creating advantages towards competitors in the quest for survival market competition. Earlier mentioned was how Barney (1991) discuss different capabilities and to what extent they are established in order to create a sustainable competitive advantage. Three categories are formed for which resources can be sub-ordered accordingly: physical resource capital, human resource capital and organisational resource capital. Physical capital resources are for example factories, geographical location and financial situation. Human resources are for example education, relations, level of knowledge, talent and leadership. Organisational resources are for example relations to the external environment as well as the informal and formal organization within the company. Furthermore the culture that runs through the company could be seen as an organisational resource. In order for a competitive advantage to be sustainable it need to be valuable, unique, hard to imitate and hard to substitute (see *Figure 3.1. VRIO framework*). According to Barney (1991) it is often the human and organisational resources that fulfil these criteria's.

### Market driven organization

A company's internal capabilities and assets, market knowledge and company processes and activities, both external and internal can be included in the concept "market-driven organization" (Day, 1994). In accordance with the resource-based framework a market driven organization should identify the internal capabilities and decide which of these are most important in order of creating value for the company. Barney (1991) states that capabilities within a company are complex structures of knowledge embedded within the organizational structure. Moreover, this is what creates the foundation for exploiting the company assets in the best way possible.

A company that has internal capabilities but that lacks market orientation could develop the internal capabilities but will receive little reward from these as a result of the lack of market knowledge and competitor knowledge. Similarly, a company that has external capabilities and that



knows what it takes in order of creating competitive advantages on the market and lacks internal capabilities and resources that can counterpart the external level of demand will never be able to establish full return from the external capabilities. Knowledge and development of both internal and external conditions is therefore important in companies strive for profitability.

Day (1994) states that two capabilities are of certain importance in order of achieving success with regards to a market driven company - established from the importance of both external and internal perspective:

- Capabilities of feeling the market - decide how well the organization is structured in order of following trends and market changes and moreover react to these.
- Capability of creating links to the customer - combining knowledge, capabilities and processes that are necessary in order to achieve good customer relations.

## 3.9. Factors of difficulties in alliances

### 3.9.1. Potential costs of strategic alliances

Despite the benefits there are costs with the formation of strategic alliances. Critic has been placed towards strategic alliances because they give competitors a low-cost route to new technology and markets. Alliances are risky, unless a firm is careful it can give away more than it receives. Most literature has recognised that a firm will consider forming a strategic alliance if the potential benefits exceed the corresponding costs. The decision to enter a strategic alliance need to be taken seriously by management because history has shown that alliances tend to be unstable and prone to failure (Berquist et al., 1995).

### 3.9.2. Strategic alliance failures

The failure rate for international strategic alliances seems to be quite high. Cultural, strategic and management differences may be some factors behind the failures of strategic alliances. It is apparent that the alignment of strategic, decision-making and other managerial differences between strategic alliances are very difficult to accomplish. Successful integration requires trust, which actually translates to a risk of losing one's core competence to a partner and decreasing the company's autonomy. Very often the information asymmetry between partners within a strategic alliance, further contribute to the distrust (Inkpen, 1996). Firms that enter into strategic alliances often focus on the benefits that the alliances can provide without considering costs involved in the formation and maintenance of the alliance.

Despite the identification of the potential benefits, the costs involved are often both substantial and often difficult to predict. In many cases, strategic alliance managers cannot adjust to the new situation in which a former competitor or companies with dissimilar cultures suddenly need to co-operate.

### 3.10. Transaction cost approach

Transaction cost theory (TCT) has been developed to facilitate an analysis of the comparative costs of planning, adapting, and monitoring task completion under alternative governance structures (Williamson 1985). The analysis in TCT is based on a transaction, which occurs when a product or service is transferred across technologically separate boundaries (Williamson 1985). Transactions costs arise for ex ante reasons and ex post reasons. Decisions must be taken between the production and transaction costs associated with executing a transaction within the company (which relates to insourcing) and the production and transaction costs associated with executing the transaction in the market (which relates to outsourcing). If the company management chooses to use the market, they must then determine the appropriate type of contract to use.

Williamson (1985) argues that two human and three environmental factors lead to transactions costs arising.

The two human factors are:

1. Bounded rationality: Individuals are unlikely to have the abilities or resources to consider every single outcome associated with a transaction that might arise.
2. Opportunism: Individuals will act to further their own self-interests.

The three environmental factors are:

1. Uncertainty: Uncertainty intensifies the problems that arise because of bounded rationality and opportunism.
2. Small numbers trading: If only a small number of players exist in a marketplace, a party to a transaction may have difficulty disciplining the other parties to the transaction via the possibility of leaving and use of alternative players in the marketplace.
3. Asset specificity: The value of an asset may be attached to a particular transaction that it supports. The party who has invested in the asset will suffer a loss if the party who has not invested withdraws from the transaction. The possibility (threat) of this party acting opportunistically leads to the so-called “hold-up” problem.

Transaction costs could be defined as the costs of acquiring and handling the information about the quality of inputs, the relevant prices, the supplier’s reputation, and so on, and are costly to manage. Firms emerge as a way of economizing on transaction costs in a world of uncertainty, where contractual arrangements are too expensive.

### 3.11. Value Chain

#### 3.11.1. Value system

A systematic approach to investigate all activities the company makes is necessary in order to analyse the sources from which a company builds its competitive advantages. Furthermore, an investigation of how the activities affect and interact with each other is also important and is closely related to the founding of competitive advantages for the company.

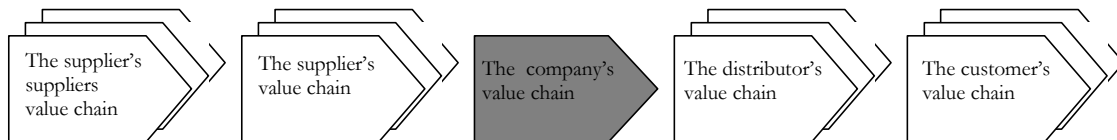


Figure 3.2: Value system

One way of doing this is by using the value chain theory approach (Porter, 1991). The value chain divides the company's relevant strategic activities in order to present the origin of the company's costs and differentiation. The value chain is embedded in a value system consisting of several activities (see Figure 3.2). The understanding and development of the company's own value chain is necessary to increase or sustain the company's competitive advantages. However, this approach needs to be complemented with knowledge regarding how the company's value chain fits into a value system.

#### 3.11.2. Corporate value chain

All companies are a gathering of activities built to design and produce, understand the market and care for its products and services. Companies within the same industrial segment often have similar value chains. However, the value chains between competitors are different since this is a key factor towards competitive advantages.

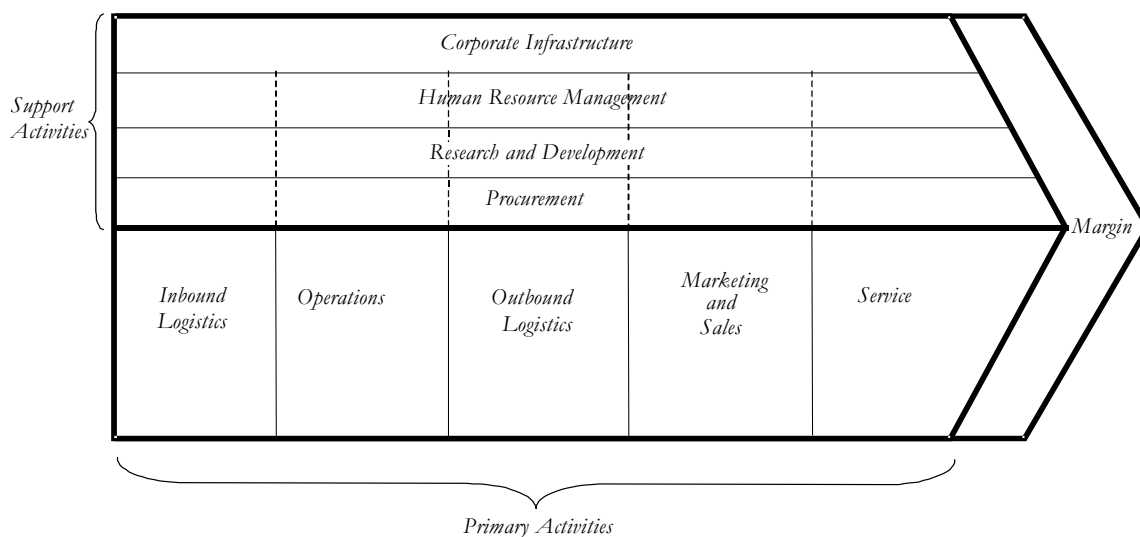


Figure 3.3: Value chain, (Porter, 1991)

The figure describes a general value chain consisting of nine value activities and a margin. Together they form the total value of the company. The value activities are building blocks for which the company uses in order to create a product or a service of value to the customer. The margin is the difference between the total value and the costs for the value activities. Moreover, the value activities are sub-ordered into primary and support activities. The primary activities are directly connected to the physical creation of the product or service while the support activities are constructed to support the primary activities, as the name indicates. The dotted lines between the support activities indicates how the support activities can firstly support the primary activities and secondly how the support activities can support the entire value chain.

### 3.11.3. Identification of primary activities

There are five general categories for value activities: inbound logistics, operations, outbound logistics, marketing and sales, and service. All categories are important in order to form competitive advantages. Certainly if different industrial segment are compared, different activities are more important than others. As an example, inbound logistics and outbound logistics are critical for a supplier, while service might be the most important activity for a manufacturer. All categories are represented in a company but with different internal intensity.

### 3.11.4. Identification of support activities

There is four value activities: corporate structure, human resource management, research and development, and procurement. As with the primary activities, all support activities are important and depending on the industrial segment some categories are more important than others. Defining the company's value chain is necessary in order to analyse the company's competitive advantages. The company can identify its specific and specialized value activities using the more general value chain as a standpoint.

## 3.12. Connections

### 3.12.1. Connections within the value chain

Value activities are related by connections within the value chain. The connections can be seen as the relationship between the performance of a value activity and the cost or the performance of another value activity. These connections can lead to competitive advantages through optimisation or co-ordination. The number of connections are often many within a company and form complex system of interrelations between the activities involved. However, most apparent connections occur between support activities and primary activities.

Even if the connections within the value chain are crucial in order to maintain the advantage to competitors, connections are often undetermined and undefined. The identification of connections within the value chain is a process where every activity is investigated and how these activities affect and is affected by other activities. A well-constructed information system is needed in order to achieve complete exploitation of connections within the value chain.

This further illuminates the need and pre-requisite for information and communication technology within the company and how important this might be to achieve competitive advantages through exploitation of connections between corporate activities. However, this also implies a well-established integration between the departments of the company. Controlling connections is often a more complex task in terms of organizational resources than controlling the value activities. Even if controlling and identifying the connections are a complex task, the result remains very attractive with great benefits for the company. A long-term competitive advantage is often established through well-developed and functional corporate connections.

### 3.12.2. Vertical connections

Connections do not only exist within a company's value chain but also between companies value chain and the value chain of suppliers and vice versa. These kinds of connections are known as vertical connections and are somewhat similar to the connections within the company value chain. A vertical connection could be how and in what way a supplier activity is performed and how this affects the cost or the performance of another activity within the company. Certainly, the vertical connections affect and form opportunities for the company to improve its competitiveness on the market.

Often this is made within a win-win concept where both parties benefit from the optimisation and co-ordination of enhanced and improved connections with their suppliers and customers. The vertical connections are dependent of enhanced informational exchange within the value chain. This creates a high degree of transparency which is furthermore one of the reasons why modern informational systems are creating many new business opportunities for the companies within the value chain.

## 3.13. Third Party Logistics

### 3.13.1. Introduction and forming

The Third Party Logistics companies of today have emerged and formed throughout many different locations and industrial segments. However most TPL companies find their roots in the freight forwarding, transport and warehousing industry. Furthermore a common background amongst TPL companies of today is within the mail and parcel distribution industry, and within trade and manufacturing industry.

The industrial entrance has taken place mainly in three waves, where the first wave relates to the early 1980's. Companies that we might refer to as "traditional", like ASG, Frans Maas or British Excel started to offer Third Party Logistics in a more structured form. These companies often offer TPL service as a spin-off service from their traditionally strong and manifested positions within transport and warehousing services.

The second wave relates to the early 1990's, when companies forming networks engaged on the TPL service market. Here we find companies within the express and parcel industry like DHL, TNT, UPS and FedEx. TPL service offered by these companies is built on experience from expedited deliveries and transportation networks.

The third wave has most recently emerged and is forming its course at the moment. This wave consists of companies that could be described as knowledge intense and with companies with roots in complementary business segments. Moreover these companies have not emerged from the traditional transport and warehousing business, but are forming their service base with other resources and experiences. Examples of companies in this sector are IT-companies, management consulting companies and financial resources companies. However, these companies does not act as single players on the TPL market, they form alliances and partnerships with existing companies from the first and second industrial wave as described earlier. While actors in the first and second TPL wave are forming and developing their market strength on operational oriented activities within transport and warehousing, they third wave actors are developing market strengths and position themselves from skills and knowledge within IT, corporate governance and transformation, and financial resources. The difference is found within the depth of their specialized fields: the second wave actors are slowly but surely building an IT knowledge base but still lacks the experts skills, while the actors in the third wave have a well developed competence and expertise base within IT and management.

### 3.13.2. Industrial overview

Third Party Logistics as a concept is not a new phenomenon, however a clear-cut definition has not been formally established. “Third party” implies a responsibility beyond the first and second party as the name reveals, but the definition “Logistics” is less consequent and hence harder to pin point. It could be discussed whether single activities like freight forwarding, transportation and warehousing is logistics or if logistics occur with the integration of a number of functional activities forming a process-oriented service. Services within Third Party Logistics is formed more on process thinking than on the efficiency of inbound activity functions.

Process thinking forms the base for Third Party Logistics and the actors on the market. Moreover a distinction within the field of Third Party Logistics is due in order to separate companies focusing on supply chain services in a process oriented manner and TPL companies specializing on functional support activities like transportation, warehousing, materials handling etc (Rosén, 1999).

The purpose of Third Party Logistics companies is to create value for the customers, by lowering costs, better service or an increased geographical coverage. Companies in this sector can work mainly in four different directions in order to create value for their customers. The most fundamental way of creating value for customers is by operational efficiency, which means offering better performance. In comparison to customers most Third Party Logistics companies are well equipped for value creation through operational efficiency. These value drivers are primarily based on TPL companies’ organizational efficiency and level of experience. Co-ordination competence is necessary for TPL companies with a high level of supply chain integration and elaborate service offers to the market. Furthermore, TPL companies can create value to their customers by dividing their resource base. This theory is closely connected with economies of scale. However IT competence is necessary when dividing resources in order to maintain control over the activities and processes. These two ways of creating value for customers have been focusing on the Third Party Logistics companies’ internal perspective and processes. However, TPL companies can also create customer value through networks of suppliers or with complementing logistics partners.

In extension this forms vertical and horizontal networks. The creation of value rests on IT competence, operational efficiency and the co-ordination of activities and resources.

Lastly, improving customer's business processes by analysing and improving logistics processes that are tailor-made for the customers can furthermore create value. This concept is also known as supply chain management and is based on analysing and structuring logistics activities, transformation technologies, and knowledge within innovative logistics procedures (Rosén, 1999).

### 3.13.3. Outsourced Logistics and Third Party Logistics

Many business enterprises now recognize that producing and marketing "world class" products is no longer enough to sustain a competitive advantage. Logistics outsourcing has emerged as a result of the heightened competitiveness in the global market place. Domestic enterprises are in the increasingly precarious position of maintain their profit margins and market shares when faced with foreign competition. Many have turned inward and targeted design, production and marketing costs activities. Many, however, cannot figure out how much they are spending to move and store parts and products along the supply chains (Henkoff, 1994). Consequently, business enterprises are targeting logistics costs and organizing networks in the upstream and downstream supply chain to improve significantly the ultimate service provided to the customer.

