

Strategic development of TPL providers

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Background

The Third Party Logistics (TPL) provider business is developing as a result of the emerging market of advanced logistics services. The content of logistics services is increasing, new types of services are added and developed and the services are getting more complex. New firms from different fields such as consultants and capital firms are entering the market and traditional transport and warehousing firms have to develop new skills and competencies.

Globalization, lead time reductions, customer orientation and outsourcing are some major changes contributing to this interest in logistics. Supply chain integration and the outsourcing of logistics services have become an important way for industry in their strive to develop competitive advantages. Supply chains are increasingly complex as relationships develop horizontally as well as vertically and in the competition with other supply chains their networks sometimes overlap.

Until recently the main stream of research about TPL and providers has been about outsourcing to and selection of TPL providers from the shippers point of view. This paper will be about TPL providers as players in a growth industry where the firms have to go through several transformations creating new skills and competences and to develop the necessary network of suppliers and partners both locally and internationally.

The TPLs are performing a large variety of services such as transportation, warehousing, pick and pack, track and trace of goods, statistical reports, development performance measurements, even manufacturing activities and several other value-added services. Managing these often very customer specific services in an effective and efficient way is strategic to customers and their competitive advantage.

To develop skills, competencies, and gain scale/scope advantages that are superior to customers' will be necessary for adding customer value. Such a development mostly necessitates co-utilization of resources, creation of specific knowledge and coordination of activities of a portfolio of customers.

Therefore, a main challenge for a TPL provider is to balance between the ability to adapt to individual customers and to create and develop a more general ability of solving problems for many customers.

The way this is balanced will reflect the strategic choice of the TPL providers and their core competence development. The resources needed and activities performed will be different depending on the choice made, since a high degree of general problemsolving ability implies a different type of management and network than a high degree of customer adaptation. Designing international logistics systems are both complex and demanding.

In earlier research on TPL providers the focus is mainly on customer alliances, its development over time and the type of services offered by TPL. (Andersson, 1997; Bagchi & Virum, 1998) Most studies have taken shipper's perspective. (Ellram, 1993; Andersson, 1997). A few studies have been about TPL providers as firms, their structure and categorization (Berglund, 1997) Little interest have been paid to what influenced TPL providers' development into making a specific choice of strategy.

Our interest is to investigate not only how TPL providers balance between coordination of more advanced general knowledge and adaptation to specific customer demands but also how the development of their customers, suppliers and partners influence the choice made and how it shifts over time. Therefore our purpose is to study how the network of relationships of TPLs are influencing and developing their choice strategy.

Empirically, our base is case studies of different types of TPL providers, their customers and customers' customer wherein the firms are described according to how they develop their ability to adapt to the individual customer in parallel with their creation of advanced general systems/ services applicable to a portfolio of customers. Since this is a work- in- progress, the work is not yet finished.

The literature framework

Our theoretical base is the network approach. This approach will be combined with the supply chain management and business logistics literature. Earlier business logistics or supply chain management research will be used to understand TPLs business and the role of TPLs in the supply chain. (Andersson, 1997) Further, we will relate our study to more recent research on categorisation and structures of TPLs. (Laarhoven & Sharman, 1994; Berglund, 1997; Berglund et al., 1999)

This framework will be divided into two parts. The first is about TPL provider and the second about networks, relationships and integration. Together they will be the base for understanding the development of TPL providers strategic choices balancing between adaptation of single customers and creating more general competencies and skills.

TPL providers

A third party logistics provider is an external provider that by agreement perform customer specific logistics services based on long term goals with mutual benefit and trust. It assumes free flow of logistics information. (Virum, 1993) The activities performed include at least management and execution of transportation and warehousing.

The first party is the shipper itself performing the logistics activities, the second party is outsourcing to another party in the supply chain and the third party is when logistics activities

are outsourced to a middleman not taking title to the products. A strategic alliance between the TPL provider and the client is often necessary to guarantee the quality of the performance. (Andersson, 1997) It is a question of managing, controlling and performing logistics activities for the client.

Berglund et. al (1999) discuss the first second and third wave of TPL industry development. The first wave was 1980s when the traditional transport firms developed into TPL while the second wave from early 1990s when firms such as TNT, DHL, Fedex, etc entered. In the last wave the players entering have been consultancy, financial firms and IT management firms such as Anderson Consulting, GE capital and Manugistics.

In research logistics service providers can be classified by their type of alliances to customers such as scope of partnership, design and management, degree of customization and dedication, knowledge level of shippers and providers and material flow characteristics (Ellram,1993; Andersson, 1997; etc).

