Strategic development of third party logistics providers

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Abstract

The growth of the Third Party Logistics (TPL) business has caused many firms from different industries to enter the field. We are interested in how their different strategies develop over time with a special focus on how they balance between general problem solving capability and the degree of customer adaptation. In the development of their strategy the newly entered firms shown to be highly influenced by existing business and its network. However, at a later stage the case firms were all focused on moving into more advanced and complex services (4pl type of services) without considerations to their traditional business strategy. We have also identified some issues of importance when managing the continued TPL business strategy. One issue is about the organisation of the TPL business and its need for neutrality from traditional business. The next issue is about the internationalisation of the TPL business and the need of a partly different pattern and network. Finally, the issue of coping with strategic alliances, mergers and acquisitions seems vital for understanding and developing the business.

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1. Background

The third party logistics (TPL) provider business is developing as a result of the emerging demand of advanced logistics services. Globalization, lead time reductions, customer orientation, and outsourcing are some major changes contributing to this interest in logistics. Integration of the supply chain has become an important way for industry to gain competitive advantage [10,12]. As a result, the role of logistics providers is changing both in content and in complexity. New firms from different fields are entering the market competing with the traditional transport and warehousing firms.

This paper will be about TPL providers as players in a growth industry and how they change within their relationships with customers, customers’ customers, and partners in order to fulfil the new demands.

The way the TPL providers manage the relationship to its customers and handle effects on the total network of relationships will be of basic importance for their strategic edge on the market. To develop skills, competencies, and gain scale/scope advantages that are superior to customers will be necessary in order to add 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 an ability of high adaptation to individual customers and organizing the systems and the business for coordination of several customers. The way this is balanced will guide the strategic development of the TPL providers and is of vital importance for the resources needed, activities to be performed, and core competence development.

Only a few studies have been about TPL providers as firms, their structure and categorization [7]. Little interest has been paid to how the development of their relationships has influenced the TPL provider in their strategic development. Most studies have taken shipper’s perspective on logistics alliances, its development over time, and the type and evaluation of the services offered by TPL providers [4,6,17].

Our purpose is to study how the relationship development of the TPL providers influences the strategic development in terms of customer coordination and/or adaptation and how it shifts over time. Being an intermediary between buyers and sellers makes it necessary to understand also the influence of the other connected actor such as customers’ customer or supplier.

Empirically, we use case studies of different types of TPL providers, their customers, and customers’ customers for illustration.

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Our theoretical base is the network approach, which is well suited for the understanding of the interconnected relationships and relationship development among TPL, its customers, the customers’ customer or supplier. This approach is combined with the supply chain management and business logistics literature, which will be used to understand TPL providers’ business, the role of TPL providers, and finally, categorization and structures of TPL providers.

The framework is divided into three parts. The first part is a discussion of the definition and the use of TPL providers, while the second part describes the TPL providers in terms of adaptation against general abilities and customer coordination. The third part is about relationship and network development and its effects. Together they will be the base for understanding the development of TPL providers balancing between adaptation of single customers and creating more general competencies as a base for customer coordination.

### 2.1. TPL providers

A TPL provider is an external provider who manages, controls, and delivers logistics activities on behalf of a shipper. This relationship can be formal or informal. The intention is that it should be a mutually beneficial and continuous relationship. The activities performed can include all or a part of the logistics activities but at least management and execution of transport and warehousing should be included [9]. The relationship between TPL provider and its customers has changed over time from a focus on the contract [21] to partnership and agreement [6] and to be seen as a mutual beneficial and continuous relationship (see above).

The first party is the shipper or supplier and the second party is the buyer. The third party is a firm acting as a middleman not taking title to the products but to which logistics activities are outsourced. A strategic alliance between the TPL provider and the client is often necessary to guarantee the quality of the performance [4].

In research, logistics service providers have been classified in 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 [4]. Other ways of differentiating between TPL providers are to what extent they are geographically based and to what extent TPL providers themselves are outsourcing the logistics services [7]. Another important aspect would be to what extent the TPL business is the core business or just a side business to transport or warehousing.