The focus on the supply chain management has raised a variety of alternative means to reduce costs and improve customer service. Outsourcing seems to be an attractive option (Virum, 1993) to acquire state of the art logistics capabilities often at lower costs, take advantage of global opportunities, improve significantly customer service, and, most importantly, to focus on core competencies.

Logistics outsourcing is practiced in many forms. However, in all cases it involves an agreement between two separate business entities to buy and provide specific logistics services. In the most insignificant case, logistics outsourcing can be a relatively short-term contract to provide a few specific logistics activities, for example bar-coding products prior to delivering them. In the most extensive examples of outsourcing, long-term commitments are made which involve joint ownership of assets and high levels of integration between the two enterprises (Virum, 1993). The latter inter-organizational collaboration is similar to the strategic alliance framework within the Third Party Logistics industry.

The fact that no adequate definition of outsourcing can be found in the literature is an indication of how new the phenomenon is. However according to Virum (1993) a Third Party Logistics provider (TPL) is defined as the services offered by a middleman in the logistics channel that has specialized in providing, by contract, for a given period, all or a considerable number of the logistics activities for other firms. This can be compared to a logistics partnership which is defined as a long term formal or informal relationship between shippers and logistics providers to render all or a considerable amount of logistics activities for the shipper (Virum, 1993).

Despite the lack of an adequate definition for outsourcing, there are clear trends that characterize Third Party Logistics activities. Virum (1993) identified the following characteristics of TPL relationships:

- Customized service:  
Each outsourcing agreement is a unique arrangement between the two enterprises. One company agrees to perform a specific set of services required in a particular manner on behalf of the other enterprises.
- Detailed planning and scheduling:  
The outsourcing agreement has usually been preceded by extensive negotiations. Detailed planning has likely been concluded to ensure that both enterprises can achieve their long-term strategic goals by entering into the relationship. Throughout the duration of the agreement, joint scheduling is conducted to ensure that short-term goals are achieved.
- Free flow of logistics information:  
The two firms freely exchange information about logistics activities. The range and amount of information exchanged vary according to the complexity of the services being provided.
- Mutual trust:  
Each relationship has been developed from a position of mutual trust. The traditional adversarial relationship between provider and contractor is subordinated to the goal of getting the job done in the most efficient manner.
- Long term relationships:  
The contracts are being negotiated for periods from several months to many years. In most cases both enterprises expect that the relationship will extend beyond the end of the current contract.

#### 3.13.4. Services and skills performed by Third Party Logistics providers

Typical services outsourced to TPL providers are transport, warehousing, inventory, value added services, information services and design and reengineering of the chain. The first three are the most common services of TPL providers and also the most common services outsourced from industrial firms (Andersson, 1995; Berglund, 1998). These services are also resulting in economies of scale and scope while others like design and re-engineering are more knowledge generating for TPL providers. The service types can be combined in many ways depending on the demands of the customer.

It seems, however, that these rather rough classifications of services do not divide the actual type of activities, activity chains and structures of TPL providers so that it will show the possibilities to co-ordinate activities of customers how the TPL providers create competitive advantage based on customer co-ordination. It is important to clarify the difference between more traditional logistics services and the value added form of TPL services. In general activities in early stages of the supply chain is adding more value compared to activities in the later stages in the supply chain. It is also in the later stages of the supply chain we find the traditional services.



Because of the wide variety and large scope of activity offered from large TPL providers to customers outsourcing might be a solution for the TPL providers themselves at times in order to maintain high quality and service spectrum. With a very large scope of activities offered from TPL providers to customers it becomes harder to be efficient in each and every activity hence leaving options for outsourcing. In these situations TPL providers outsource activities where they lack knowledge. As mentioned above regarding services performed by TPL providers, efficiency is vital to keep margins and to integrate and offer a complete solution to customers. The most important skills are according to Berglund (1997) operational efficiency, which could be describes as a low cost per performance ratio. Furthermore, skills necessary for a successful TPL provider are ability of developing and analysing logistical solutions combined with knowledge in information systems.

### 3.13.5. Geographic coverage

The implications of geographical coverage are significant in the TPL industry. According to Berglund geographic expansion was one of the most important factors for growth among TPL providers. It is easy to see how the globalisation process has affected the TPL industry. Geographical coverage is necessary in order of keeping close relationship with customers. With the development in information and communication technology the globalisation process has increased and customers are spreading worldwide. With the migration of customers demand increases for logistics providers to offer a global geographic coverage in order to offer total logistics solutions. The geographical coverage process is supported by acquisitions and global partnerships. From the partnerships and acquisitions the TPL providers will broaden their service portfolio to the customer. Partnerships and alliances within the TPL industry also mean that a more solid base of investment capital is formed which results in better opportunities for keeping up with the rapidly changing business environment.

### 3.13.6. Alliance with a Third Party Logistics provider

Entering alliances and partnerships is a way for TPL providers to maintain global coverage and broaden the competence base as mentioned above. However there are several more reasons for TPL providers to enter alliances. One reason for a TPL provider to enter an alliance or going into partnership with another TPL firm is to achieve economies of scale and to obtain resources for improving and enhancing the operational and strategic possibilities (Ludvigsen, 2000).

Furthermore trust and shared risk, savings in capital and knowledge are other factors of influence for alliances and partnerships in the TPL industry. However, aspects of alliances for TPL providers involves more than an economic, physical, technological, legal and knowledge exchange between firms. As mentioned above, trust and communication are vital and could be categorised within the social exchange of an alliance (Hertz, 1993). It is easy to see how trust between firms seems to be especially important when there is much at stake for the firms and when a firm is outsourcing parts of its supply, operations and/or distribution to a TPL provider. Introductory the alliance perspective and the level of integration were discussed where the degree of integration is used as a base for classifying alliances.

From this perspective, alliances aiming for the highest degree of integration or commitment would be strategic alliances while the lowest degree of commitment is more open to competition. It is easier to switch a relationship in the first stage when integration is low and the expected future returns are low. Therefore in the first and the last stages in the lifecycles the risk of switching is higher (Hertz, 1996). Moreover, from the perspectives of transaction cost theory, alliances can also be classified in terms of their degree of commitment on a scale from transactional to integrated relationships (Bowersox & Dougerty, 1989). Based on the definition of TPL, the customer relationships are aiming towards a more integrated form and not as much of the transactional type (see *Figure 3.3*).

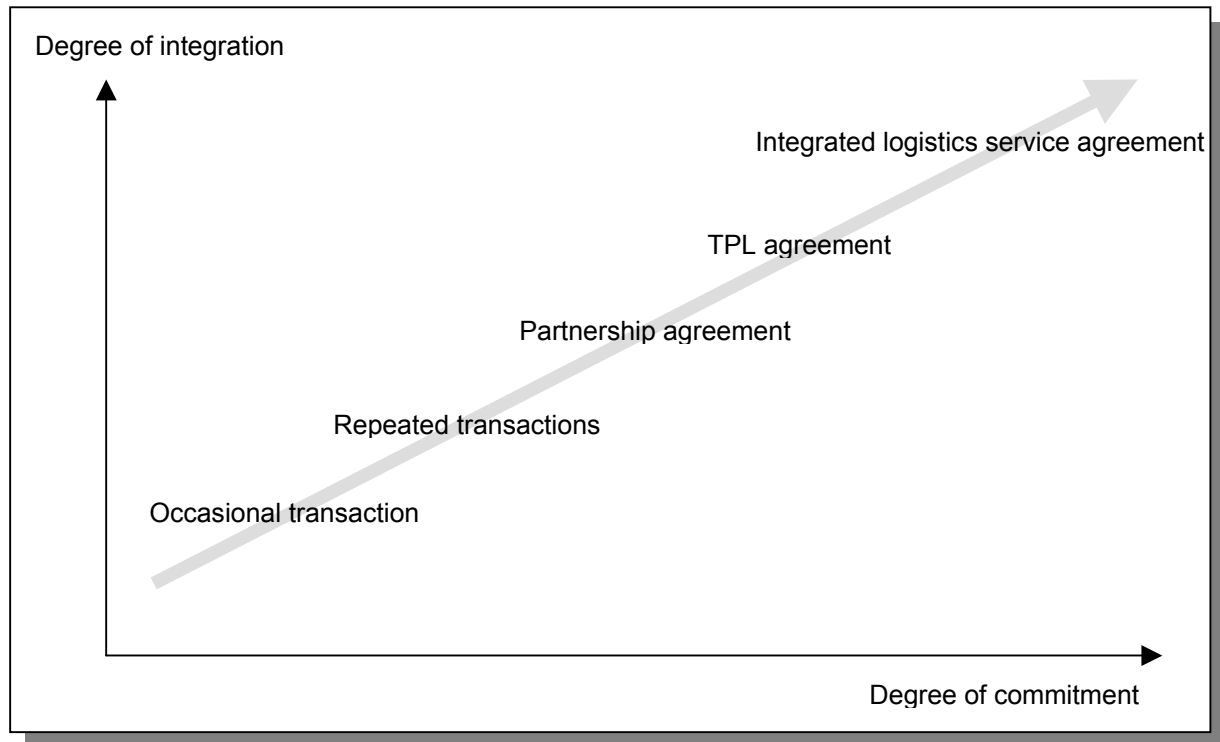


Figure 3.3. The relation between customer and Third Party Logistics provider (Bowersox & Daugherty, 1989)

### 3.14. Supply Chain Management

The more rapidly changing industrial environment has made it necessary for companies to look into different possibilities to manage internal and external activities included in the supply chain. Improved and enhanced information and communication technology (ICT) have made it easier to integrate the activities within the supply chain. Furthermore, the ability to focus on core competence is a result of the improved integration between companies. Moreover, supply chain management is no longer a question of operational function but more a question of corporate strategy. The corporate organization is affected by the quality and structure of the supply chain (Gattorna, 1998).

Over the last 20 years the development within supply chain management has become more dynamic resulting primarily from the rapid development within information and communication technology. Controlling and integrating the supply chain has become much more effective with the developments in ICT and an elaborate form of synchronisation is now possible.

These factors have made it possible to reduce time-to-market as well as time-to-delivery. Customer value is also a result from the closer form of company integration and collaboration (Gattorna, 1998).

### 3.14.1. A historical view

The role of the supply chain for organisations has changed since the 1970's. Before the supply chain was closely related with distribution focusing on integrating internal transports and inventories. High levels of interests made companies focus more on capital flow, which resulted in a reconstructed view of the supply chain and its cost structure. Companies tried to reduce operational costs by integrating the supply chains. Consequently internal restructuring took place resulting in reduced distribution and inventory costs. New forms of production management were initiated such as Just-In-Time (JIT), Flexible Manufacturing Systems (FMS) and Materials Requirements Planning (MRP) (Axelsson, 1998; Gattorna, 1998).

Increased service management together with more capital reinvested into the companies reduced cost advantages from the reduced production costs towards the mid 1980's (Gattorna, 1998). Furthermore companies started to use more of a marketing perspective that made it necessary to create competitive advantages through high levels of service together with frequent change in production.

During the 1990's companies started to develop independent market and production functions. The companies began to meet customer expectations and customer needs which resulted in large investments towards a higher service quality (Gattorna, 1998). More focus was aimed towards achieving close relationships with suppliers in situations this could establish competitive advantage. Consequently suppliers became part of the strategic planning. Benefits with a closer relationship with suppliers were twofold; companies could achieve reduced costs while at the same time benefiting from the competence migration between the organisations (Gattorna, 1998). By strategic positioning distribution towards end customers, corporate management tried to create competitive advantages. This development led to the creation of Supply Chain Management.

### 3.14.2. Definition of Supply Chain Management

Fundamentally Supply Chain Management is about controlling and managing activities collectively, independently of initiating organisation. Furthermore SCM is considering the organisation of activity flows both within a company as well as between companies. The degree of organisation varies and can cover everything from basic activity management to highly advanced controlling and management of inter-organisational activity flows and integration of functions (Axelsson, 1998). Axelsson has created a unified foundation from different definitions of SCM:

*"Supply Chain Management is a matter of managing and controlling activities and resources within a network of parties and resources (equipment, modes of transportation, knowledge etc.). The chain can cover every activity from exploitation of raw materials to products in the consumer line, but must cover activities that join business operations of at least three parties in order to create a chain"* (Axelsson, 1998)

Aronsson (2000) argues that supply chain management is divided into four different schools;

- Functional awareness defines SCM as a physical flow divided into functional entities interrelated in a chain.
- Linkage/logistics considers the flow as a chain of activities and how this could be used to create competitive advantages. Reducing inventory usage within logistics and transport does mainly this.
- Information school focuses on two-way information flow between different parts of the supply chain. This is mainly found within the service industry.
- Integration/process emphasise the integration of functions within the supply chain and how this in turn optimise the process. In accordance with this value creative process' is a common goal. However, this view of SCM is not concerning the linkages between functions as dependent of each other but is concerning functions as parallel to each other.

Management of logistics has evolved to focus more on the process perspective of logistics, also known as modern logistics. From this point of view a distinction could be made between SCM and logistics where logistics also includes the supply chain. Definitions of modern logistics focuses on material and information flow from stating point to consumer point. However, the process perspective is included in definitions of SCM, but using a different view of process than is used in logistics terms. Within SCM a process is related to the business process, which is a broader concept compared to logistics alone. An example of this is the product development process, which is part of the business process. This process is not included in the logistics definition. According to Aronsson (2000) product design and product development has great affect on distribution costs. These implications are well known within modern logistics but are not incorporated in terms of definition. Consequently since these questions are incorporated within the definitions of SCM these definitions are considered broader than compared to definitions of modern logistics (Aronsson, 2000).

## 3.15. Outsourcing

### 3.15.1. A reflective viewpoint

Industrial sectors face intensified conditions both in the marketplace and within the corporate boundaries. On the one hand, the customers are setting higher demands and constraints on their upstream linkages. Previously, the customers focused mainly on low total systems cost, high quality and good delivery performance. Today, they also expect short product life cycles and time-to-market, innovative capabilities and customisation (Sanchez, 1997). On the other hand, the companies and their suppliers are experiencing the emergence of a global economy and rapidly changing markets. At the same time, the complexity of products and technologies is increasing and their functionality's are expanding (Christopher, 1998).

Globalisation and technological innovation appear to be common denominators of these business challenges.

From a corporate strategy point of view, globalisation and technological innovation add new competitors and put strong pressure on companies' competitiveness and profitability. From a combined business and functional strategy viewpoint, globalisation and technological innovation call for improved organisational adaptability and more flexible and advanced systems relative to manufacturing, logistics, engineering, information and process technology.

In consequence of these internal and external conditions, companies must be able to change their organisation, operations, product portfolios, customer segments rapidly and efficiently as well as on a continual basis. This involves a new approach to the strategic planning process. From this background companies are looking more towards utilizing their core competence and consequently investigating the possibilities of outsourcing.

### 3.15.2. Introduction

Over the last two decades, there has been an increasing emphasis on buyer-supplier relationships in the international business and in the academic community. This is reflected in the extensive amount of literature produced in this period, from which a wide range of affiliated notions like supply chain management, vertical alliances, lean supply, industrial networks and outsourcing has occurred (Quinn, 1999). Collectively, these ideas intend to improve competitiveness and profitability of corporations by proposing different strategies, tools and techniques for how to select the right partner, establish the proper relationship, adapt adequately to the internal and external changes given situation factors. These factors could for examples be supplier segmentation models, audit systems, contract frameworks and organisational forms.

The earlier way of conducting inter-organisational relationships, internally performing activities and creating a self-sufficient environment is less in focus. Instead more focus is aimed towards a new way of developing inter-organisational supply chain relations with finding ways of competitive advantages through utilisation of core competencies (Van Weele, 2000). Outsourcing can be divided into two major areas; complete outsourcing and partial outsourcing.

Complete outsourcing means that the company or organisation sources a complete function to an external supplier while partial outsourcing implies only parts of a function. Moreover, partial outsourcing means that the co-ordination remains with the buying company (Van Weele, 2000). The globalization of the economy, rapidly improving technology, and a increased focus on providing customer value have significantly increased competition in nearly all markets. This, in turn, has been the movement for a fundamental change in how businesses view their sourcing strategies and has forced them to look for ways to become more competitive.