Other ways of differentiating between TPL providers are based on geographical areas and to what extent TPL providers themselves are outsourcing the logistics services is the base for classification. (Berglund, 1998)

The effects for the customers of using operational alliances in logistics can be seen in the four areas of costs, service performances, structural change and control. (Anderson, 1995) The main benefits are improvement of economies of scale and scope, or efficient operations, or bargaining power, range of services, faster learning, network with other providers, knowledge of various kinds, fast implementation of new systems, restructuring of supply chains, reduced investment base, smoother production, etc. (Anderson, 1997)

Several researchers have been studying the contents of logistics services and how third party logistics providers operate. (Andersson; 1995,1997; Berglund, 1998; Bagchi & Virum, 1998; Christopher, 1998; Lieb & Randall, 1996) Typical services outsourced to TPL are transport, warehousing, inventory, value-added services, information services and design and re-engineering of the chain. The first three are the most common services of TPL and also the most common services outsourced from industrial firms.(Andersson, 1995; Berglund, 1998) These services are also give rise to economies of scale and scope while others like design and reengineering are more knowledge generating for TPL. The service types can be combined in many ways depending on the demands of the customer.

Summarizing it seems that the dimensions of main importance are the type of alliance to the customer and the content or type of services offered.

The network, relationships and integration

In the network approach the two basic dimensions discussed above could be expressed in terms the degree of customer closeness and adaptation or the general ability to solve customer problems. (Hammarkvist, et al, 1982) Studying TPL firms in relation to the logistics and transport firms in general would lead to a classification of TPL firms as relatively high in both the dimensions of customer adaptation and problem solutions which shows the high importance of balancing these dimensions for TPL firms. The different categories are presented as standard low cost services, product / service developer, customer adaptor and finally customer developer. (Hammarkvist, et al., 1982) See figure 1.

		Ability of customer adaptation		
		Low	Medium	High
General ability of problemsolving	High	Service developer	Customer developer TPL	
	Medium	Standard service	Customer adaptor	
	Low			

Figure 1. Problem solving abilities - TPL provider position

The service developer could be exemplified by the *integrators* such as Fedex, DHL, TNT, etc with large global advanced systems but with low adaptation to the individual customer. A *traditional transport firm* with regular traffics would fit in with standard low cost services while a *traditional house broker* working very close to the individual customer could exemplify the customer adaptor. Being a *TPL provider means* by definition (see above) a balance between customer adaptation by customer specific services but also to develop an advanced ability of problem solutions. This would mean a classification as a "customer developer".

There are, however, large differences between the way TPL providers operate and how they balance the customer adaptation and problem solving abilities. Some authors have touched upon this and divided TPLs into focusing on either value added services or solutions (Christopher, 1998; Berglund et. al., 1999; Andersson, 1997).

Seeing the TPL providers as a "customer developer" we then further differentiate the providers by using the same two dimensions and divide them into subgroups each with different demands on customer coordination, problems solution ability and customer adaptation. (See figure 2)

The *standard TPL provider* could be seen as offering the standardized TPL services like warehousing, distribution, pick and pack, etc. These services could easily be combined with other customers even though they are to a certain extent specific for each customer. The TPL as *service developer* is offering advanced value added services. This could involve differentiated services for different customers, forming specific packaging, crossdocking, track and tracing, offering special security systems, very late time for last call in, etc. A advanced service package can be made for each customers according to their specific demands. However, these services should be partly standardized so that they can be coordinated for several different customers. This is possible through an advanced IT system.

The *customer adaptor* could be described as the TPL firm taking over customer existing activities and improving the efficiency in the handling but actually not making much development of services.

The *customer developer* is the most advanced and most difficult form. In this case TPL provider offer advanced services, like the service provider, but it is not in a modularized way they work on changing the structure of customer's supply chain, finding new more effective

ways to perform the services, working on new solutions for the customer and other parties of the supply chain. In this case the knowledge and the structuring knowledge would give the possibility to coordinate between different customers.