The main benefits of logistics alliances according to a study by Andersson [4] are improvement of economies of scale and scope, efficient operations, bargaining power, range of services, faster learning, network with other providers, knowledge of various kind, fast implementation of new systems, restructuring of supply chains, reduced investment base, and smoother production. Being closely related, these benefits might be at least partly distributed to customers’ customers and suppliers as well.

Several researchers have been studying the contents of logistics services and how TPL providers operate [3,4,6,7,11,17]. 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 and also the most common services outsourced from industrial firms [5,7].

These service offerings have developed both in knowledge and technology over time. This seems to have had implications for the growth of the business, which has been discussed in terms of a first, second, and third wave of TPL industry development [8]. The first wave was 1980s when the traditional transport firms developed into TPL. During the second wave, from early 1990s, firms such as TNT, DHL, FedEx, etc., entered. In the last and present wave, the players entering are consultants, financial and/or IT management firms such as Anderson Consulting, GE capital, and Manugistics.

The services developed by TPL providers and the benefits gained for the customers are dependent on how it balances the coordination activities and resources of several customers and the degree of adaptation to the individual customer. This will be our next task.

### 2.2. Balancing between adaptation and general ability for problem solving

When discussing the balancing of customer coordination or customer adaptation, we have turned to the network approach and the model of general problem-solving ability and the ability of customer adaptation [14,16]. The customer coordination could be interpreted to reflect in the degree of problem-solving ability since there should be a need of a higher general ability when coordinating several customers. The ability of customer adaptation as the other dimension is well suited for our specific purpose.

Furthermore, in an earlier study [15], these dimensions have been applied when studying the traditional logistics and transport firms (see Fig. 1). In the matrix, the TPL providers are classified as ranging from relatively high to high in both the dimension of customer adaptation and in a general problem-solving ability. This implies that balancing these dimensions would be one of their main tasks for their strategic development.

Therefore, these two dimensions should be a useful way of further dividing TPL firms into subgroups each with different demands on customer coordination and adaptation and problems solution ability. This division would also illustrate a possible differentiation of TPL firms based on
their customer development. We have divided them into standard TPL provider, service developer, customer adapter, and customer developer (see Fig. 2).

The standard TPL provider (3 in the figure above) could be seen as supplying the standardized TPL services like warehousing, distribution, pick and pack, etc. This firm would often offer these services at the side of their normal business.

The TPL as service developer (1) is seen as offering advanced value-added services. This could involve differentiated services for different customers, forming specific packaging, cross-docking, track and trace, offer special security systems, etc. An advanced service package often involves several sets of more standardized activities turned into modules that could be combined according to each customer demands. An advanced IT system facilitates such a development. The focus would be more on creating economies of scale and scope.

The customer adapter (4) could be described as the TPL firm taking over customers’ existing activities and improving the efficiency in the handling but actually not making much development of services. This type of provider might take over customers’ total warehouses and the logistics activities and relies on a few very close customers.

The customer developer (2) is the most advanced and difficult form. It involves a high integration with the customer often in the form of taking over its whole logistics operations. The possibilities to coordinate customers rather lie in the know-how, the methods, the knowledge development, and the design of the supply chain. The number of customers would be limited and the work for each customer extensive. The customer developer or “logistics integrator” or “complexity manager” would be similar to what Anderson Consulting calls 4PL. Such a firm is sharing the risk and rewards of the logistics management with the customer [20].

Other authors have divided TPL providers as focusing on either value-added services and/or solutions [4,11]. Berglund et al. [8], who made an extensive survey of Dutch, English, German, and Swedish TPL firms and shippers divided the TPL industries into different segments based on mission statements of TPL firms.

The dimensions that define these segments show similarities to those of general ability of problem solving and customer adaptation, which would further support earlier classification. However, this is only a categorization based

Fig. 1. Problem-solving abilities—TPL provider position [15].

Fig. 2. TPL firms classified according to abilities of general problem solving and customer adaptation.
on TPL firm statements are more static and without possibilities to depict different degrees of general abilities or of customer adaptation. The criteria they use in order to create segments are value-added logistics and basic logistics in one dimension combined with a focus on standard service or solutions in the other.