Outsourcing provides this opportunity since it helps companies to look to the value chain for high leverage areas and helps them to better utilize their resources to exploit these areas. Outsourcing is a means to achieve competitive advantage by focusing on core competencies.

Specifically outsourcing non-core activities allows a company to:

1. Better utilize internal resources
2. Increase responsiveness to customer needs
3. Decrease financial risks by reducing capital investments
4. Shorten product cycle times

The extension of the combined outsourcing activities above is mainly total cost reductions along the supply chain and integration of organizational structures (Van Weele, 2000).

### 3.15.3. Benefits with outsourcing

Most companies are seeking to radically reduce the total supplier portfolio through single sourcing, strategic partnerships, strategic alliances and other appropriate relationships with few selected key suppliers. The aim is mainly to obtain total cost reductions in the supply agreements, to improve planning and control of the supplier base and to better exploit the complementary competencies and innovation ability of the individual suppliers. The outsourcing decision should be made as early in the product development cycle as possible. Identifying an outsourcing partner, working through the project details, and getting the project started usually takes longer than expected (Quinn, 1999). According to Axelsson (1998) decisions regarding outsourcing activities and functions are affected by market situation as well as organisational, economical and other factors.

If the partner is competent, the arrangement structured correctly, and the motivations properly aligned, outsourcing can be extremely beneficial for both parties. However, the partnership or alliance could turn up to be more resource and financially demanding than necessary if the relationship and the partnership are not tended to properly (Quinn, 1999).

Following are some highlights of why companies might outsource projects or activities:

- Cost effectiveness:  
Executed correctly, an outsourced activity can cost less than doing it in-house. Examples for this relates to the political and bureaucratic processes at companies which may cost more than finding a firm that has specific knowledge and expertise (i.e. core competence).  
  
Another major concern regarding cost decisions is time-to-market costs. Often the cost of missing a market opportunity may far outweigh the costs of outsourcing the project to an expert firm (Brown & Eisenhardt, 1998).
- Predictability:  
The outsourcing firm can obtain higher degree of predictability compared to internal development processes. The outsourcing partner is usually free from “creep effects” associated with internal activities resulting from their expertise of working within financially limited contracts.
- Resources:  
A company may not have enough resources or may lack specific expertise competence and resources required to develop a product or perform a service. This is an excellent reason to outsource. In addition, the outsourcing partner has formed an experienced team of professionals with proven track record. This knowledge and experience migrates between the companies as the strategic partnership progress and deepens.

Certainly, when outsourcing different activities within a firm this will imply a higher level of focus on core activities. Furthermore in the strive for supremacy and well reputed products and services a company which focuses on its core competencies and is concentrating on what it does best is aiming towards “best in class” supplier, manufacturer, etc.

Outsourcing also leads to increased industry knowledge and expertise and overhead reduction. Collectively, economies of scale are benefits resulting from the increased levels of specialization in relations to factor costs. Continuous developments of tailor-made technological customer solutions are very resource demanding. Furthermore, the rapidly changing technological environments are making it very hard for companies to stay ahead of competition and in the front line of product innovations.

It also becomes much harder to match supply with demand in terms of internal resources. In perspective of this outsourcing is an attractive solution. Outsourcing and inter-organisational collaboration is especially interesting in business areas where companies do not have core competence or complementing resources. This lack of competence and resource could then be solved through outsourcing. The emergence of new and highly specialised firms creates a business environment and infrastructure which makes it possible to match supply and demand of services offered to the market at a greater extent than previously possible (Axelsson, 1998).

#### 3.15.4. Considerations and problems with outsourcing

Generally a company outsource non-core competence activities. Decision-makers should be careful not to outsource the company's "secret formula". The prospect of losing control of the secret formula could implicate a level of risk that is unacceptable and irrelevant of trust. The main concern is that an outside firm essentially controls the main sources of the other firm's revenues. This aspect is furthermore supported by Greaver (1999) who argues for the risk of competence migration from the buying organization. The company risk loosing present or future core competence. This would result in loss of future competitive advantage that would be hard to rebuild and recover from.

Resulting from the loss of control, a company may lose internal skills and expertise that goes beyond trust and supply chain transparency. Implications will lead to compromising confidentiality and failure of the partnership objectives. Furthermore this will lead to an abnormal high level of monitoring costs.

In order to minimizing the risks a company always should select a partner carefully. This is a cornerstone for which the future partnership is constructed from. Also very important is to clarify goals and expectations from the outset at an early stage in the forming process and to secure a confidentiality agreement. Moreover a well-constructed level of communication is necessary and a simplified interface between to organizations. All of these factors will assist the organizations to form and develop a strong partnership.

According to Axelsson (1998), the disadvantages and problems with outsourcing follows with the increased dependence to suppliers, the need for continuous cost evaluation related to suppliers and relation handling, risks with communication and organization problems during the transfer of services to a third party, risks of loosing confidential information to third party and risk of legal and social problems (Axelsson, 1998). The impact of outsourcing can extend beyond cost reduction to include enhanced quality and service based on partnerships with best-in-class suppliers. Developing the best-in-world capabilities is crucial for maintaining the core competence as a competitive device. Unless a company is best in world at an activity it will have to buy that skill from an external source to retain its competitive edge or advantage (Quinn, 1999).

### 3.15.5. Tactic versus strategic outsourcing

Outsourcing can be differentiated into tactic and strategic definitions. Tactic outsourcing can be described as solving practical problems like filling a vacancy. According to Greaver (1999) the time factor is vital and argues that outsourcing becomes of a strategic nature when it is related to the organisations long-term strategy and when the effects of outsourcing will be significant for the organisation in a long-term perspective. Furthermore strategic outsourcing is of greater affect than tactic outsourcing when it comes to issues like corporate vision, core competence, future organisational structure, future costs and future and present competitive advantages (Greaver, 1999).

In general, strategic outsourcing results in immediate benefits within one year of implementation and long-term benefits are observed within several years. The risks with strategic outsourcing increases when the decisions are more vital to the organisation and the implementations have greater effect compared to tactic outsourcing. Usually it is rather uncomplicated to enter partnership in outsourcing. However, it is far more complicated and costly to bring the partnership to an end and to recover from its effects on the organisation (Greaver, 1999).



## Chapter 4 – Empirical view

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Within this chapter the results gathered from empirical studies are illuminated. This chapter consists of a closer view of investigated companies. Theories from former chapter is used in order to create a picture of how the companies have been successful in different aspects and how the companies have been utilizing resources and competencies to achieve their market position.

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### 4.1. Empirical framework

A comprehensive introduction and presentation to each company will be made within the empirical framework. An introduction to the industrial development is first presented mainly focusing on prominent TPL companies as UPS, DHL, FedEx and TNT as these companies has been in the frontline of the industrial development. From this standpoint a closer presentation to each company will be made with special attention aimed towards different areas such as strategy, services, geographical scope, partners and customers.

### 4.2. Introduction to the TPL industry

The discovery of the distribution function and the rise of transnational transport and logistics supply have made an impact on the TPL industry. Within this highly segmented and multinational framework, some innovative transport companies started to expand strongly within national and into foreign markets since the late 1970s. The new organizations that originally challenged and later were among the more prominent market expanders in the transport and logistics world were of U.S. (FedEx, DHL, UPS) and Australian (TNT) origin. Federal Express and DHL, in particular, were the two companies first able to deliver added value to production chains by way of reducing circulation cost. The discovery of the distribution function had great impact on the development within this industry and forms a starting point to understand why value added services innovation was introduced.

The law allowed new entrants into the previously closed transport market and was highly supported by transport users and suppliers. The new regulatory structure thus supported the emergence and rapid expansion of the express delivery industry. Four companies, FedEx, DHL, UPS and TNT from Australia, came to dominate the rapidly growing express delivery market within a few years. Traditional suppliers in the field, the postal organizations and the airline and forwarder alliances almost totally lost their customers to the newly formed players. The original four big players (DHL, FedEx, UPS and TNT) hold approximately 90 percent of the market for international express service.<sup>1</sup> New market entrants had to fight for small market shares and needed to be able to match the global hub and spoke infrastructure of the quadruple pact.

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<sup>1</sup> In 1996, three companies controlled 76,3 percent of the international express business: DHL (40,7 percent), FedEx (20,5 percent), UPS (15,2 percent). TNT came in fourth place only with 11,8 percent. The oligopoly left only 11,9 percent of the market to other companies ([www.dvz.com](http://www.dvz.com))

The new types of companies were called “integrators” because different transport modes have been combined to allow for a through organization from one source. The integrator firms introduced marketing and high tech communication and industrialized automation technology to the transport craft, offered multifunctional, speedy, timely, and reliable services unknown to the industry before. To manage this organization across borders was quite obviously running against the strictly national obstacles. In the late 1970’s, UPS systematically started to set up shop in Europe. Regarding DHL, a new business association was founded to challenge and ultimately to fundamentally change the regulatory structures of Europe’s transport and postal markets. DHL is now partly owned by Deutsche Post and forms a strong alliance in the war for market shares on the highly competitive European TPL market.

### 4.3. ABX Logistics

ABX Logistics is among the top ten operators in the international logistics market, and ranks fifth in Europe. The company is a division of the state owned Belgium National Railways Company. The group employs about 16,000 people in 33 countries and had a yearly turnover of \$2,2 billion in 1999. The third party logistics business of the company has 2,500 employees. It is represented in 11 countries and had a yearly turnover of \$250 million in 1999.

#### Strategy

ABX Logistics corporate strategy is based on two decisive driving forces, expansion and diversification. The company started its global expansion in 1996 and has aggressively expanded the positions mostly by acquisitions of leading logistics companies. The fast expansion strategy has allowed them to become a global player in the transport and logistics market in a short time.

ABX Logistics has created a global network through alliances, partnerships and acquisitions. The philosophy of the company, to “think global and win local”, is a strategic vision and the goal with the alliances and partnerships. ABX Logistics means that they can adjust to the culture of the country by their partners’ knowledge about local conditions. At the same time the local partner receives knowledge from the ABX logistics group. The partners are carefully chosen to fit into the ABX group, where quality and technical development are highly ranked. A well organised global network with partners and many services gives ABX Logistics opportunities to fully meet the requirements associated with the integration of all forms of transport and logistics to offer “one-stop shopping” throughout the world.

#### Service

Originally ABX Logistics was a national package delivery service but has evolved into an international group, made up of the business divisions Road, Logistics and Air & Sea. Through the combination of all three areas of competence and its international network, ABX Logistics can offer its customers worldwide service from one source. ABX Logistics offers many different services were examples of this are parcel service, express parcel service, truckloads, air and sea transport and warehousing. Other complementary services can consist of consignment, inspection, quality control and packing.

ABX Logistics ICT services include:

- Track & Trace
- Supply Chain Management system, called eLog. This system is available on Internet and works as a direct link between ABX services and the customers' supply and distribution.
- ABX have set up a worldwide data communication network interacting with their facilities around the world. It is continuously updated with relevant information concerning the consignments in transit.

### Geographic scope

ABX Logistics has several partners in their global network and is spread in Europe, Australia, Asia/Pacific, and USA. ABX Logistics has links all over in Europe. Some of its partners are Saima Avendero in Italy (leader in Italy with a global network) and Group Dubois in France.

### Customers

ABX has many high-class clients who demand high quality service. General Motors, Siemens, Ferrari, Lamborghini, Pirelli, Tetra Pak are some of the better-known clients.

## 4.4. Deutsche Post

Starting as late as in 1997, Deutsche Post used an extremely rapid and aggressive market and acquisitions expansion strategy aimed both at the home market as well as abroad. A \$3.1 billion spending tour acquired over 20 companies across Europe, the United States and other markets resulting in about 100000 employees under influence or control of a state organization soon to be privatized. The most important acquisitions included 25 percent of the international integrator DHL (courier and express services) and 97.4 percent of Danzas, a leading European logistics business from Switzerland.

Deutsche Post handles 72 million items each day and has through its direct marketing section ensured high growth rates. Deutsche Post claims to be excellently market positioned. In the letter mail sector, Deutsche Post claims to be the leading service provider in Europe, and in the area of direct marketing Deutsche Post claim to be the market leader in Germany.

Deutsche Post has about 230000 employees worldwide, which ensures that Deutsche Post's position is continually being strengthened. Furthermore, Deutsche Post is focused to continue to develop even further.

### Strategy

Deutsche Post's corporate vision is provided and upheld by the wishes of our customers, where the leading logistics company is making efforts in establishing close relationships with customers. Furthermore, Deutsche Post is using outlets and has around 660 million instances of customer contact every year. The satisfaction and success of customers are moreover central to Deutsche Post.

## Service

Both private and business customers benefit from Deutsche Post's experience, the sophisticated technology in their mail sorting centers and their close customer relationship. Deutsche Post offers private customers timely products and services that go well beyond the mere shipment of letters. For business customers Deutsche Post develop tailor-made solutions and put effort in being a professional partner in all of Deutsche Post's brand areas. Furthermore Deutsche Post provides in association with specialist subsidiaries a wide range of services that responds to the current market movements in the logistics arena.

The foundation of Deutsche Post's highly automated and customer-oriented services is a Europe-wide network of 900 depots and 28 international gateways, in combination with 13 Deutsche Post Express branch offices within Germany. This network works in close cooperation with a modern track and trace system for highly accurate tracking of your shipments on the Internet. Moreover, Deutsche Post is also covering all processes involved in procurement, order receipt, warehousing, commission and distribution. Deutsche Post also offers value-added services for invoicing, handling of payments, returns management and customer service.

## Geographical scope

Regarding European distribution expansion, Deutsche Post has high demands with high common standards and has entered partnership in more than 20 countries with only the leading companies in their countries.

Table I provides a more detailed overview.

**Table I: Recent Takeovers by Deutsche Post AG**

Company	Country	shares (%)	Price (Mln)	Employees	Turnover
AIR EXPRESS INTL.	US	100	DEM 2.100	7.700	USD 1,52 Bln
DHL	US	25		55.000	USD 4,5 Bln
Securicor Distribution	UK	50	DEM 620	12.500	
Danzas	Switz.	97,4	EUR 939	16.000	EUR 4,4 Bln
Postbank	Germany	100		13.330	
Trans-o-flex	Germany	24,8		2.200	DEM 695 Mln
Trans-o-flex	Germany	50,4		3.200	> DEM 1 Bln (Europe)
Ducros Services	France	68		2.200	DEM 366 Mln
MIT	Italy	90		1.000	DEM 176 Mln
McPaper	Germany	100		885	
Global Mail	US	100		300	USD 43 Mln
IPP	Austria			78	
GP Paketlogistik	Switz.	„a majority“			
Belgian Parcel	Belgium	100		49	
Merkur GmbH & Co	Germany	51		290	
Servisco	Poland	60		958	
ITG Int'l Spedition	Germany	80		575	DEM 150 Mln
Qualipac AG	Switz.	100			SF 21 Mln
Meadowsfreight	Ireland	100		240	EUR 50 Mln
Nedlloyd (EU Transport)	Neth.	100	DEM 1.043	~ 11500	EUR 1,45 Mrd
ASG AB	Sweden	52,4		5.700	DEM 2,8 Bln
Yellow Stone	US	100			
Siemens Printery	Germany			200	
Netlog	Germany	100		105	
Guipuzcoana	Spain	49		1.700	EUR 186 Mln.

**Source:** FT 26.5.1999, 3, DPG: HV-Information #66/98, DVZ 10.7.99, 2, 21.8.1999, 1, HB 16.11.1999, 13.

#### 4.4.1. DHL

Adrian Dalsey, Larry Hillblom and Robert Lynn founded DHL in 1969. These three persons initiated a new way of doing business by offering express deliveries from manufacturer to end-user. Originally their services covered the route San Francisco – Honolulu but in a couple of years their service concept expanded to a number of countries within the Pacific region. DHL entered the European market in the mid 1980's and took advantages through obtained experience and knowledge from previous markets regarding international transports by air.