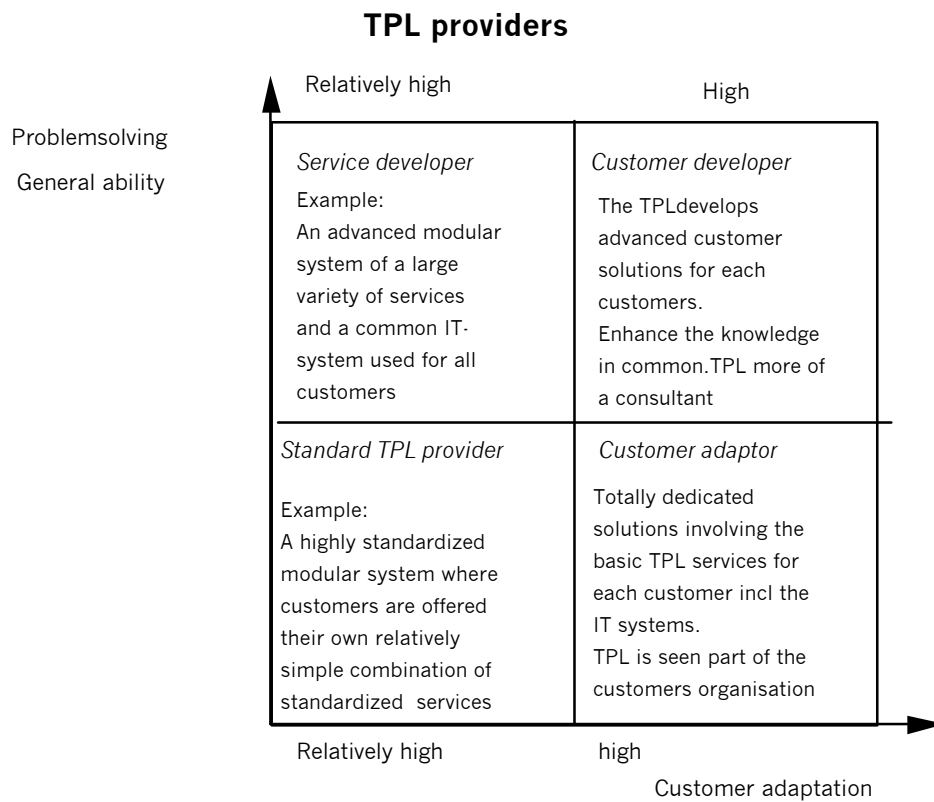


Figure 2: TPL firms differentiated

The service developer would be similar to what Berglund, et al.(1999) called a "value leader" showing a strategy often integrated in logistics services for durable consumer goods. The value leader can according to them expect a growth rate higher than for the basic TPL firms. and the customer size of those firms are three times as large from their sample.

The customer developer is discussed as provider of consultative solutions like order processing, kitting, repair/ recycle, design of inventory management.

The most extreme among TPL firms would be customer developer forming consultative solutions what Anderson Consulting calls 4PL combining at least several different parties and include more management of supply chains or integration of vertical or horizontal networks.

The 4PL solution would be different consulting firms managing supply chain combining a series of different firms suppliers, buyer in the supply chain and also a number of different TPLs, transport firms and distribution firms.

Based on this classification of TPL providers we will discuss how the network of relationships would influence TPL firms to develop into either of these strategies and how the development would continue over time.

In the network approach firms can be both directly and indirectly related to other firms and they develop through relationships with other firms. These relationships are not only to

customers but suppliers, partners, customer's customer, etc. The exchange involves economic, physical, technological, legal, knowledge and social exchange between firms where trust and communication are vital. (Axelsson & Easton, 1992) Trust between firms seems to be especially important when there is much at stake for the firms. (Hertz, 1993) This is often the case when a firm is outsourcing parts of its logistics in supply, operations and/or distribution to TPL. (Maltz & Ellram, 1997)

Therefore it seem natural to assume that TPL providers have made different choices over time depending on changes in their relationships. The existing relationships are both sources of restriction and development.

Relationships go through different stages in their development, which is similar to a lifecycle. These stages are formulated as awareness, formation, closer cooperation, extension and maintenance and then finally looser cooperation and dissolution. (Dwyer, Schurr & Oh, 1986; Liljegren, 1988; Hertz, 1993) Studies of logistics alliances show that similar changes of increasing integration and commitment seem to take place in logistics alliances between the TPL and its customers. Over time the relationship deepens and the number of activities outsourced increase. (Bowersox & Dougerthy, 1989; Bagchi and Virum, 1998)

The deepening of relationships by forming strategic logistical alliances with some of existing customers would be reflected in the activities performed for the customer but maybe also change the TPL strategy.

The effect of an increased degree of integration with a customer would mean a higher commitment of the TPL provider and thereby having implications for the suppliers as well as the partners. A deep strategic alliance is also less easy to switch than a relationship in low degree of commitment. (Hertz, 1996)

The increasing commitment over time would actually mean that large TPL providers connected to many customers and especially fast developing customers would have higher possibilities to develop into TPL providers when customers outsource, globalize, reduce lead times and integrate the supply chain network.

Further, when gradually increasing the volumes and types activities performed for the customers the coordination with and of customers of TPL providers will differ and have to change over time. This will also influence how TPL providers continue to develop in their choice of strategy over time. Based on their earlier experiences and existing relationships TPL providers develop skills and competencies that can be used to create a new position.

To summarize TPL provider can be classified in many different ways. The two most common ways of classifying TPL providers are based on the individual customer alliances i.e. scope of partnership, degree of customization and dedication or the different types of services offered. These can also be interpreted as concerning the degree of adaptation to the customers and the degree to which the TPL providers are creating more general services based on special competencies and material flow. This is very close to a network strategy classification where the two different dimensions are customer adaptation and general ability of problem solving. (Hammarkvist, et. al. 1982) We used these dimensions first to classify logistics and transportation firms and set the position of TPL providers i relation to these. Second, we then use the same dimensions to classify TPL providers into different possible categories. Such a

classification seems to be relevant, since Berglund, et al. (1999), has used a similar type of classification.