The firms being leaders in the value-added logistics (value leader) and offering standard service imply a larger number of customers while complex and consultative solutions firms imply fewer customers. This further stresses the fact that there is a certain tradeoff between creating a general ability of coordinating customers and to high adaptation to a few.

Further, coordinating customers as a TPL firm often means a need to coordinate activities of customer customers or suppliers activities as well.

How the TPL firm balances between these dimensions, however, have implications for development of relationships to suppliers and partners as well as resources. The demands put on the suppliers and partners in terms of quality technological excellence, etc. of a basic logistics TPL are very different to those you need as a service developer or a customer developer or 4PL firm. The way to market your products, the number and choice of distributors would also be different if you have a high adaptation to a few or a low adaptation to many customers.

In next section, we will discuss how the network of relationships would influence TPL firms to move into either of these categories and how their development with their customers, customers’ customers and partners will influence their choice over time.

2.3. Relationship and network development and its effects on TPL providers

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 also to suppliers, partners, customers’ customers, etc. The exchange involves economic, physical, technological, legal, knowledge, and social exchange between firms where trust and communication are vital [1,19]. Trust between firms seems to be especially important when there is much at stake for the firms. This is often the case when a firm is outsourcing parts of its logistics in supply, operations, and/or distribution to TPL providers [18].

Therefore, it seems natural to assume that TPL providers have made different choices over time depending on changes in their relationships. The existing relationships and resources are both sources of restrain and development, specifically in the case of a TPL firm where matching of a limited number of customers is vital for a successful business [2].

Relationships are long term. Once established, they have a tendency to continue the integration process. There is inertia to change due to vested interest, knowledge, and the mere risk in changing [13]. Studies of logistics alliances show that similar changes of increasing integration and commitment seem to take place in between the TPL and its customers [10]. Over time, the relationship deepens and the number of activities outsourced increases [6]. Such as relationship development would presumably have a large impact on both customer’s customers and suppliers.

The deepening of relationships 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 strategic choice. Therefore, it seems relevant to understand how the existing customers work and for what purpose the customers use the TPL provider.

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 its suppliers as well as the partners. A deep strategic alliance is also harder to switch than a relationship of low degree of commitment (Hertz, 1996).

The increasing commitment over time would actually mean that large transport or freight-forward firms connected to a rich network of customers and partners would have higher possibilities to develop into TPL providers when customers outsource, globalize, reduce lead times, and integrate the supply chain network. Therefore, the global network of the TPL firms will play a very important role providing the services over geographical areas both for customers going international or already international customers. In some cases, the network as such has to internationalize as a result of such a development.

Further, when gradually increasing the volumes and types of activities performed for the customers, the TPL providers’ coordination with and of customers will differ and will have to change over time [2]. This will also influence how TPL providers continue to develop over time. Based on their earlier experiences and existing relationships, TPL providers are more or less inclined to develop the resources, skills, and competencies necessary to increase either the customer adaptation and/or the general ability of problem solving. Finally, as a middleman, not only the customers but also the customers’ customers, suppliers, as well as the partners, are vital for the network of the TPL firm.

To summarize, there are many benefits from using TPL providers. These benefits are based on the fact that TPL firms can coordinate several customers at the same time as they have the ability to adapt to the individual customers their products and systems.

Therefore, we have focused on the dimensions of coordination and adaptation first to illustrate the basic difference between more traditional logistics and transport firms and TPL firms. Second, we then used the same dimensions to differentiate between strategic development of TPL provider.

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’ customers, suppliers, and resources has a strong impact not only on the development into TPL firms, but also on their development as a TPL firm. What we want to know is how the TPL providers cope with the different demands and combine the customer coordination and adaptation and how it shapes their development over time.

3. Examples

We use four examples to illustrate how the customers and customers’ customers of TPL firm influenced its development and how they have balanced between customer adaptation and customer coordination and how their strategic development might change over time. The transport logistics firms have partly been our research subject for more than a decade [2,15].