During 1976-78 DHL establish its business in the Mid East, Latin America and Africa. Ten years after DHL was founded it is entering the Swedish market. During 1983 DHL is developing its American hub situated at Cincinnati International Airport, which is complemented with its European counterpart two years later in Brussels. The Brussels hub has been expanded several times in order to keep up with the increasing market demands of international deliveries. In 1986 DHL establish a joint-venture company with China and is the first company to introduce international express deliveries by air into China. DHL, now partly owned by Deutsche Post, has about 64000 employees in more than 200 countries and is offering service to more than 228 countries.

#### Strategy

DHL's business vision is to develop a global distribution network by using the best available resources within technology and work force.

#### Services

Swift and effective supply chain management is the foundation for the service DHL offers. Companies are setting high demands for TPL providers and express deliveries today, which is an important incentive for DHL to keep on developing value added services. This demand is met by DHL by continuance in vital service elements: technology, infrastructure, transportation and working force. Future developments cover developing the global electronic hub, which is increasing the level of communication internally within DHL but also externally towards customers. Keep on developing the major distribution centrals in Bergamo, Brussels, Cologne, Copenhagen, Vitoria and the most recent one in Great Britain.

DHL is investing 1 billion Euros in 44 new Boeing 757 for the European market and transport fleet. This investment is further boosting DHL's logistics assets compared to competitors. Moreover investments are made in Asia with new hubs and distribution centrals in Indonesia, Malaysia, Hong Kong, Singapore and China. Furthermore is DHL investing more than 125 million Euros in the Japanese market with new and expanded service and distribution centrals, new machinery and equipment, vehicles and IT-support.

#### Geographic scope

The fast development for DHL has resulted in a current work force with about 64000 employees in more than 200 countries and is offering service to more than 228 countries. Furthermore, DHL has a large market share with 39 percent of the express deliveries market and strong volume growth with about 10 percent a year.

## Customers

High value or time critical goods, fast moving consumer goods (FMCG), pharmaceuticals, automotive and telecom industry.

### 4.4.2. Danzas

Danzas, a subsidiary of Deutsche Post, is one of the largest logistics companies in the world. Danzas head office is located in Basel, Switzerland. With the Danzas global organization of 45000 employees, generating net sales of 9,2 billion Euros for 2001 Danzas showed a much smaller decline than the market as a whole. In 1999 Danzas was acquired by Deutsche Post, which gives Danzas a strong financial base.

## Strategy

Danzas is divided into three different business units: Customised logistics solutions, Intercontinental and European overland transport. These business units were formed to better meet the customers' requirements. They are expanding their intercontinental operations; one example of this is the acquisition of AEI (AirExpress International) in 2000. In 2000 Danzas also acquired Nedlloyd and ASG AB, which is a part of the strategy for offering wider services for customers.

## Services

Danzas services are divided into seven different groups: air & sea, rail & road, supply chain management, project forwarding, warehousing and distribution, IT-services and specialities. Danzas provides warehousing, transportation and can also offer pick and pack, labeling, reconditioning, customer service, reverse logistics and express delivery. Value is added by offering different services and by coordinating them. Specific IT capabilities include:

- Worldwide tracking & tracing.
- Worldwide order monitoring system.
- Electronic order entry
- E-business solutions.
- The mother company, Deutsche Post, integrates logistics with financial services and e-commerce solutions.

## Geographic scope

The company is present in more than 800 company-owned offices in 150 countries all over the world. The company claims to be the regional leader in Europe (market share 10.3%) and North America (8.2%). Danzas also advanced to market leader in South America with a 7.1 percent market share and remained at third place in Asia/Oceania with a 4 percent market share.

## Customers

Danzas have customers in many different industries like the automotive, electronics, fashion, consumer goods, health care and telecom sectors. Some examples of customers are: Philips, Body Shop, Procordia Nordic, Lever Fabergé, GB, Forbo Forshaga, Danisco and Unilever.

## 4.5. Eagle Global Logistics

Eagle Global Logistics (EGL) was founded in 1984 and is a US non-asset based Third Party Logistics provider. Historically the company has been focusing on airfreight forwarding. However, today EGL is engaged in a broader array of services and had revenue of \$1.4 billion and a work force of 8,000 employees for 1999. The company is located in 100 countries around the world.

### Strategy

The core business is to provide flexible, cost effective freight transportation services around the world. Today the company emphasise robust growth through the expansion of company owned terminals in North America as well as through acquisitions and development of joint ventures and alliances with domestic and global partners. Together they can enhance the full-service logistics solutions. The service today is focused on creating single source solutions. The company seeks to continue to capitalise on opportunities for external growth through start-up facilities, acquisitions or joint ventures in order to create a presence in new markets throughout the world. EGL has taken a leadership position in global logistics with the acquisition of the non-asset third party logistics provider Circle International Group in September 2000. The merge gave EGL a complete menu of logistical services and expanded their international network. The company claims that rapid growth with sustained profitability, excellent finances and a management team backed up by highly skilled employees have marked their success. Employees receive financial incentives based on their individual performance, customer satisfaction and company profitability.

### Services

EGL offers a comprehensive menu of global transportation, logistics, materials handling and distribution services for heavy freight shippers. The focus is on domestic and international air and sea freight forwarding. Other services are said to be value-added services.

These value-added logistics capabilities include warehousing, supplier management programs, distribution, inventory control, order management and fulfilment, subassembly or light manufacturing, pick and pack, cross dock operations, product integration and information systems.

EGL offers following ICT services:

- Advisor, a shipment tracking information system. By providing the customer with the ability to track their own shipments, search for shipments in an extensive database, and print air waybills and activity reports. Talon is an international system making this service available worldwide in the local language.
- The Warehouse Management System provides the warehouse customers with visibility of current inventories at all warehouse locations around the world.
- EagleScan Executive Suite provides customers management with detailed reports.

### Geographic scope

Eagle provides worldwide coverage with the main business in America, Europe and Asia/Pacific. The company has offices in 100 countries linked via an integrated IT platform.

### Customers

Harley Davidson, Whirlpool, 3Com, General Motors and Mont Blanc.

## 4.6. Exel

Exel is a world leader in supply chain services. They have more than 50000 employees at 1300 locations in 120 countries all over the world. The turnover for 1999 was \$5.8 billion. It is a publicly held company listed on the London Stock Exchange. During year 2000 the two British companies Exel and Ocean Group merged. Exel was originally a transportation company that had integrated to become a logistics company. The Ocean Group started as a shipping company but expanded into other logistics activities.

### Strategy

Exel's strategy is to provide world-class solutions in supply chain services. The company has two different business processes, called the Exel way. The first process, Business Delivery Process, can be summarised by the four D's: Define, Design, Detail and Deliver. The second process, The Operational Excellence Process, consists of tools and techniques to support customer needs and progressively re-engineer operations. There are two focuses: world-class standard performance and knowledge sharing and using throughout the organisation.

Supporting enablers of behaviour and leadership together with formalized performance management, project management, knowledge sharing, learning and continuous improvement are embedded throughout the whole business process. The Exel way is design to achieve objectives for customers, employees, shareholders and the environment.



## Services

Exel offers the following services:

- Supply Chain Solutions Design
- Supply Chain Management
- Warehousing & Distribution
- Freight Management

Exel also offers a number of different value added services. Specific ICT services are: e-commerce fulfilment, transport and warehouse management including bar coding and track & trace.

## Geographic scope

Exel is located all over the world.

## Customers

Exel is industry focused as for instance: automotive, chemicals, consumer, healthcare, retail and technology. The customers include two-thirds of the world largest non-financial companies and are for example Procter & Gamble, Hoover, Wal-Mart, Ford, Toyota, Rexam, Compaq and Hewlett-Packard.

## 4.7. FedEx

Federal Express Corporation is a transportation, logistics and information corporation. The company of U.S. origin started during the 1970's and has grown rapidly covering most of world market today. Federal Express Corporation is divided into a number of smaller companies and consists of FedEx Express, FedEx Ground, FedEx Logistics, FedEx Custom Critical and FedEx Trade Networks. They are operating independently, focused on their own market segments where the company focusing on logistics is called FedEx Logistics. FedEx Logistics was founded in 1989 as Roadway Logistics Systems, a subsidiary of Roadway Services, Inc. The company headquarters is in Hudson, Ohio. FedEx Logistics has 4400 employees and revenue of \$560 million in 1999. The revenue of whole FedEx Corporation was \$19 billion in 1999. FedEx is one of the largest express delivery companies and delivers daily more than 3,3 million packages and ship more than 3 million ton of goods through its global transportation network. FedEx is represented in more than 210 countries and has more than 150000 employees globally. In order to maintain the transportation and logistics service levels FedEx has more than 660 airplanes and more than 45000 transport vehicles. Furthermore, FedEx has more than 2,5 million regular customers that electronically automatically are using FedEx services.

## Strategy

FedEx Logistics have a reputation as a designer and operator in innovative supply chain outsourcing services. By entering a strategic alliance with the logistics company MSAS (owned by Exel) FedEx Logistics assembled a team of experienced logistics professionals that could build this reputation. Furthermore, FedEx gives special attention to small and medium sized companies. Today's environment gives opportunities for new companies to start up and they need a logistics provider. With the global environment these companies source and sell worldwide which requires a reliable partner to navigate in the global economy. Moreover, FedEx will improve growth and profitability by providing more easily to use and more information rich solutions. FedEx Logistics is also prepared for the e-business where FedEx Logistics has created a new division, named FedEx eLogistics, to focus on providing businesses with end-to-end e-commerce logistics solutions.

## Services

FedEx Logistics, through its supply chain services company, delivers integrated supply chain solutions for customers in different industries. FedEx Logistics offers and supply chain consulting services. Their ICT services include track & trace, signature proof of delivery, specialised e-shipping tools, EDI-electronic invoice and remittance. Order management software includes:

- Order management
- Purchasing/Forecasting
- Inventory management
- Executive information systems
- Electronic Data Interchange

## Geographic scope

Today FedEx Logistics is present in North America and Europe. The other divisions of FedEx corporation are spread worldwide.

## Customers

GM, Amazon.com

## 4.8. Hays

Hays logistics is an UK based company with revenue of \$1,4 billion in 2000. The company is owned by Hays PLC, which is a provider of specialist and quality business to business (B2B) services. The business is divided into three units, distribution (includes logistics), commercial (postal services) and personnel recruitment. The Hays group employs around 26000 people and has a turnover in excess of \$3 billion, of which 35% is outside the UK, mainly continental Europe.

Hays Logistics sees themselves as a leader in the design, implementation and management of innovative supply chain solutions.

## Strategy

The strategy must reflect the customer's needs according to Hays Logistics. Businesses of today are focusing on their core competencies and they are outsourcing their non-core business processes, particularly supply chain management, customer relationship management and human resource management which furthermore are the three core skills of Hays.

By coordinating these three skills, Hays can develop a one-company philosophy, taking care of integrated solutions across a number of activities. Hays logistics focus is coordinating the resources of businesses in the UK and Europe in order to provide integrated and innovative solutions tailored to customers needs. In order to increase the leadership in key markets, Hays acquires and forms partnerships with specialists in supply chain consultancy supply chain software and intelligent e-commerce solutions. One example is the partnership with i2 technologies that gives Hays logistics front line knowledge in e-commerce. The acquisition of EPS, specialists in value-added supply chain management for customers principally in the mobile telephone market, also enhances Hays position in this growing sector. In June 2000 Hays established a new European activity consisting of a team of high-level business consultants, systems integrators, software developers and project managers who will design, implement and manage complex solutions.

## Services

Hays offer customized supply chain solutions. The services include procurement, supplier management, inventory management, first level repair operations, management of repair centers and customer call centers. They also operate highly complex sequencing and sub-assembly operations and sequence deliveries to match JIT production. Hays Logistics UK can also provide and implement integrated IT systems to manage the total supply chain process. Additionally, Hays Logistics has highly developed skills in related areas such as installation and assembly services.

ICT services for SAP users include:

- Integrated Supply Chain Management
- Forecasting and procurement
- Warehouse management
- Transport management
- Credit control
- Billing functionality

## Geographic scope

Mainly UK and Europe.

## Customers

The clients come from many different industrial sectors like automotive, chemical, food, banking, electronics and furniture.

## 4.9. Schenker

Schenker find themselves as one of the leading international providers of integrated logistics services. The company has approximately 28000 employees at 1000 locations around the world and their turnover was \$5 billion in 1999. The headquarters is located in Essen, Germany. The company is divided into three main areas: European land transport, Air & Sea freight and Logistics. The Logistics service consists of 2400 employees and had annual revenue of \$200 million in 1999.

### Strategy

Schenker is very strong internationally with subsidiaries in many countries. Schenker have developed the global presence by acquisitions or by entering strategic alliances. One interesting trend appearing in Schenker is the increasing focus on one-stop shopping. By merging the two German businesses, Schenker-BTL AG and Schenker International Deutschland GmbH, a single business structure was formed. The advantages from this single sourcing strategy are that customers get one contact partner. It also allows a clear-cut and more rapid decision-making together with an overall improvement in service as well as a more efficient network and co-ordination. The main priority in the next few years for Schenker is to increase the logistics competence. This entails investing in efficient IT solutions, qualified personnel and logistics centers. Schenker is working together with SAP to standardize the warehousing management system. The Schenker warehouse management department is a member of SAP's Customer Advisory Board, for developing the standards for future customer solutions. Schenker claims that customers achieve gains from the ICT technologies. The possibility of data transfer with customers via standardized EDI interfaces reduces the administrative efforts substantially, Schenker claims. Schenker has a strategy of working in co-operation with a small number of selected and reliable partners, to reduce the number of interfaces involved and to improve the degree of integration.

### Services

- Integrated logistics services: Schenker offers both tailored and standardized logistics concepts including supply chain management, cross-docking and pick-and-pack operations.
- IT solutions: Schenker offers its customers information services covering order processing from the sender to the recipient via a global ICT system, track & trace and mobile communications (WAP).
- Transportation services: they are the European leading truck transport provider.
- Warehouse management
- Air & Sea freight (through partners only since Schenker have no assets in air and sea)
- Project consulting services

## Geographic scope

Schenker are strong in the European market with affiliates in almost every country. Other important markets are USA, Thailand, Singapore, Hong Kong, China, Canada, Brazil, Argentina and Australia. Apart from the affiliates Schenker has local partners or agents that increase its network in several other countries worldwide.

## Customers

Schenker specializes in areas like: air parts industry, automobile industry, retail and food.

## 4.10. Schneider

Schneider National is a privately owned company founded in 1935. Schneider has an estimated 19000 employees and has operations in the United States, Canada, Mexico and in Europe. In 1999 the revenue was \$3 billion. Schneider claims that they are North America's largest truckload or over the road hauler of freight. Freight management is the core business for Schneider and they have also had a long history in ICT. Schneider Logistics is a wholly owned subsidiary of Schneider National Inc. And provides logistics solutions and supply chain technology to business partners throughout North America and Europe. Schneider logistics started its operation in 1993.

## Strategy

The goal of Schneider National is to be the logistics and transportation provider for Business-to-Business (B2B) Interest marketplaces. By entering alliances with leading B2B marketplace developers and providers of e-commerce solutions offering supply chain efficiencies and various Internet-enabled technologies, Schneider can interact and build its organisation and solutions in shape with the marketplace systems. Schneider is similarly entering alliances directly with B2B marketplaces and with other logistics companies to be able to give more value to the customer. Some examples are partnerships with railway companies and finance institutes.

Schneider Logistics goal is to accelerate its investments in logistics technology, products and services. Schneider wants to develop the role as a global supply chain integrator. As the customers are asking for global reach, an increased focus on supply chains and greater access to capacity it is Schneider logistics intent to provide the necessary technology and services to meet the customers' needs for global supply chain integration.

## Service

The main service is road transportation, but through partnerships all transport modes can be offered. Schneider also provides comprehensive logistics solutions and supply chain technology to business partners throughout North America and Europe. They offer a wide range of services, covering such areas as freight management, analysis, reengineering, computer-based systems for shipment control, and carrier management.

Schneider also offers logistical services to e-Business customers. Schneider has become a logistics partner with firms utilising the Internet as a market channel. The company has extensive service offerings for e-tailors.