Based on this classification we want to find how the TPL firms come to develop different strategies and how the customer, customers' customers and partners influence these choices.

We know from earlier studies that existing relationships seem to be long term and increase in scope and integration over time. This would imply that the development of customers, customers' customer and partners has a strong impact on the choice of TPL providers. What we want to know is how the TPL providers cope with the different demands and form their strategies as a result of this and how this changes over time.

Examples

We use four different examples to illustrate the development of TPL and their customers, customers' customer and partners that we have seen over time.

The ASG example

ASG has for a long time been one of the dominating transportation firms and freight forwarders of Sweden. As such ASG does not own the means of transportation but has exclusive agreements with trucking firms. It offers a wide variety of national and international services and uses all different means of transportation.

Being a dominating firm on the Nordic market almost all firms have at least once used ASG which gives a rich contact network. The TPL services were developed gradually over time and the firm changed from being more of a traditional transport and freight forwarding firm taking on new type of services for different customers. In early 1970s ASG expanded heavily into warehousing since many customer saw the advantages of using the transport firm for warehousing and handling their product in direct access to the distribution network and getting scale economies by coordinating with other firms. Often ASG had a dedicated warehouse solution for specific customers and feeding their goods into the transport system.

Part of the early TPL business was based on import agents or foreign manufacturers that wanted to compete on equal terms with local production in the Scandinavian countries. The development into more customer oriented pull systems in combination with international competition made this necessary.

Other types of value added activities were gradually being added. An early example was refrigerators that were painted to the demanded color on order from distributors. Another early example was carpets being cut to customer order. However, the majority of the early cases were limited to warehousing and transportation and other value added services were few.

However, over time as the different types of TPL services were developed for an increasing amount of customers the question of neutrality became an important issue. Should it be necessary for the TPL part of the business to use the transports from parent firm? The TPL part first became a separate unit in ASG and then just a few years ago it became a separate firm. The TPL part is now free to choose other transport firms in their solutions for customers. However ASG is very much in domination for the transports.

As the development continued the firm developed different niches of wine & spirits, grocery & pharmaceuticals spare parts for automotive industry, etc. Within these niches a special knowledge was developed for the field and customers and still there were possibilities to coordinate activities of the different customers.

The niche of wines and spirits are based on a group of smaller import agents that use ASG for all their logistics activities servicing one big common customer. This way they can offer the same service as a large supplier. Through ASG they offer one invoice to customer, one bill of lading for all the goods, a trace and track system, one delivery and a pick and pack system that adapts to the customers needs, both better service and lower costs. At the same time security costs are lowered by a common system of TPL provider.

Another important example for the development of ASG TPL business is the creation of a large dedicated warehouse for spare parts to the Nordic market of an automotive firm. The customer wanted ASG to take over the spare part logistics activities and be performed according to almost the same systems as earlier but for covering a larger area. ASG was as an internal warehouse part of the automotive firm using the customer's systems. Performing the activities according to the same system as earlier however made it possible to compare with other units but for the sales firms losing their logistics responsibility to complain about the change. Further coordination with other firms is not possible. However, the customer and the warehouse system have been used for references to other automotive firms. Due to the restriction on the systems and unwillingness to change from the customer's side, the changes and new development seem to take place more on the dealer's side. New special services for protection of goods, more differentiated transport services are developed and ASG is also delivering the mail out to the dealers. Lately ASG has set up a warehouse for the same customer in Bangkok. However in this case another automotive firm shares the warehouse.

Gradually a niche was created. ASG recruited personnel from the industry as another automotive firm joined and wanted ASG to handle its spare parts for the Nordic countries. However, this firm did not want a dedicated warehouse but wanted to share and coordinate to get higher efficiency. This worked out fine until the other customer due to specific changes had to withdraw. Now ASG had to find another suitable automotive customer or change the whole solution. Some of the problems for ASG is created by the number of merger and acquisitions in the industry causing changes in the existing structures and relationships. On the other hand ASG has got new opportunities due to acquisitions and mergers as well.

New niches are created over time. The large distribution network not only covering the Nordic countries but through alliances it also covers large international areas ASG is often asked to be a transport firm for deliveries of e-commerce firms. Creating a better understanding the logistics problems of E-commerce firms is under development based on the existing customers as well as the access to the international partners and transport system.

To a large extent ASG logistics is still very much focused on the Nordic countries and including Nordic distribution.