We have chosen to study a combination of more traditional firms and firms new to the logistics business in order to cover the development over the three different stages mentioned by Berglund et al. [8] and representing different focus in terms of coordination and adaptation. Two of the firms, ASG and Transfargo, developed from being freight forwarders and transport companies, entering the field from a more traditional and standardized transport firm perspective. They differ, however, very much in size and type of resources. The third firm, DHL, is an integrator and, as such, having a service developer perspective and entering the business in a later stage. As the last example, we have chosen Cat Logistics, which is part of a large manufacturing firm and one of the more recent firms entering the field. The consultancy firms have not been included since they are not yet so important on the Scandinavian market. Some are, however, in the process of forming an organization.

The ASG example is a little longer since it has been part of the business development for a longer period in time. The focus is on TPL services for the Scandinavian market.

We have interviewed the TPL firms, the customers, and customers’ customers or suppliers about development over time and the importance of customer coordination and adaptation.

3.1. The ASG example

ASG has been, for a long time, one of the dominating national and international transport firms and freight forwarders in Sweden utilizing different means of transportation such as rail, road, sea, and air. The firm has a rich network of industrial relations in the Nordic countries.

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 types of services for different customers. In the early 1970s, ASG expanded heavily into warehousing since many customers 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 activities with other firms. In several cases, ASG even established a dedicated warehouse to a specific customer.

The more advanced of the early solutions in the TPL business were based on import agents or foreign manufacturers that wanted to compete on equal terms with local producers in the Scandinavian countries. As such, imported refrigerators were painted on demand from local distributors and refrigerators were cut on customer order.

Over time, as 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 parent firm for its customers’ transports? The TPL part first became a separate unit in ASG and then, just a few years ago, it was turned into a separate firm. The TPL part is now free to choose other transport firms in their solutions for customers. However, ASG still is the dominating partner for the transports.

As the TPL development continued, the firm developed different niches of wine and spirits, grocery, pharmaceuticals, spare parts for automotive industry, and others. Within these niches, a special knowledge was developed for the field and the customers. Still there were possibilities to coordinate activities of different customers in the warehouses specialized for these niches.

An example of the long-term development of such a niche is the automotive spare parts. ASG started by creating a large dedicated warehouse for spare parts to the Nordic market of one automotive firm. The customer wanted ASG to take over the spare part logistics activities from their sales firms in the Nordic countries. ASG was to work as an internal warehouse of the automotive firm using the customers’ systems, which also made it possible to compare ASG’s performance to other units in the customer group. It also made it easier for the sales firms of ASG’s customer to criticize ASG, since they lost their responsibility over the logistics activities. A problem with using the customers’ system was the difficulties to coordinate the activities with other automotive firms, since they could not co-utilize the resources. 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 have taken place more on the dealer’s side. New special services for protection of goods, more differentiated transport services are developed on dealers request and other new services are added.

Gradually, ASG got new automotive customers taking over logistics services of spare parts for the Nordic countries or Scandinavia. The other automotive firms, however, specifically wanted to share and coordinate to get higher efficiency. In one case, a customer had to withdraw as a
result of a merger. Then ASG had to find another suitable automotive customer for that specific warehouse in order to get scale and scope economies.

Developing the customer know-how was partly made by recruiting personnel from the different niche industries. Lately, ASG has set up a warehouse for the first customer in automotive spare parts in Bangkok. This warehouse shows large similarities with the existing system, but in this case, the warehouse is shared with another automotive firm. A strategic alliance of a customer made it possible to coordinate the activities.

To a large extent, the TPL part of ASG logistics is still focused on the Nordic countries and Nordic distribution. However, due to the new merger with Danzas, which has a stronger global coverage, the internationalization of the TPL business has changed dramatically. Danzas has adopted the TPL niche strategy of ASG.

3.2. The Transfargo example

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

Transfargo has over time acquired a number of computer firms as customers. This has given them specific knowledge, which they are using to attract new customers. Among those, computer spare parts and connected services have become an important field for the company. HP is one large firm that after a long selection process decided on using Transfargo for spare parts service on the Nordic market. The decision was influenced by the knowledge and experience developed through the existing customers of Transfargo in the same field.

As a result of its HP agreement, Transfargo has established new offices and looked for special service delivery points all over the Nordic countries. This way, Transfargo also developed its network signing agreements with new agents and representatives all over the Nordic countries. In some cases, the partners of Transfargo even made agreements with other partners supplying service to specific geographical areas. The existing partners of the traditional transport business in the Nordic countries could only be used in a few cases.