- Technology services - these technology applications utilising the Internet allow shippers, carriers and consignees to improve service, reduce costs and to depend on real-time communication with Schneider.
- Consulting Services (process analysis, supply chain analysis)
- Finance services.

### Geographic scope

USA, Canada, Mexico, Asia and Europe.

### Customers

General Motors Service Parts Operations, Philips Consumer Electronics

## 4.11. Tibbett & Britten

Tibbett & Britten (T&B) is an UK based international logistics company. In 1999 the revenue was about \$2 billion. Tibbett & Britten have over 30000 employees in 32 countries. The mission of the company is to translate skills and experiences into supply chain management and to be seen as an international leader among their clients.

### Strategy

Tibbett & Britten Group's objective is to develop in partnership with its clients and consolidate itself as an internationally acknowledged leader in supply chain management by translating experience and skills across territorial and product sector boundaries. Tibbett & Britten has, together with Texas Instruments and Microlise Systems Integration, developed smart labels based on Radio Frequency Identification for Marks & Spencer and Woolworth's. In countries with small operations Tibbett & Britten are forming partnerships.

### Services

Tibbett & Britten offers supply chain management, inventory/information management, value added, support, warehousing, transport & distribution (management), rail operations, development & planning, and e-commerce fulfilment. E-commerce solutions are offered through the subsidiary Trackone. Inventory and information management in the group is supported by an internal department to remain at the cutting edge of the development in information technology. The company has well developed EDI-, RF- and ECR-technology. Tibbett & Britten are focused on logistics and related support services in four different market sectors: motor, food & grocery, high tech/non grocery and clothing & textile. About two thirds of the clients belongs to the retail sector and about one-third to the manufacturing sector.

## Geographic scope

The company operates in 32 countries all over the world and they are market leaders in UK, South Africa and Canada.

## Customers

Important customers in retailing are Wal-Mart, Marks & Spencer, Woolworth's. Manufacturing customers are Colgate Palmolive, Procter & Gamble, Honda, IBM, Compaq, BMW, Hewlett Packard, Nestlé and Unilever.

## 4.12. TNT

TNT Group claims to be the European market leader in global express distribution, logistics and international mail. TNT Group has over 100000 employees in over 200 countries and during 2001 TNT Express carried 187 million consignments, which equaled about 3,2 total tones. TNT has about 878 depots, jet stations and hubs with more than 19000 vehicles and 43 company owned aircraft with a working force of 40000. The company reported sales of 11.2 billion Euros in 2001.

TNT Express is a global integrator and is able to provide reliable door-to-door express delivery services by operating company owned road vehicles, depots, sorting centers, air hubs and freighter aircraft. Use of company owned integrated facilities enables the organization to exercise absolute control over the door to door movement of consignments thereby helping TNT to offer the fastest and most reliable transit times.

## Strategy

To lead the global logistics industry in designing, implementing and operating solutions for complex supply chains, exploiting technology to achieve optimization, integration and visibility throughout the process. TNT's central philosophy is to put the customer at the heart of business. TNT aim to be customers' business partner devising solutions for all customers' distribution needs by combining TNT's core capabilities to create new products and services.

The vision of TNT Express is to satisfy customers and be the most successful global business-to-business (B2B) express delivery company.

## Services

TNT's operational networks are supported by sophisticated technology which as well as ensuring service reliability provides real-time, on-line information on the status of customers' consignment. TNT offers a service called TNT Logistics designs, which implements and manages complex, value-adding logistics solutions for its customers. TNT Logistics links individual elements in the supply chain into a seamless integrated logistics solution for companies around the world. TNT's service portfolio offers a range from warehousing, transportation and distribution to total supply chain solutions.

Furthermore, this enables TNT to offer a full integration with their customers' procurement, production, distribution and marketing, sales and finance functions and activities.

TNT Express is the world's leading provider of express business-to-business (B2B) delivery services. TNT to offer customers state-of-the-art solutions, tailored to their specific business requirements.

TNT Logistics is present in all possible activities of the supply chain:

- Procurement and Inbound Logistics
- Manufacturing Support
- Outbound Logistics and Distribution
- Aftermarket Service

### Geographic scope

TNT's international operations are focused on the key areas of world trade in Europe, Asia, North and South America. TNT also has strong domestic networks in Australia and Europe. TNT Group has over 100000 employees in over 200 countries.

### Customers

TNT takes care of specific industry requirements. For example in the biomedical and pharmaceutical sectors where reliable timely delivery is critical, TNT provides packaging and distribution solutions for temperature controlled samples.

## 4.13. UPS

UPS (United Parcel Service) was founded in 1907 in Seattle, USA by James E. Casey and has its headquarters situated in Atlanta. It was already in the beginning UPS slogan was established "The best service with the lowest prices". As of today UPS has formed into an important actor within the TPL industry and is today the worlds largest parcel distributor with service in more than 200 countries. In 1998 UPS transported and delivered more than 3,1 billion packages. In order to be able to maintain this volume UPS uses more than 2400 facilities and an enormous transport fleet consisting of more than 500 airplanes and 157000 vehicles. UPS has more than 327000 employees around the world of which around 291000 are employed in USA and more than 24000 are employed in Europe. Despite UPS long history it has only recently entered the European market. It was in 1976 UPS entered Europe and started the expansion on the European market during the 1980's.

Today UPS is active in more than 45 countries in Europe and has its European head office in Brussels. UPS deliveries more than 199 million packages and documents (1998) within Europe and are using more than 17000 vehicles for the European market.



## Strategy

UPS has become an expert in global distribution. At UPS, global distribution involves managing not only the movement of goods, but also the flow of information and finance that moves with the goods. UPS customers increasingly asked to tap into this expertise, which ultimately lead to the formation of UPS Supply Chain Solutions.

## Services

In 2000 UPS added capability to calculate rates and find transit times for shipments on any digital wireless device. Moreover, UPS customers can access these services from a one- or two-way text-messaging or web-enabled phones, personal digital assistants, pagers, or other common wireless devices. Furthermore, UPS online tracking requests reach 6,5 million people each day. UPS Supply Chain Solutions is a streamlined organization that provides logistics, global freight, financial services, mail services, and consulting to enhance customers' business performance and improve their global supply chains. UPS supply chain solutions are delivered by UPS Capital, UPS Logistics Group, UPS Freight Services, UPS Mail Innovations and UPS Consulting.

Technology at UPS spans an incredible range, from small handheld devices, to specially designed package delivery vehicles, to global computer and communications systems. The handheld Delivery Information Acquisition Device (DIAD), carried by every UPS driver, was developed to immediately record and upload delivery information to the UPS network. UPS Consulting can identify the critical gaps in customers' current supply chain and determine what will be required for long-term success.

Among offered services:

- Planning
- Procurement
- Production
- Fulfillment
- Product design
- Customer management
- Cash management

## Geographic scope

Despite UPS long history it has only recently entered the European market. It was in 1976 UPS entered Europe and started the expansion on the European market during the mid 1980's. In 2001 UPS launched direct flights to China and in 2002 UPS begins operations at new intra-Asia hub located in Philippines. Today UPS is active in more than 45 countries in Europe and has its European head office in Brussels.

## Customers

High value or time critical goods, fast moving consumer goods (FMCG), pharmaceuticals, automotive and telecom industry.

## Chapter 5 – Analysis

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This chapter connects the theoretical framework with gathered empirical data. An analytical process is then initiated and the prerequisites of logistics alliances are presented. From this follows an analysis of drivers and Key Success Factors. A successful partnership within the TPL industry is analysed together with how drivers in this process could be found and exploited in order to identify Key Success Factors. This will illuminate what prerequisites TPL providers face in order of development and achieving further market success. Significant possibilities and opportunities for the TPL providers are analysed and how they create the foundation for more competitive organizations.

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### 5.1. Introduction

Over the last few decades the role of logistics management has undergone a paradigm shift. It is widely recognized as an extremely important aspect of the overall business strategy. At the same time, a number of factors have increased the complexity of logistics management. This has led many companies to outsource their logistics activities to Third Party Logistics providers. Today, TPL providers play a critical role in the supply chains of their customers. They are increasingly viewed as strategic partners who can play an essential role in optimizing the supply chain and thereby providing sustained competitive advantage.

The pace of strategic change has accelerated dramatically in all sectors of the logistics industry. While this change is driven in part by developments outside of logistics, such as increasing globalisation and faster product cycles in manufacturing industries, the result is that their customers place greater demands on TPL providers. Strategic change is also driven by a worldwide trend toward deregulation and privatisation of transportation sectors.

It is increasingly difficult for large players in logistics to keep up with the pace of strategic change or to develop a long-term competitive advantage that yields increased shareholder value. Not only are traditional approaches to strategy (increase market share and volume, reduce costs) no longer working, but the rapid pace of change quickly turns even successful business designs obsolete, requiring companies to reinvent themselves on a regular basis.

The question is how to deal with the “strategic risk” of business design evolution proactively rather than reactively, particularly in asset-intensive industries where the weight of existing investments means that gradual business redesign may be the only option. Managers are often concerned about the risk to the existing business of making significant changes in a company’s strategic direction. But there is also a strategic risk of sticking with a business design that has lost its customer relevance and profit power. In times of change, standing still can lead to value collapse, value stagnation, or be left behind to a competitor with a winning business design.

Investments within the TPL industry may vary depending on what kind of service portfolio the provider is offering their customers. Within the TPL industry assets in physical resources like inventories, buildings and transport vehicles is of lower or higher degree. For example EGL is using a low degree of investments in physical resources and is instead concentrating on arranging services to customers through a sophisticated and elaborate network of suppliers.

In this sense EGL may be categorized as non-asset based TPL provider. Contrary to non-asset based TPL providers are asset-based providers with a high degree of investment in physical resources like airplanes, distribution centrals, warehouses, hub-and-spoke logistics systems, ships and vehicles. Examples of asset based TPL providers are Exel, UPS, DHL, TNT, FedEx and ABX Logistics.

Winning companies do not replace traditional patterns but rather supplement them, creating a broader selection of business designs to meet increasingly differentiated customer needs. Recognising these patterns and formulating a strategy to take advantage of them can serve as an extremely valuable shortcut to developing business designs that leave competitors behind, particularly as new business designs account for much of the new value creation occurring in the business world today.

The TPL industry has been growing by more than 20 percent per year over the past five years, as companies across the globe increase their outsourcing of many supply chain activities. Users and providers of TPL services, however, are less concerned with where the industry has been than where it's going. Is the industry likely to continue growing at the same pace? Will users and providers learn to structure a sustaining "win-win" value proposition: satisfied customers, profits to providers? What services will users want most in the future? What great challenges and opportunities will the industry face over the next few years?

## Industry Challenges

An issue that should be of major concern for the TPL industry is that customer satisfaction with TPL performance appears to be decreasing. Implementation problems also continue to be an issue, resulting primarily from a lack of closure between customers and providers regarding TPL project requirements and expectations. Poor customer data quality and information technology gaps play a role as well. TPL providers face systems development challenges and a lack of qualified people continues to be major problems for the industry. Pricing pressures at least do not appear to be getting any fiercer. Providers are also facing greater competitive pressure where non-traditional TPL providers such as freight forwarders and brokers have been gaining market share.

## Question of Value

Customers seem to rely on TPL providers for information systems and value-added services such as rate negotiation, product returns, re-labeling and repackaging. The demand for such services now appears to be decreasing, while the percentage of companies using TPL providers for basic services is increasing. Customers may be more concerned about turning over high-value activities to TPL providers for a number of reasons, including not only fear of loss of control but increased publicity about TPL contract cancellations and the lack of a well established track record for TPL providers in providing value-added services. Customers could simply doubt that the TPL alternative is providing great value. However, TPL providers could see value-added services as a way to improve the breadth of the service offering and increase strategic control with customers, resulting in improved margins and market share. Developing long-term relationships with customers to build trust is essential, as ongoing relationships are most likely to generate opportunities for TPL providers to provide high-value services. Even so, given user preferences for basic services, the offering of high-quality, cost-competitive basic services will probably remain the major driver of financial results for the near future.

## Question of Growth

Increased focus on core competence and growing complexity of the logistics function has led many companies to outsource logistics activities like transportation and inventory management to TPL providers. In addition to this, by outsourcing to TPL providers, companies avoid locking capital in warehouses, trucks, containers and so forth.

Another factor influencing the adoption of TPL services is globalisation. As firms expand their markets beyond national boundaries, the need for more sophisticated services like the hub-and-spoke transport system and international trade rules compliance increases. Proactive TPL providers have developed these competencies and can effectively ship products to multiple countries, using elaborate transport system and meeting all the international trade requirements. Despite these concerns and challenges, continued TPL industry growth is still expected. Both TPL customers and providers believe that high growth per year for the next five years is likely.

However, as the TPL industry surely is in the midst of a consolidation process it is mainly done through mergers and acquisitions. This way the TPL providers can reach large market shares and geographic scope advantages faster than compared with organic growth. For example EGL has increased their market share through acquisitions. For instance ABX Logistics is using an acquisitions strategy in order of obtaining market growth and outperforms competitors through fast market expansion. Furthermore Deutsche Post has acquired Danzas, which in turn had acquired ASG, Nedlloyd and AEI. Also Exel and Schenker are using acquisitions to expand their businesses.

## The Outlook

Certainly the TPL industry is extremely varied in the types of services it provides. At one end are conventional freight movers involved in transportation of shipments from one location to another. Generally these services are restricted within a geographical area and use limited modes of transportation. At the other end are TPL providers who can execute complex end-to-end supply chain projects involving multiple countries and multiple modes of transport. TPL providers may or may not own carriers and warehouses. As a result they are classified as asset based and non-asset based TPL provider as previously discussed.

Currently it seems as the TPL industry is in a state of transition. TPL providers are adding more and more services to their portfolio as customers demand more integrated solutions. TPL providers are to a greater extent viewed as strategic partners who can optimize the supply chain, reduce the cycle time, and provide unprecedented customer responsiveness. The key to effectively provide these services is information and communication technology (ICT). More sophisticated TPL providers have quickly embraced ICT to enable better coordination of activities by providing tracing and tracking facility to its customers. But this is hardly enough to ensure sustained competitive advantage. In order to try and eliminate inefficiency from the supply chain, remove bottlenecks, and continuously seek process improvement, the ability to analyze all the activities in the logistics process is extremely important.

With respect to globalization, TPL customers and providers might be looking towards the future somewhat differently. Customers could be asking for basic international transportation and warehousing services, as well as more customs brokerage, documentation, and forwarding services. Providers, on the other hand, expect increased international revenues from more value added services, such as integrated supply chain solutions and logistics consulting.

Furthermore, providers are being pressured by customers to expand globally. An increase in the number of alliances and acquisitions is one outcome of the pressure on providers to offer a broader array of international services. The companies studied are strong players on the European market as well as on the global arena. Some TPL providers are more dependent than others on an alliance network that offers a global service. Hays is an example of this. Other TPL providers have their own global organization, which is often obtained by mergers and acquisitions. Deutsche Post, UPS, FedEx, DHL, ABX Logistics, Exel, Schenker and TNT are examples of TPL providers with acquisition strategies.

## 5.2. The Supply Chain

### 5.2.1. Overall structure and introduction

Supply chain structure could be comprised to a single company as well as a wider view including several companies. The former view relates to a single value chain analysis and how connections and primary and secondary activities are elaborated in co-dependence. However, the same thought could be applied when considering supply chain structure when comprising more than one company. This latter way of looking at inter-organizational relationships is closely related to the network economy where alliances can assist companies to identify, establish and trigger new driver for successful supply chain management. Advanced supply thinking will involve the effective management of external resources through inter-organisational relationships based around different thesis. These could be for instance total supply view of cost management, the recognition of the need to manage a network of supply relationships rather than a linear chain through pre-determined relationship types. Furthermore, an ability to concentrate on core competencies and effective methodologies for the outsourcing of non-core activities and a flexible and dependent approach to the strategic issue of the effective boundary of the firm through the adoption of lean supply and relational competence.