Last year, however, ASG was acquired by the Deutsche Post and is merging with Danzas worldwide. One important part is to coordinate their logistics business. The internalization of TPL business of ASG has been limited certain areas so far. Maybe this might mean a change?

The Transfargo example

Transfargo is a medium sized firm not so much into transportation as in warehousing. Transfargo is mainly buying transport services from other more established firms. Its transport network is limited to Nordic countries and a few European destinations.

Transfargo has over time acquired a number computer firm as customers. This has given them a specific knowledge, which they are using to attract new customers.

Spare parts of computers and connected services have become an important field for Transfargo. The HP is one large firm that after a long selection process decided on using Transfargo for spare parts service on the Nordic market partly based on the existing experience of Transfargo in the field. This influenced its profile as being knowledgeable in IT logistics.

Transfargo has now some small newly started IT firms as customers that need assembly and configuration of PCs as well as delivery. These customers leave everything to Transfargo.

Being a medium size firm Transfargo is working very close its customers and is actually developing the firm together with their customer.

As a result of its HP agreement it established new offices and looked for special service delivery places all over the Nordic countries. This way Transfargo made agreements with new agents and representatives over the Nordic countries. In some cases these partners in turn had to make agreements with other partners to service specific geographical areas. The existing partners of transport in the Nordic countries could in partly been used.

They even have now some service technicians themselves to help servicing in some areas. Both the customers and Transfargo say that the common culture is of importance in their relationship with customers. One IT- firm customer even left because of a conflict in cultures. Transfargo said that the strategy of that IT- firm was only low cost which actually did not fit in its business. Transfargo is totally dependent on its logistics customers since the other part of the business was and is very limited. Buying the transport services from other transport firms make them more neutral.

DHL example

The third type of logistics firm is DHL who is a large world wide transport integrators, which started as an express firm for documents and still mainly is based on express services but for a variety of goods. It is one of the dominating global players in the express service business being able to service the main part of the world within 48 hours. The global network is to a large extent based on air transports, which give the possibility to have a high quality and speed. Due to this the cost of the transports are higher than for more traditional transport firms.

The customers either have high value goods or time is an extremely important factor. Typical services demanded would be spare parts services, repair and return, creating a special set up at the introduction of new products on a market, getting spare parts at production stops, etc. Many of the logistics services are advanced and for global customers. Several of the customers that are buying services for the Nordic countries are actually large international firms where the deal covers the whole of Europe and the Nordic countries is just a parts either

for importing spare parts or for exporting parts to other parts. The TPL agreement is often made somewhere else.

DHL logistics use their own transport system. The resources and systems are impressive. Its global network is based on a combination of partners and subsidiaries. Even logistics customers come mainly because of its advanced global transport systems. Most customers however, also use other transport firms complementary to DHL for less expensive transports or in areas where DHLs coverage is limited.

A problem and opportunity for the development of TPL business seem to be the domination and excellence of the advanced transport systems. Almost all TPL customers are already customers in its transport network. Many customers are in need of quick or temporary solutions based on their growth or lack of planning. Other more stable TPL customers are still very focused on the access to the global transport system and perhaps less on the advanced logistics services. Creating specific knowledge and niches seem to be more difficult for the different subsidiaries. However they have specific logistics centers (ELCs) where the logistics development is much stronger due to the need of customers. The possibility is the global coverage, which makes it possible to set up warehouses for logistics services in specifically attractive areas.

However, in the transport network TPL has very little possibilities customer adaptation and in the TPL business this is a necessity. DHL Logistics is not really separated from the large DHL transport firm. DHL has now been acquired by Deutsche Post, just like ASG has. What will be the result for TPL services?

Cat Logistics example

Cat Logistics is a logistics firm that started as a spare part service firm for the large international firm Caterpillar. The successful concept of Caterpillar spare part logistics was benchmarked with many other firms and became a base for the Cat Logistics which now is a separate firm and sold by Caterpillar. Cat Logistics is working mainly with customers logistics solutions and warehousing systems and does not own or manage any transportation systems but have formed close relationships to many transport firms.

To a large extent the Cat Logistics system became well known for its efficiency and effectiveness. This made many large firms many of, which were suppliers of Cat to study the Cat system. Cat Logistics is now established in several European countries.

The base in Europe for Cat Logistics were the spare part systems of Caterpillar and a big central warehouse including all different types of services. Many large Swedish international manufacturing firms have established central warehouse system for Europe and are using Cat Logistics as TPL for their European business.

Other firms doing similar things is Electrolux in Sweden starting to take in other firms in their logistics activities. The customers are firms that actually fit well for the same type of concept as Electrolux and can easily be coordinated to the advantage of both firms.

Forming joint ventures between different customers and thereby letting other firms join seem to become a new way of working. Electrolux does not have its own transport systems and is more objective in its approach than a logistics firm. Maybe this will develop into a totally separate firm.