### 5.2.2. Alliances – releasing resources

As the Internet continuously accelerates the pace of business, TPL companies must be flexible and agile, being able to react quickly, with minimal effort and expense. Although TPL companies might respond and execute quickly, but too frequently this could be achieved at a high cost through expedite fees and overtime pay. Consequently, speed is not achieved through inherent capabilities of the organization and its supply chain partners. Simply increasing the speed of activities inside the corporation without concurrently increasing the visibility into what is actually happening only increases the risk of an organization actually doing the wrong things.

Agility can be increased by improving the ability to detect problems, threats, and opportunities, giving the organization and its partners more time to react. By implementing inter-organizational warning system that continuously monitors for important events initiated by partners, customers, or internal operations, TPL providers can gain valuable time to evaluate situations and increase responses before events turn into problems, or problems turn into crises.

A way for TPL providers to achieve agility in operational performance is managing information instead of inventory by reducing or eliminating communication latency, which can be described as the unnecessary time delays between the occurrence of an event and when it is discovered by the organization and then subsequently communicated to the person able to take corrective action. More importantly for TPL provider in relationship with customers is to extend this capability to include instantaneous recognition of events or problems that can be resolved across organizational boundaries. This will in turn enable supply chain collaboration between TPL customers and providers. This level of collaboration facilitates reductions in lead-times, inventory levels, stock-outs, and production interruptions throughout the supply chain while simultaneously increasing overall responsiveness to the end consumer.

However, it is not only common with collaboration between the TPL provider and their customer, it is also common that TPL providers are collaborating and entering partnerships. Through these partnerships they can offer complementary services or competencies to their customers. An example of this is FedEx Logistics who is co-operating with Exel in order to gain competence in logistics service. However, the competence spill across the organizational borders is working two ways, hence a win-win situation between TPL providers might be established.

By reducing time-frames associated with traditional internal reporting and notification cycles, TPL customers can enhance productivity through improved awareness of business operations, more responsive management-by-exception practices, and shorter cycle times leading to cost savings through reduced inventory levels, increased charges, and greater organizational efficiency.

However, problems and concerns with supply chain collaborations between TPL customers and providers through logistics alliances, informal as well as formal, emerge from poorly defined agreement regarding what services the partnership should conclude. In this situation there might be a feeling of disappointment from the customer to the TPL provider since the customer feels that the logistics provider did not deliver the service the customer was expecting.

A similar situation might occur when there is uncertainty between the customer and TPL provider regarding service agreement. Furthermore, customers to TPL providers might also expect a high level of pro-activity in problem solving and service development for the customer. Resulting from this lack of pro-activity might lead to a replacement of TPL provider. An important factor for the customer in this situation is to get full support from its employees. Otherwise this might end up in organisational disturbances and difficulties to achieve set up goals with the logistics alliance.

### 5.2.3. Fundamental drivers of supply chain structure

Understanding the sources of differentiation, which the supply chain must support, is fundamental. Three basic dimensions of differentiation can be identified: the product; its cost; and the service that supports it. Each of these has a number of sub-dimensions such as what differentiates the product and so on. TPL providers need to be up to date in regards to their customers' needs for service. Moreover, TPL providers need to know how to differentiate their service depending on the different customer needs and market situation through style of service, customer relationship, availability, responsiveness and so on. TPL providers need to define their service portfolios because the optimal operations structure will differ depending on their relative importance (see *Figure 5.1*).

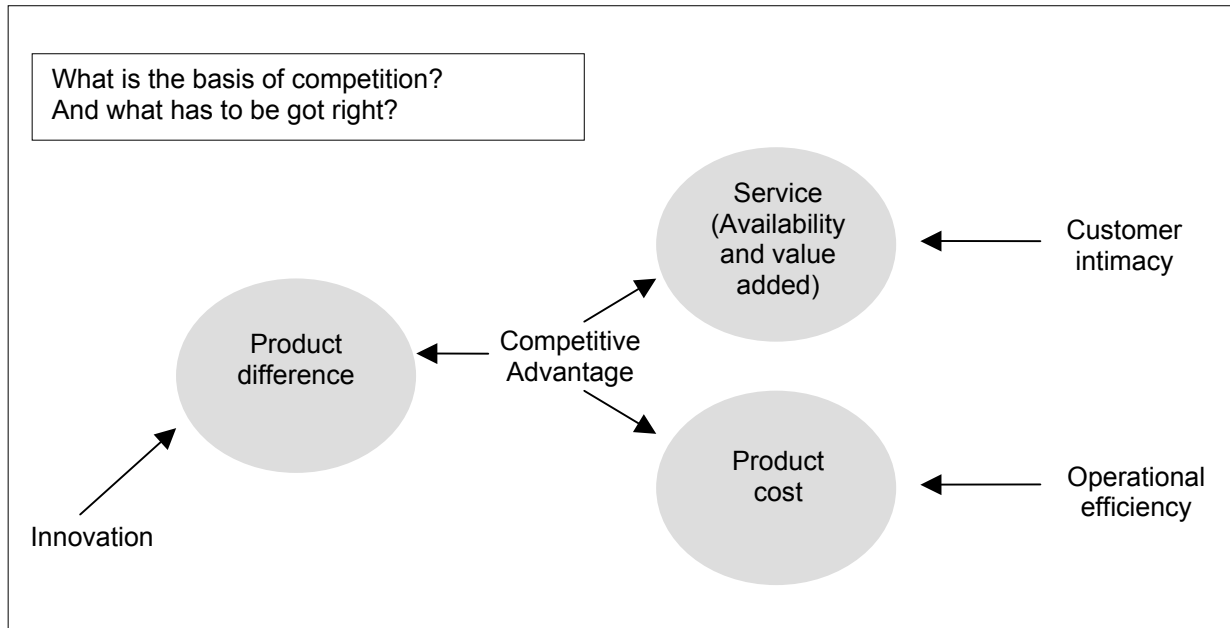


Figure 5.1. Basis of competition in the supply chain

The second part of orientation relates to TPL providers understanding of the basic trade-offs in the supply chain about how their customers demand is satisfied. The question to be answered is how does a TPL provider understand the process of servicing demand in the supply chain? TPL providers can adjust a number of levers to fulfil variable demand. For instance TPL providers can adjust service, capacity or inventory levels for customers (see *Figure 5.2*).

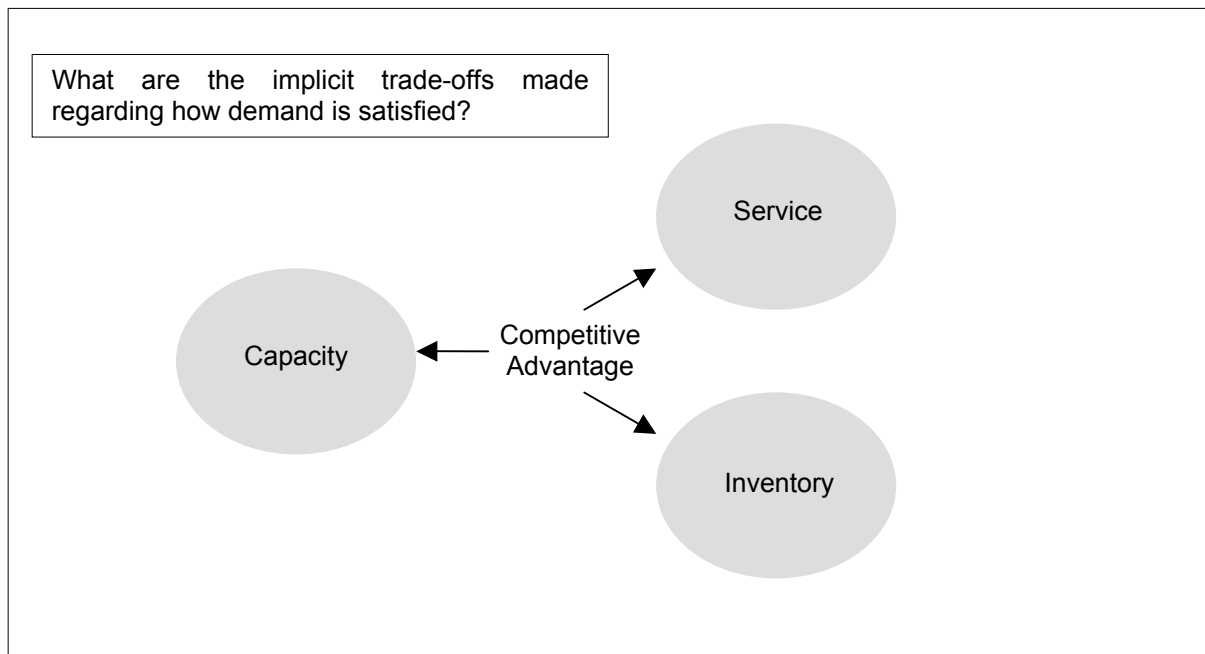


Figure 5.2. Orientation and trade-offs in the supply chain

TPL providers need to stay closely related with the different needs their customers face in their specific industry and market conditions. For instance, as supply chains mature for TPL customers, for example in consumer goods, service becomes given while inventory is unattractive. JIT is an examples of service offered to TPL customers in this situation.

Inventory acts as a buffer between demand and supply making the supply chain naturally unresponsive, so the focus comes on to meeting demand fluctuations by capacity flexibility. However, this is not always the case, as in some industries, capacity is fixed and inventory is still unattractive, so the focus then comes on to varying service and demand. In situations where TPL providers comprise a large part of their customers value chain offering a broad value added service portfolio, demands are high for specific market knowledge and assessment, not to mention demand structure. In these situations the preferred way of dealing with demand fluctuations may be extending lead times, or varying price to increase or reduce demand to balance it with the supply available. In designing the optimal structure for the value chain, a TPL provider must consider key questions regarding the supply chain, each of which will have implications for a different part of the supply chain design. TPL providers need specific knowledge regarding what economics of scale are driving the TPL customers supply chain. In general, there are two fundamental drivers related to manufacturing industry. First, the cost of transportation as a proportion of selling price. Second the capital investment in terms of its impact on finished goods costs.

Naturally, TPL providers need to match their value added service portfolios and price efficiency on basic logistics service with customers demand. However, this might differ to a great extent depending on TPL customers' business and industry segment, customers' scope and market strategy. The key to this for TPL providers can often be found in closer customer relationship.

A way of obtaining this is through logistics alliances. Logistics alliance development is still in early stages. TPL providers can together with their customers develop the alliance and establishing a co-dependency featuring purpose, structure, scope, needs, and results. An important factor that seems to be driving companies toward alliances is corporate restructuring. Typical motives are the need to reconfigure production facilities to respond to globalization pressures. Corporate restructuring can lead to a logistics alliance in two ways.

- More specialized production and fewer factories will be quickly followed by a re-evaluation of the logistics configuration. Disappearing borders, greater distances to market, and improving transport networks have initiated the setting up of one or more European or regional distribution centers.
- Focus on core competencies such as product development, manufacturing, and marketing and selling, conclude that parts or all of logistics is best outsourced to a specialist provider.

### 5.3. Expand the perspective – integrated services

One pattern that appears relevant to ongoing developments in the TPL industry is the “collapse of the middle” (see *Figure 5.4*). To be “in the middle” in the TPL industry may seem safe, but strategically it can be risky. This pattern is characterized by the movement of TPL customers toward opposite ends of the value spectrum. At one end are customers who want basic TPL service at the best possible price (“price seekers”); at the other end are customers who want customized and highly value added TPL solutions. The latter customers are willing to pay a premium for tailor-made, value added and synchronized TPL service (“solution seekers”).



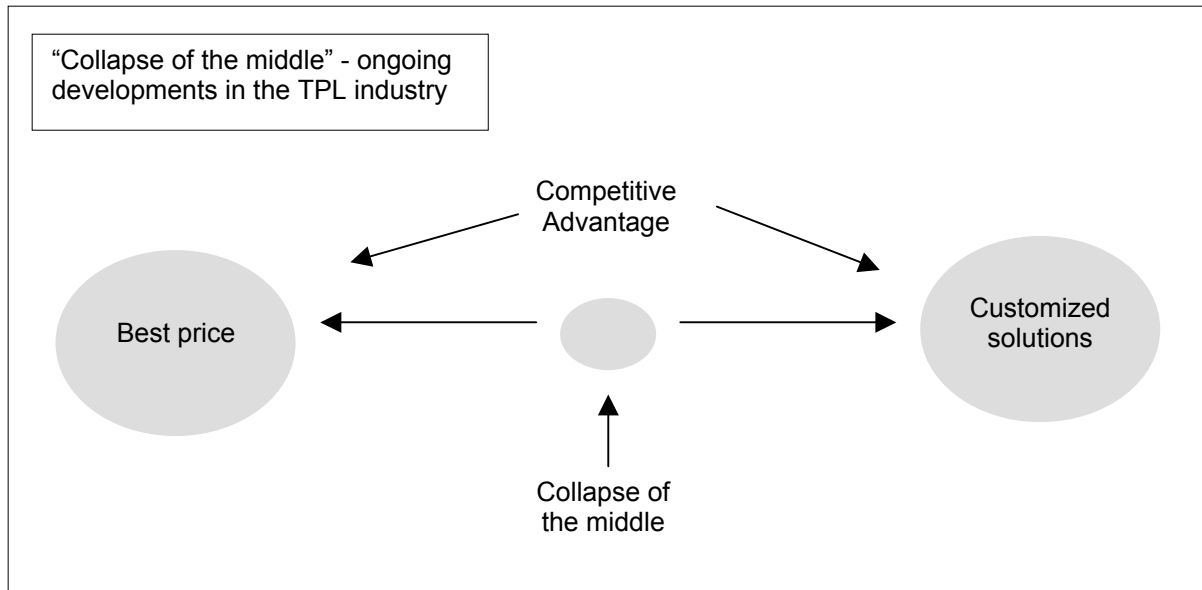


Figure 5.4. "Collapse of the middle" - ongoing developments in the TPL industry

For Third Party Logistics providers it is vital to avoid the middle in differentiating TPL service versus service price. If a TPL provider does not find a profitable niche or forms into a high end TPL service provider with a large value added portfolio or a highly efficient and well rationalized TPL provider being able to keep extremely low prices, they will find themselves unable to deliver either superior cost or superior customer focus. Rather than trying to be all things to all customers, TPL providers may need to choose a particular value niche (cost or solutions focus) and then work to dominate that niche in the industry as a whole. However, TPL providers today seem to indicate quite the opposite; stuck in the middle with services not technology tailor-made for customers but more of a general broad perspective. The problem is management of scope. Most alliances seems involve only a modest range of services where stocking, handling, and transportation of finished goods are the core of the alliance. The modest scope of services can be described as a "middle of the road" service level, rather than leading-edge performance.

With a TPL market of confidential contracting and deregulated pricing, more pressure will fall on TPL providers to find their niche toward the extremes. TPL providers focusing on basic services will try to control purchasing power to obtain the lowest possible prices for basic service, while providers of fast-moving consumer and high-tech goods are expanding their elaborate inventory management and logistics solutions tailored to the needs of their complex operational networks and high value-added service portfolios. Rather than offering non-value added service, innovative providers seek to improve the economics of the entire system through a combination of service offerings and financing. This way TPL provider can establish a win-win situation with greater value for both the customer and the provider. Opportunities to capitalize on this pattern could be found in the arena of supply chain management and the developments within information and communication technology.

Many TPL providers may find it hard to establish a customized solutions portfolio, particularly as solutions, just like products, can become commoditized over time. It is very important for TPL providers to keep focus on customers' systems and continued evolution to improve offerings in response to the next phase of the provider and customer relationship when trying to become a complete service solution provider in the TPL industry. In alignment with TPL providers ability to offer complete and value added service to their customers they either need to own all necessary assets or they could enter partnership and use service through partners.

Exel and ABX Logistics are examples of TPL providers that are trying to offer most service in-house where EGL and Hays are examples of TPL providers benefiting mainly from their network.

## 5.4. Coordinating resources

For a relationship to exist, and to be successful, a certain co-ordination of activities is necessary. Furthermore, co-ordination of activities within and between companies normally results in economies of scale and scope and increase of knowledge. Moreover, this will in turn create possibilities of obtaining competitive advantage for the TPL provider.