Summarizing

These examples illustrate different types of logistics firms. As we can see their existing network of customers, customers' customer and partners seem to have played an important role for the development into a TPL. The larger transport firms like ASG and DHL get their customer from existing business to a large extent. This way the products are, to a large extent, the same as in the transport business. However over time this seem to change as 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. In the ASG case, taking on import agents as customers that wanted to cover the Nordic market, was a part of the early development. Using the earlier cases, as references for other firms in the same field, seem to be of high importance in TPL services. Both HP and ASG used existing customers even though the some of the customers were competitors.

Internationalization of TPL services seems to be much higher for DHL even though ASG has had a large international coverage the whole period through alliances and subsidiaries. ASG has only developed their services to a few international places based on their existing Nordic customers with the Nordic cases as references. It seems that logistics services are more regionally oriented like Nordic countries, central Europe, or other parts of the world coordinating customers logistics services for covering specific areas.

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. ASG, Danzas and DHL have all been acquired by Deutsche Post.

The firms have developed together with their customers and partners. In the Transfargo case the firm is smaller and the whole firm develop together with their customers. In the ASG and Cat Logistics case a separate firm was established.

In some cases the existing systems and partners might also have been be a hinder for the TPL development. As for the DHL being a large global firm customers are global and they mainly buy access to their transport systems. Therefore the logistics is not broken out as a separate firm in spite of development of advanced logistics services that are offered at ELCs.

The size of DHL, Cat and ASG means that they have large supplier and partner network which actually influence both the expectation of the customers and make it difficult to develop a role that bypasses them. The partners and suppliers are expecting the logistics side of the firm to develop together with them as well. In some cases the existing partners or suppliers do not work as TPL partners since they are focused on another types of services.

Customers' customers can be more important for creating a new system and developing new types of services as in the case of ASG. As other firms might sell to the same distributors or dealers this could be the most important reference for other customers.

An especially problematic situation is when the customer want to have totally dedicated warehouses and services which cannot be combined with other customer and also want to keep their existing IT and accounting systems. These types of customers are difficult to coordinate and probably also difficult to satisfy since they easily compare with their earlier situation. The dedicated warehouses seem to create a problem in flexibility and efficiency compared to coordinated activities.

The firms are very different in size and assortment of services, which also means that the partners are very different. While ASG had an international network covering large parts of the world DHL was global and Transfargo hardly covered the Nordic countries.

Also the customers' customer play a role in that they might be positive or negative to the development or the selection of a specific TPL. Sometimes the customers' customer development and interest play an important role for the development. This was the case for ASG.

Cat Logistics has developed in a totally different way. Therefore, customers are fewer and the cooperation with the individual customers is deeper. On the other hand there is not as big natural flow of firms from the traditional business as in the other case. Even though there are suppliers and buyers of Cat that may be interested. However the neutrality of TPL is perhaps felt to be higher.

Concluding discussion

How can we explain the changes taking place? Do the TPL actually choose a specific strategy or do they have many at the same time? Is it only when they enter the industry that they go into a specific strategy or do they change over time as well?

The answers are usually to be found in their network development. 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?

Some of the factors that we have seen are the existing relationships and their development but also possibilities to customer coordination and development, the customer developer or 4PL,

As we have seen the existing networks are playing an important role for the development into TPL and what type of services the TPL is offering.

Being a middleman, not only the customers but also the customers' customer as well as the partners, play an important role.

In some cases the customers' customers are initiating development while customer is more stable as in one example of ASG customer.

Further, the size and numbers of suppliers and partners are also to a large extent influencing the development into the type of role of TPL. The partners and suppliers have the expectation that they should develop together. Often TPL business might be initiated from some other place like in the DHL case.

In another case the existing partners are more of a limitation since they cannot offer the needed services. The historical attitude of the firm entering the TPL business will therefore play an important role. This in turn also influences the expectation and types of customers that they have.

This means that the TPL enter into the logistics service provider (LSP) market with different ideas of how to balance between offering more modularized standardized services or basic dimensions. Customer's expectations and customer's customers as well as the firms own capabilities and assets will in combination decide the balance and development into different categories of TPL. This is also reflected in the way they have developed their firms and businesses over time.

An example is the TPL firm starting from the transportation logistics side, where the new customers originate mainly from the transportation activities. Their logistics services are developed from this perspective. On the other hand, a firm without transportation background, develop skills and competencies formed in their previous network.

We have found that the established international network of customers, suppliers and partners are not only the base for their development into the emerging business of logistics service provider but also into what type of TPL.

Customer knowledge and coordination

Since understanding customer's situation and to develop knowledge about customer's business often is a necessity in order to be trustworthy as a TPL, the references in the form of existing customers are extremely important. Such knowledge would have to include the suppliers and partners if the services are international.