However, different dependencies can differentiate activity structures for TPL providers. These dependencies can be found in volume, technology fit, time and location. Volume creates economies of scale and scope and can increase frequencies. The scale economies are higher for basic services than for TPL with problem solving as a strategy.

Naturally, a technological fit is very important. If the activities of the TPL provider and its customer are technically connected and adapted the co-ordination would be more efficient. Also very important is the fact where the different activities are performed. A close location between the activities would decrease the time for transportation and also risk for damages and delays.

However, trust is fundamental between firms in the TPL business, especially when there is much at stake for the companies. This is often the situation when a firm is outsourcing parts of its supply, operations and distribution to TPL providers. For example, UPS and Deutsche Post together with other trans-nationalized logistics companies are positioned to support customers in industry, trade, and service in their desire to further rationalize production, circulation and office work processes within and across national borders. They combine, or at least aim to combine uniform infrastructure services and highly specific and responsive supply chain activities along the value chain more or less related to the core business of organizing and carrying out both material and information flows. Thus convergence through uniform services and diversity through specialized customer tailored solutions can be a part of one inter-organizational system and even of one organization. The great diversity of business systems and organizations within the TPL industry may turn out then to be a competitive advantage for companies specialized and eager to bridge countries, cultures, and organizations.

### 5.4.1. Importance of customers and customers' customers

Coordination between customers is vital for TPL providers. But equally important seem to be to co-ordinate their customers' customer and other parts of the customers network. A win-win situation can be established since it connects their own service to customers to their customers' services to their customers (see *Figure 5.5*). The implication of this is that the TPL provider can specialise both on the category of customers delivering to a specific customer but also develop a deep knowledge of the customers' customer. When such coordination is made for many small customers it is possible for them and for the TPL provider to gain large economies of scale by using the same distribution system. This would result in both a better service and lower costs, hence creating a win-win situation.

Furthermore, the customers' customer can also get large cost savings by getting everything delivered the same time, rationalizing the handling by fewer packages, more adapted flows as well as the centralizing the invoicing. At the same time the TPL provider also gain advantages since they can specialize for a specific type of suppliers and their customer. This way the TPL gets a deep knowledge of the specific customers and customers' customers' situation. For that reason the effectiveness is high for customers, customers' customers and the TPL provider.

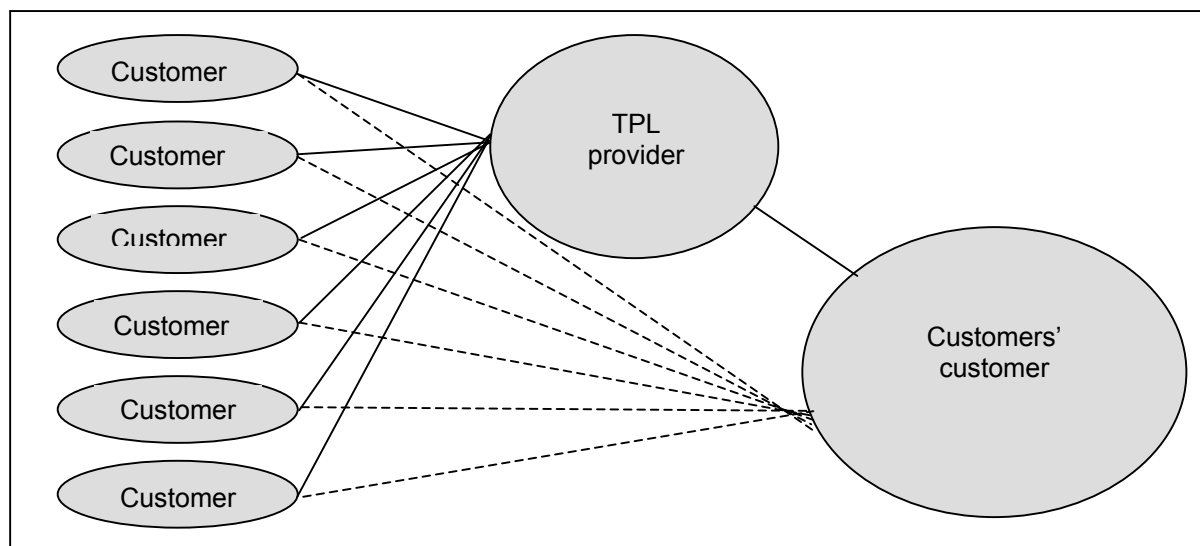


Figure 5.5. Co-ordinating based on the same customers' customer

Existing network of customers, customers' customer and partners seem to have played an important role for the development of the TPL industry. The larger transport firms like ASG (part of Deutsche Post) and DHL get their customers from existing business more or less. When developing into a TPL provider the business gets more specialized and separated from the parent business as in the ASG case. It seems that, as the TPL business gets separated, the strategies change into more advanced TPL services. An important issue seems to be the development of niches where it is possible to create the specific knowledge and recruit personnel from the industry. The different niches seem to develop from the early customers in the TPL. Alliances, acquisitions and mergers really played an important role both for getting new customers and problems with customers leaving. Furthermore, TPL firms themselves have the same problem caused by alliances and acquisitions. Deutsche Post has acquired all ASG, Danzas and DHL for instance. No doubt, the TPL industry seems to be in the midst of a major consolidation period. Furthermore, it is very interesting to see how the different companies have developed together with their customers and partners. Moreover the customers' customer affects the development or the selection of a specific TPL, which could be either positive or negative. Understanding customer's situation and to develop knowledge about customer's business often necessary in order to establish trust as a TPL provider. This is also why it is vital to keep a close and long-term customer relationship. As discussed earlier, selection and coordination of customers has a great impact for creating of economies of scale and scope. Therefore the existing customers and systems involving partners and suppliers will play an important role for how firms enter into TPL business and moreover develop within the TPL industry.

It seem that the customers are influencing directly or indirectly both if the companies are moving into TPL business, and also what TPL strategy they will choose. Entering the TPL business is often a result of customer development and demand for new types of services. The second step is a result of the first step where the first customer brings certain knowledge to TPL, which in turn can be used for other firms.

### 5.4.2. Geographical coverage

Naturally, it is vital for a TPL provider to utilize and exploit the geographical coverage. This could be done when several customers have the same geographical coverage by co-ordinate the activities of those customers. In this way the TPL provider can transport the goods of several customers at the same time, creating a higher frequency for the deliveries but also co-utilizing the trailers and other vehicles. To co-ordinate TPL customers in order to create scale and scope economies in their operations are part of fundamental thinking within the transportation companies. This is especially important in situations when firms are internationalised and want to transfer large volumes long distances. Naturally, if the combined volumes are high capacity utilisation normally increase and the costs of handling and transportation will decrease per unit and knowledge in the geographical area increase. The location of customers, suppliers and customers' customers will also be a base for the structure and development of the geographical network of the TPL provider.

## 5.5. Implications of ICT

Regarding the development of software within logistics business, trends are pointing towards more standardized solutions. More open and highly integrated systems that comprise much of the company's activities are developed today. A complete system is demanded that can integrate all business activities and function throughout the value chain. Consequently, information and communication technology (ICT) is a vital link throughout the business system in a more specialized industry.

The emergence of Internet and information and communication technology has given rise to a new type of e-logistics companies, which provide many different solutions. These web based logistics portals seek to bring together shippers, TPL providers and other interested parties to provide more effective collaboration. Often these portals are perceived to be in competition with conventional TPL providers when in fact e-logistics companies provide complementary services creating a worldwide supply chain needs for their customers. In combination with e-logistics companies, TPL providers can provide services like cross border transport, customs clearance and international trade settlement by effectively coordinating with concerned organizations. EGL is an example of this new type of logistics company.

Companies are more and more looking towards TPL providers to provide information and communication technology based services. With the emergence of Internet, TPL providers can now reengineer the customer's supply chain by providing online collaboration and synchronization through the web. Even before the general acceptance of Internet, sophisticated TPL providers used custom developed software for electronic data interchange (EDI) with the customers. Furthermore, TPL providers are entering partnerships with ICT specialists to achieve the latest technology and competence in these areas. As an example Tibbet & Britten is developing new techniques for labelling with Texas Instruments. Also Schenker is in co-operation with SAP where they develop Schenkers ICT system together. Other ICT based services that are provided by TPL providers are transportation planning, online ordering, automatic invoicing, forecasting, shipment tracing and tracking, etc. Business intelligence tools can leverage the data created by the existing ICT infrastructure to provide valuable additional services to the customers.

ICT related services could in many ways be seen as value added services, which can to a great extent affect profitability and the reduction of costs. This applies to both TPL providers and their customers. As an example Schenker claims that the customers reduce their administrative costs substantially through EDI services. Similarly, Deutsche Post is an example of how ICT enables a TPL provider to offer payment as well as logistics services through their own Internet portal. Additionally, these types of ICT related services make Deutsche Post a forward-integrating company. Signs of an increased vertical integration within the TPL industry can be seen which is in the opposite direction of the general trend of decreased vertical integration.

Some other ICT related services are:

➤ Supply Chain Visibility:

Typically the order and shipment information are available in different operational systems. To provide complete supply chain visibility to the customers order and shipment information needs to be collected in real time data warehouses from where seamless online tracing and tracking can be provided.

➤ Forecasting:

Sophisticated demand and supply forecasting models can be created using the available inventory movement data. These forecasts can significantly help customers optimize their distribution and logistics network by significantly reducing the inventory costs.

➤ Customized Reports and Analyses:

To become significant business partners, TPL providers should provide customers with knowledge related to the customers' supply chains. The knowledge can be delivered in the form of reports and analysis created from the data and information gathered by the TPL provider.

## 5.6. Possibilities within the TPL industry

Efficient supply chains can be created and characterized by integration of organization, information and communication technology and business processes. It is in this arena TPL providers can act as an important partner. Through improved customer service and thereby increased potential for higher profitability, an increase in revenue and resource utilization is possible. This leads to less need for warehouse and storage capacity investments, which results in reduced costs. A common view of TPL customers is a strong reliance for TPL providers to develop and reshape the increasingly complex logistics within supply chains through their broader competence and experience. TPL providers are also expected to develop effective information and communication technology systems for controlling and follow up key parameters of achievement and decision support. Consequently there are high expectations and demand for TPL provider's ability to develop value added services. In turn, this will reflect on higher demands for TPL provider's competence. An increase for TPL provider's commitment in different supply chain related areas are furthermore expected.

Development between TPL providers and their customers are mostly expected take place in the basic field of service, compared to value added and highly advanced service. However, the demand for value added service is expected to increase at a quicker rate than the demand for the more basic service offerings.

Consequently an increasing part of the total logistics service demand is value added services. It is also this segment of TPL services that require a high level of competence and skill, which there seems to be a high demand for within the TPL business today. An example of these services is supply chain consulting services, which are common and seem to be highly appreciated in the TPL business today. The goal of these services is to make the logistics chain more cost efficient. All large TPL providers like Deutsche Post, UPS, FedEx, TNT, Exel and Hays are offering this service to their customers. Not surprisingly, TPL organizations with less physical assets like EGL strongly emphasises these types of services.

This reasoning makes one wonder what kind of TPL provider the future holds. Will the future TPL provider act as a passive partner, which only perform basic services in detailed described by the TPL customer with limited problem solving capability? Or will the future TPL provider act as an active partner, which is involved in the development of new logistics concepts and ICT solutions etc. within the supply chains? Today it looks more like the former TPL provider will continue to affect the TPL industry. However, because of the market movements with restructuring and reshaping of the business within the TPL industry it is hard to predict. This will be more discussed under chapter 5.7. *Trends within the TPL industry*, see below.

## 5.7. Trends within the TPL industry

TPL providers' service portfolios typically include warehousing, logistics information systems, shipment consolidation, carrier selection, order fulfillment and product returns. Not surprisingly, transportation is by far the most commonly outsourced logistics service, followed by warehouse management, manufacturing and assembly. Transportation will always remain and play a major role within the TPL industry in the future. Also warehouse management will most likely remain important within the TPL business even if the type and warehousing methods might change over time. Still it is all about material management that require a certain degree of service attention provided by TPL companies or their peers. Economies of scale will most likely be considered top priority on TPL providers quest for cost efficiency. As customers and providers are getting better there will be an increased demand for more proficient and elaborated logistics systems. Coordination of activities throughout the supply chains will probably increase with increased possibilities to buy more sophisticated logistics concepts on the TPL market.

It is likely that more companies are looking into possibilities of outsourcing on a market that offers sophisticated and complete logistics solutions. The areas with the most potential for outsourcing benefits in the future will probably be found within warehouse management, distribution network management and information systems management. TPL providers will continue to make advancements into those areas now mainly served by in-house logistics partners. This trend will require support in service areas that are developing within the TPL industry such as:

- Improved customer service
- Increased and enhanced supply chain visibility
- Improved operational efficiency
- Respond to market and competitive influences
- Technology

### 5.7.1. Improved customer service

As previously described a TPL organization must be responsive not only to the needs of customers, but also to those of customers' of customers. To achieve this, TPL providers need information and communication technology systems that introduce a level of control above that of simply tracking a product in the warehouse. Involving the customer and providing full service through a high service level where the TPL providers organizations manage the complete order cycle, from order desk, through the warehouse, out to selected carriers and back in for any returns processing. Inventory must be received, put away, tracked and shipped, without ever losing customer identification or relationship trust. TPL operations will be performing the actual management of key customer and even customers' customer's activities as a part of their value-added service. The customer needs to be recognized and served as a customer of the products or service rather than a customer of a TPL operation. Advanced order management and tracking will be needed throughout the entire logistics service concept. From the order point to the truck door, integrated information will be a minimum requirement in order to increase customer service levels. As the TPL industry consolidates through mergers and acquisitions most of the larger TPL companies are well equipped with a broad service portfolio to offer their customers. The differentiation in logistics services is rather low, especially for the large global actors in the TPL industry, where all the largest logistics companies are practically offering the same service.

### 5.7.2. Increased supply chain visibility

Increased supply chain visibility will allow TPL providers to share information throughout the supply chain from information on stock availability and movement to order tracking of goods to the end destination. TPL providers are facing forces of change with increasing demands for more accurate and timely information regarding logistics service concepts. Consumers demand the product to be available, distributors and order takers demand accurate and timely fill, pick, pack and ship. For that reason, TPL providers in the future will not only provide logistics services as value but also the information used to manage the TPL operations and customer service initiative. Open but secure access to this information will be the corner stone of supply chain visibility. TPL organizations that identify and offer such information as a value added service would most likely be the prominent in the evolving TPL market.

Additional benefits of supply chain visibility range from reduced stockholdings, lower costs and better demand forecasting, through to improved customer service and profitability. High demands for end-to-end supply chain visibility are likely to be made by TPL providers in their quest for decreasing transport costs, increasing delivery reliability and cross-docking activities. The ability to expand the informational views to customers and customers' customers will provide measurable competitive advantage.

### 5.7.3. Improved operational efficiency

The management of inventory and efficient processing of orders relates to improved operational efficiency. TPL providers can eliminate these inefficiencies and lost productivity through closely integrated information systems. This inefficiency can also transform into poor customer service, which can be avoided by investments in information and communication technology.

By operating on integrated solution TPL providers can improve business process throughout the value chains of customers and customers' customers. Naturally, it is important to maintain trust and loyalty, which is why TPL provider's identity must be maintained at all, times throughout the process. Integrated solutions will most likely be the competitive advantage for emerging and prominent TPL providers seeking identifiable operational efficiency.

#### 5.7.4. Respond to market and competitive influences

With the rapid changes within the TPL market flexibility towards organizational change and market adoption can be profitable. However, flexibility within a rigid processing structure for efficiency does not always allow for rapid changes. Selection of solutions and processes that are proven beyond a specific industry can assist in creating a more adoptable organizational structure for TPL providers. For instance, a warehousing solution that is designed to address a specific market segment may not be flexible enough to open itself for new business requirements. Often, such solutions are developed with a specific goal in mind and will not last for long when the market changes. That goal does not always allow for open adoption of other business segments or processes outside of the known competence of the segment it was originally intended for. As TPL providers evolve and grow, they will be required to adopt new customers and business areas and still be able to provide unique and tailor made value added logistics services.

#### 5.7.5. Technology

As discussed earlier, Internet with information and communication technology is likely to transform the TPL industry and the way of conducting business within the TPL industry. Consequents of changes within the technology arena are resulting in more efficient supply chains, greater convenience and choice and lower cost. The information and communication technology (ICT) links all parts of a distribution chain together, from product concept, design, testing and manufacturing to distribution, marketing and after-sales service. Companies that are using ICT are likely to obtain a competitive advantage through increased efficiency and productivity, reduced processing errors, reduced inventories and faster times to market. These trends and issues provide substantial market opportunities for TPL companies.

### 5.8. Achieving success

#### 5.8.1. Key Success Factors

Successful TPL providers will most likely use leading edge technology to adapt to the new and rapidly changing market environment. TPL providers will take advantage of improved visibility throughout the supply chain to proactively manage exceptions and solve potential problems before they happen. Furthermore, technology will be used to provide highly customized service while maintaining economies of scale.



Capital is vital for asset based TPL providers like Schenker, UPS, Deutsche Post, TNT and FedEx in order to build infrastructure like transportation systems, distribution centrals, hub-and-spoke systems, terminals and information and communication systems and so on.

Regarding non-asset based TPL providers, like EGL, who is acting like a TPL broker, there are opportunities in utilizing the network of partners and outsource the services instead of investing in own physical resources. Consequently the capital requirements are lower for non-asset based TPL companies in comparison with asset based.

Market leaders in outsourced logistics will help customers reduce costs by providing them in-depth, web-based reports with real-time order and inventory information across inter-organizational supply chains. Open but safe logistics systems that facilitate collaboration and thereby enabling TPL providers and their customers to manage a larger portion of the inter-organizational supply chains and offer TPL customers an expanded set of value added services. TPL providers that meet these requirements will most likely be poised to gain market share and improve profit margins over the near future.

➤ **Superior customer service**

Successful TPL providers are focused on satisfying their customers, but perhaps even more importantly, their customers' customers. Successful TPL providers are proactively managing exceptions and solving potential problems based on highly enabled and improved visibility throughout the supply chain. Superior TPL providers will also have the ability to communicate order status directly to the customers or customers' customer to meet their unique needs and will also provide a consistent fulfillment experience across all sales channels. Furthermore, successful TPL providers will also customize the fulfillment process and treat different customers uniquely.

➤ **Integration with supply chain partners**

Successful TPL providers will have the ability to rapidly and effectively integrate with other supply chain participants, creating widely spread inter-organizational and highly visible supply chains. TPL providers will establish long-term and closely integrated relationships built on co-dependency and trust as well as offering customers' ability to collaborate more effectively with customers' customers, easily exchanging information that supports the customer's decision regarding services involvement.

➤ **Meeting customer demands**

TPL providers will capitalize on balance each customer's demand for customized solutions with the need to achieve economies of scale by spreading the costs of providing their services across a broad customer base. Successful TPL providers will leverage technology to increase their ability to provide customized fulfillment service, without facing the high costs of customization. Through flexible technology platforms TPL providers can expand the value-added service offers to their customers as they manage greater segment of their customers' supply chain.

➤ **Effective information management**

A critical success factor for TPL providers is effective assets management. Today, TPL providers must be equally proficient in the management of information in order to succeed in the new and rapid changing market environment of the TPL industry. Highly effective logistics companies will create value for their customers by providing real time visibility of orders from the moment the purchase decision has been made until proof of delivery has been established. TPL providers will offer customers in-depth and web-based reports that enable visibility throughout the inter-organizational supply chains. TPL providers will increasingly support the customer service process by providing information directly to their customers' customer's resource management applications or offering outsourced customer care for their customers.

➤ **Technology development**

In order to remain competitive in a rapidly changing environment, TPL providers should embrace technology developments that enable them to easily collaborate with supply chain partners. This gives the TPL providers increased flexibility, which enables the TPL provider to easily add new supply chain partners to their customers' fulfillment networks and to cooperate with traditional and e-business systems in real-time between the inter-organizational structures. TPL providers can look for highly advanced, easily upgraded and comprehensive logistics systems that offer proactive exception management capability, which automatically notify exceptions. A state-of-the-art technology structure enables the TPL provider to fulfill their customers' demands for real-time information and provide a flawless fulfillment experience.

## Chapter 6 – Concluding remarks

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This chapter concludes the report and will also include my final reflections. Initially a discussion regarding the importance of customer relationship is made and then a recapitulation towards important attributes and qualities for TPL providers' development and success is presented. In this chapter final remarks and recommendations for further research is presented.

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### 6.1. Conclusions

Do TPL providers actually choose a specific strategy or do they use a portfolio of strategies and combine these strategies at the same time? Is it only when TPL providers enter the industry that they utilize a specific strategy or do TPL providers change strategies over time as well and adapt it to market movements? Are the TPL providers' strategies related to their key success factors? What emergent possibilities and opportunities lie within the TPL industry today? The answers are usually to be found in the network developments of TPL providers. What types of demands are put forward from customers, customers' customer and partners? What are the first customers that come forward and ask for new more advanced types of services?

The TPL industry is in a state of instability. The rapid developments within the information and communication technology and its effects on Internet, supply chain management and globalization have made extensive changes in the existing business models of the TPL providers. No doubt many new possibilities and opportunities has occurred, but how should TPL providers go about to establish a more competitive organization gaining increased market shares from this? To compete in this market, a TPL has to continuously improve the existing services, add new services based on technology and make its internal organizational functions more effective on a global scale. In short this can furthermore be described as the major driving forces within the TPL industry of today. Moreover this also relates to Chakravarthy's (1997) point of view regarding a market comparable to the TPL market where pre-requisites such as globalisation, deregulation of markets and the technological development are acting as major driving forces.

Over the near term, providers of TPL services will need to ensure that their perception of opportunities stay closely aligned with customer demands. This relates to the Key Success Factors *Superior customer service* and *Meeting customer demand*. When TPL customers are focusing more on basic services whilst staying reluctant to upscale the TPL services they outsource, possibilities and opportunities will be given for TPL providers who demonstrate an ability to drive down users' supply chain costs and overcome implementation difficulties, while actively concentrating on building long-term relationships with their customers. Furthermore, this relates to the Key Success Factor *Integration with supply chain partners*. From this perspective TPL providers that are remaining very competitive on the basic services will be on the right track towards success for individual industry players and are most likely to be rewarded with the value-added business they need to enhance their competitiveness and value in time.

Furthermore, unless customers and providers learn to establish and sustain relationships that create value for both parties - increased supply chain effectiveness for customers and satisfactory financial returns for providers - the strong growth and attractiveness of the TPL industry during the past five years will almost certainly begin to weaken.

Additionally, since network of TPL providers have influenced their choice of strategy and also changed it over time it seem reasonable to assume that this will continue to the next step. Therefore the customers, but also the customers' customer and partners will influence the business development to a great extent for the TPL providers as they always have a rather high degree of customer adaptation.

In order to solve complex logistics systems TPL providers are entering logistics alliances with partners specialized in the various logistical fields the company needs. The complexity of the logistics market is rising rapidly as customers and customers' customer's demands are increasing. This collaboration can develop from an informal alliance to a strategic logistics alliance during the process of organizational integration and market demands, which furthermore relates to the Key Success Factor *Integration with supply chain partners*. To ensure a successful outcome, providers should ideally limit the complexity of their services when first working with new customers. Overtime, however, expanding the scope of existing TPL leaders is likely to yield more profitable business than trying to bring in new customers. Problems occurring within the alliance are often sprung out of the lack of pro-activeness from the TPL provider or that employees at the TPL customer are reluctant and hesitant towards the partnership and collaboration.

In the analysis it has been described that the increasing demand from the customers could lead towards knowledge intensive and solution based logistics. These solutions are based on heavy use of ICT. When developing, implementing and managing these solutions co-ordination capabilities are of crucial importance, which furthermore relates to the Key Success Factor *Effective information management*. The success of logistics alliances means that they are on the edge in becoming building blocks of the network economy - a system in which companies will increasingly focus on their core competences and outsource other activities to service providers that can execute them more cheaply, more efficiently, and more effectively. This is in turn depending on what scope the TPL provider has and how customers drive developments within the logistics service.

The TPL market will most likely be divided into various segments. The logistics systems will be more standardized from one perspective while another perspective is pointing towards more sophisticated and customer tailor made logistics systems. Consequently a successful TPL provider should make sure to stay out of the "middle road" and instead aim towards a profitable niche, like cost efficiency, or towards a complete logistics solution provider. The latter will also have implications for its suppliers; their chance to stay competitive will be based on their ability to participate in the solution design of the logistics activities. In turn this will increase the demand on learning and knowledge about logistics solutions. This relates to the Key Success Factor *Technology development*. A deeper understanding of logistics solutions will enable the supplier to provide even more customised products and services. Furthermore this relates to the fundamentals of the Resource Based View, where the analysis points out towards a more comprehensive exploitation of internal and external resources in relation to corporate strategy and market demand. In short, TPL providers need to investigate the internal capabilities and compare it with the external market demand.

Current resource base and opportunities in finding a profitable niche determines what direction to choose, i.e. what road to take in order of stay out of the "middle road".

It is important to remember that companies' willingness to nurture their relationships, share information, and explore opportunities for further co-operation is a precondition for logistics alliances to flourish. Beyond doubt companies will in a near future be integrated in vast and broad supply chain networks with a high level of transparency.

## 6.2. Contribution

### 6.3.1. Theoretical contribution

This report is mainly using a theoretical approach hence creating a stronger focus towards achieving a well-founded theoretical contribution for the Third Party Logistics industry. Furthermore, this relates both to the TPL providers themselves as well as their customers since they are very closely inter-related in this business. To a great extent this report contributes with strong theoretical incitements for a close customer relationship, relevant and sophisticated technological developments, information and communication transparency within the increasingly integrated supply chains, imperative for operational efficiency and the ability for swift and correct market response. Certainly all of these incitements are closely related to overall corporate strategy and the availability for the TPL providers to establish an effective and efficient coordination of internal and external resources, i.e. to competitively manage the outsourced supply chain.

### 6.3.2. Practical contribution

The practical contribution is not in focus for this report and is more related towards what the Third Party Logistics providers *could be* doing instead of what they *are* doing. Specifically, this means that this report in a way could be useful for TPL's in their quest for advice and as a foundation for a more contemplative approach. Insights can certainly be established and created from this report's analytical and conclusive parts. As a final remark considering the practical contribution I would like to emphasize the broad and more general approach this research study has been characterized by with regards to large market, customer and company segment. In turn this reduces the possibilities for a more in-depth and practical contribution.

## 6.3. Reflections

I chose to conclude my thesis within the field of Third Party Logistics on the European market since this business area is facing a state of transition. The major drivers of change are found in the rapid developments within the field of information and communication technology that has great effects for the supply chain and inter-organizational relationships. A fiercer competitive situation with more focus on value added services versus cost and quality management creates a need for identifying the opportunities and possibilities in order to better control and manage the outsourced supply chain.

This will in turn affect the ability to control and manage costs and matching market and customer demands for organisational development where companies can create a more competitive organisation. I have developed an interest for Third Party Logistics providers, which has made me look into different possibilities and opportunities within the TPL industry. Furthermore it has been of great interest for me to illuminate what Key Success Factors exist in logistics alliances on the European market and to identify factors of essential importance for the continuing development of Third Party Logistics providers.

Certainly I have learned more about the complexity in the TPL industry. However I feel I have found a number of interesting aspects in the empirical framework, which is in accordance with the theoretical framework.

Introductory in the report the purpose was established which was to identify key success factors for the logistics alliances on the European market and to identify important factors for the continuing development of the TPL providers. The purpose has been fulfilled with standpoint in the resource based view, theories within supply chain management and outsourcing. My findings considering what I think are the most important factors for the continuing development and key success factors in the TPL industry on the European market is furthermore a reflection of this.

## 6.4. Further research

The different aspects found under the problem discussion are set for continuing development and change. Furthermore, these aspects have great implications for companies in their way of doing business, both regarding the transactions between the buyer and seller of TPL services, but also regarding questions of investing, time and cost issues, which are of great concern in the TPL industry. If time and cost are efficiently organized for a minimum degree of investment a higher profit could be reached. In this report several technology developments have set a new landscape for TPL business. It is within this area we find information and communication technology. The results are greater and farther inter-organizational relationships with tiered supply structure and heavy reliance on trust and co-dependency.

This report contributes to recent thoughts and views regarding the certain aspects within the TPL industry today. However, there are still a number of questions worth looking into and follow up with further research. In some ways this could be obtained by looking into the TPL industry from a different view, as for example:

- Compare the results with a larger number of companies within the TPL industry, which furthermore could be located in different regions inside as well as outside Europe.
- Investigate what new business opportunities will follow the rapid development within information and communication technology. Moreover to investigate how this could be established and what effect this might have for customers and providers of TPL services.
- Look into the social aspects and implications when a buyer of TPL services go into business with a TPL provider and common organizational projects take place. This relates to organizational aspects of change and maturity.
- Developments of network cooperation, to study mutual development projects and investigate obtained results.
- Studies of the possibilities and opportunities within the TPL industry in 5-10 years and compare with results from this report. A comparison would show how quickly this industry is changing and what the long-term effects are for the prominent TPL players.
- A detailed investigation regarding specific cost reductions, time reductions and quality improvements through process and supply chain developments.

## 6.5. Final comments

The source of competitive advantage for Third Party Logistics providers is shifting. To succeed today, TPL providers must manage information as effectively as they have managed assets in the past. Technology has also dramatically altered the ways in which companies manage their supply chains, and as a result these companies expect increased levels of service from their TPL providers. They demand real-time status information and want their logistics providers to collaborate with a growing number of supply chain partners.

The changes within the Third Party Logistics industry create tremendous opportunity for providers that can leverage technology to provide a superior fulfillment experience and optimize their customers supply chains. The efficient distribution along the supply chain will be one of the factors that determine what TPL provider that will establish sustainable competitive advantage on the global market, now and in the future.

The activities of TPL companies are not only confined to transporting goods from customers' manufacturing establishments but also include a wide range of activities, from procurement through inventory storage and management as well as delivery. Logistics service providers can look forward to a future of increasing opportunities for growth. The continuing restructuring and integration of production and distribution within Europe will force companies to concentrate on their core competencies and seek improved performance in their logistics chains. To be successful, TPL providers will need both a focused strategy and an emphasis on adding more value beyond their basic logistics services.

So as with other industries, the customer will force advancements and adoption of newer and ever expanding services in the Third Party Logistics business. Those that can adopt and offer that service will be the winners in an ever growing and competitive landscape. For their part, service providers must develop their value-adding capabilities, such as running repackaging, labelling, and price-marking operations; taking over secondary manufacturing tasks (customising, final assembly, repair, and recycling), assisting companies in supply chain integration and the development of logistics planning and monitoring systems; and perhaps even consulting on the overall design of their partners' future logistics approaches. If these conditions are met, the future for TPL providers and logistics alliances looks very promising indeed.

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# Appendix

## Questionnaire

### General questions

Revenue? (TPL)  
Services? Basic, Value added)  
Core competencies?  
Competitive advantages?  
Key Success Factors?  
Outsourcing of your services?

### Customers

How do you categorise your customers? (Ex. Size, industry, geography?)  
What type of customers do you prefer? In what segment do you make most money?  
How do you charge your customers?  
Are there any incentives for improvement in your customer relationship? If yes, what do you do with the savings? Do you have any structured way for improvements in your customer relationship?  
Describe your customer relationship  
Contract? Yes/No Long/Short?  
Who own physical resources?

### Internal perspective

How does your organisation scheme look like?  
How do you work with competence development?  
How do you work with quality, certification?  
Information system? In-house or standardized?  
Compatibility with customers ERP s?

### Competitors

Who are your main competitors?  
What is your position against your competitors?

### Forward looking perspective

What are the most important driving forces, affecting your business?  
In what business segment do you have your most potential?