Furthermore, selection and coordination of customers play a very important role for the creation of economies of scale and scope. This means that changing as well as when taking over important parts of customer business knowledge developed the TPL firms, its assets and its capabilities. Therefore the existing customers and systems involving partners and suppliers will play an important role for how firms enter into TPL business.

This is also obvious in the cases where ASG and DHL actually got customers that came from their traditional transport business and Cat and Transfargo from theirs.

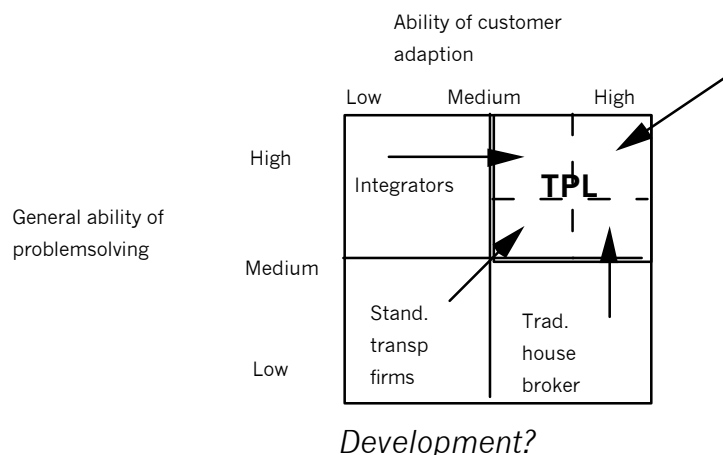


Figure 3

It seems that the customers are influencing directly or indirectly both if the firms are moving into TPL business and what TPL strategy they will choose. The movement into the business is often made as 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. The first customer can also be a base for customer coordination and economies of scale and scope. In the case of Cat logistics their warehousing system and customer adaptation seems extremely important while ASG and DHL are entering from other perspectives.

However ASG had a period of warehousing expansion which came to play an important role for the movement towards TPL business. Basically the TPL business normally seems to start as a side activity and therefore the attitudes of the old system is still dominating.

In all examples we could see that the TPL customers seem to be the type that came from the existing network or fitted into the network by coordination to existing businesses.

A large difference was between the firms that had a sizable transport network in comparison to who did not have any assets or capabilities in the transport field.

We have not so far interviewed any of the consultancy firms that have entered into TPL business. But following this reasoning the consultancy and capital business would be more into solutions and consultancy in the logistics area taking on the role of project leader. The solution strategy would probably be selected for the IT system firms moving into TPL business, since many of them are more of consultants. So in what direction will firms develop based on the network they have now?

Neutrality and separated business

Over time the TPL business seems to break out from the existing. This also seems to influence the way the providers work. In the ASG case the firms developed into different niches and also became more advanced in its services.

Selecting a problem solution on a high level is similar to what Anderson Consulting named as 4PL strategy. To what extent will the TPL firms move into high end of customer adapted solutions? Should they?

Many customers use several TPLs for different parts of the world and for different types of goods. This means that neutrality seems to play an important role when they want to integrate their supply chain. Therefore some of them might want to select a more neutral partner which is able to work together with the others. This problem will be enhanced by stream of alliances, mergers and acquisitions on the market?

The network for the new separated firm will be different with only a fragment of the large customer's base, partly different set of representatives and working with fewer customers. Each customer and the adaptation will be more important.

Even though TPL development to begin with was a result of the different fields from where they enter to the TPL business. Once in the business working as a separate firm the movement will be closer to their existing customers, customers' customers and partners and their development. As a result of changing demands in the existing relationships, capabilities to develop new knowledge and how the new and existing business fit together. Will ASG,

Transfargo, Cat Logistics actually move on to be more of advanced customer adapted problem solution firms if their customers want to integrate supply chains bringing in many other firms and their partners? (See figure 4) Or will customer think that they cannot really trust their neutrality?

As of today the firms actually have changed in their strategy over time as a result of their customers development, internationalization, integration of supply chain customer coordination. For example in the ASG case it actually in the beginning had separate warehouses for specific customers.

Development?

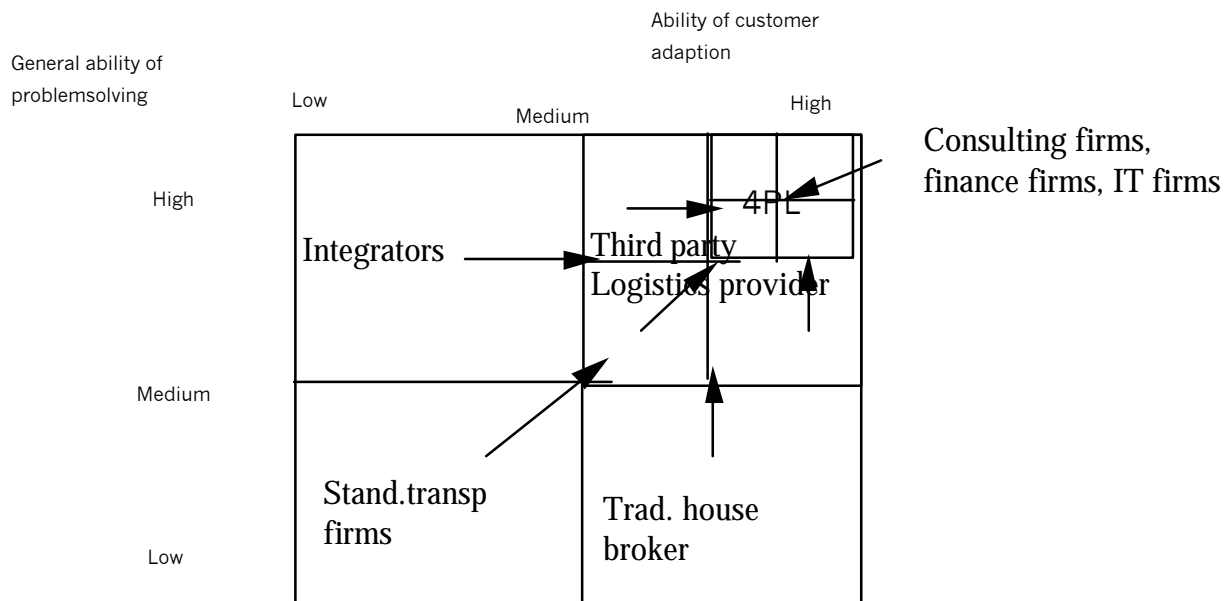


Figure 4: The next step in the movement?

The TPL size, customer adaptation and niches

Since the TPL business is dependent on coordination of customers the existing TPL customers will influence the new customers. Together this will influence the development of the role of TPL. Will the firms entering third party business select a strategy of medium or high general problem solving or medium or high customer adaptation.

The size of the network of TPL will have effects both on the customers selecting TPL and also the possibility to combine suppliers, customer and customers customer and find solutions that can combine effective supply chains

However since the knowledge demanded are customer and business specific the firm need to create niches of specialist. Niches are an important way to increase customer adaptation for TPL. In the ASG case is had divided its business into a number of different niches depending on the needs of their customers like spare parts, grocery and pharmaceuticals, wine & spirits, e-commerce, etc. Thereby is possible to take different demands into consideration and limit the number of firms. The knowledge for the business is deepened and the problems are developing.

In one case we can see that dedicated solutions of specifically for warehouses were not a good solutions since it seemed that flexibility might be lower. Therefore the strategy was

changed over time into niches where the deep knowledge is still possible but the flexibility of customers coordination is present.

Internationalization

How international is actually TPL business? Where do you make the agreements? It covers large international regions but to like Nordic countries, Europe or parts of Far East but is it actually the transports that are international and TPL business that is regional? Only in one case did we see that the customer wanted the same TPL firm in another country covering another geographical area. With some exceptions large MNEs are making agreement with some firms like DHL for world coverage but in most studies support that firms use several TPLs in different parts of the world because no firms can really operate and cover the whole world with a high quality. Further customers often want to have alternatives for security and competition.

Concluding remarks

Many firms seem to be offering a whole range of strategies. They do not seem sure which way to go. Starting up they take the customer that have a demand for the TPLs services. The transport firm or warehousing, etc lack the knowledge to decide what they want. It is a learning process. Therefore solutions they make in the earlier stage like accepting to handle a dedicated warehouse might be just one step on the road to future development.

Once the TPL business is separated their possibilities their partners, customers and customers' customers increase in importance. They do not need to take other connection into consideration. Internal competition is lower. This time it is more likely that they try to develop into the higher end taking a larger part of their TPL customer's activities. This would mean a higher degree of internationalization and more mergers and acquisitions between different TPL providers.

A necessity is to be able to break away from their parent firms and be separate units in order to be able to serve their customers as TPL providers. As many customer and customer's customers use several TPLs or transport firms the TPL firms need to be trusted by the customer as more neutral part. This is especially true when several transport or warehousing firms are involved for several customers in a supply chain that are to be integrated. This actually gives a certain advantage to the consultancy and IT firms.

Alliances, mergers and acquisitions not only of TPL providers but also customers are common today and will probably become even more so. This gives an opportunity to develop from one field into another. The difficulty is however both to balance between the different choices and what to select if you are a firm which have not made a choice. Can you make different choices in different countries? Where do you have your customers and suppliers and partners?

Finally, 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 heavily for the TPL as they always have a rather high degree of customer adaptation. We have seen examples of that the attitudes and philosophy of the TPL

provider, their customers and between the different customers are important for the strategy to work.

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