The independent service technicians of HP are also very active in their relationship with Transfargo in discussing how to be more efficient and to give better service. Transfargo even has developed into servicing to the customers’ customers themselves by recruiting some service technicians.

Lately, Transfargo has established relationships to some small, newly started IT firms as customers that need assembly and configuration of PCs as well as delivery. These customers leave their whole logistics operations to Transfargo.

Transfargo has almost totally become a TPL firm. Its limited transportation network also gave them the advantage of less ties to traditional business, giving them a more neutral position when outsourcing to larger transport firms.

3.3. DHL example

The third example of a logistics firm is DHL, a large worldwide integrator, 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 h. The global network is, to a large extent, based on air transports mainly using its own airplanes, which gives the possibility to have high quality and speed. Due to this, the cost of the transportation is higher than for more traditional transport firms and so the focus is on capacity utilization.

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 developed for global customers. Several of the customers that are buying services for the Nordic countries are actually large international firms where the deal covers distribution over entire Europe. The TPL agreement is often made somewhere else.

The DHL resources and systems are extensive in terminals, means of transportation, handling equipment, etc. Its global network is based on a combination of partners and subsidiaries. Even logistics customers seem to 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 DHL’s coverage is limited.

A problem and opportunity for the development of TPL business for DHL seem to be the domination and excellence of the advanced transport systems. Almost all TPL customers are already customers in its transportation 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 seems to be more difficult for the different subsidiaries. However, DHL has specific logistics centers where the logistics development is much stronger depending on customer needs. The global coverage makes it possible to set up warehouses for logistics services in specifically attractive areas. DHL is serving HP for a large part of Europe but not in the Nordic countries where Transfargo is the partner. Therefore, the TPL business in DHL seems to be much more tied to its eight specific express logistics centers (ELCs) in the world combined with distribution to/from these centers.
DHL logistics services also make configuration and upgrading of computers in certain support centers, which is combined with collecting and delivering of the computers. The coordination of the TPL customers seems to have been of lower interest due to the large number of TPL customers. This is going to change since they have changed their intentions to divide the TPL business into different niches and to manage them more separately.

In its transportation network, DHL has very little possibilities for customer adaptation and in the TPL business this is a necessity. DHL logistics services are a strong part in the large DHL international transport firm rather than being separated. DHL has now been partly acquired by Deutsche Post.

3.4. Cat Logistics example

Cat Logistics is a logistics firm that started 1987 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 unit owned by Caterpillar. Cat Logistics is working mainly with customers logistics solutions and warehousing systems and does not own or manage any transportation systems, but has formed close relationships to many transport firms.

Cat Logistics has become specialized in globally integrated solutions. Its customers are mainly from manufacturing industries of durable goods. Cat Logistics now has a worldwide coverage and they are now established in several European countries.

The base in Europe for Cat Logistics was the spare part systems of Caterpillar, inventory and central warehouse systems including all different types of logistics 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. It also offers their services globally, making use of their global network of warehouses.

Over time they have specialized in automotive, electronics, and industry products. Cat Logistics normally starts by either taking over the total warehouse of the customer or bringing the customer over to Cat’s warehouses. Then, it starts a process of rationalizing and redesigning the warehousing and inventory systems. Cat Logistics often covers all logistics services for the customer in a specific area. One example is the case of a large logistics customer of DHL Europe, which was combined with Cat Logistics, taking over all spare parts logistics activities in Spain and Portugal. By increasing the turnover and efficiency in handling, Cat Logistics can free space in the customers’ warehouse, and bring in other customers. Knowledge in how to redesign and change supply chains of the customer is developed gradually. Thereby, the need for administrative personnel at each warehouse will be low. The main parts in Cat Logistics offer are based in inventory, warehouse, and operations management and its existing know-how of the IT system.

As one large electronic company decided to outsource one of its largest warehouse and the connected logistics activities, Cat Logistics was established in Sweden. The electronic firm wanted fewer suppliers but with higher integration.

They wanted someone who was competent to take over the entire warehouse and to be able to create synergies, either through outsourced activities from other customers or a connection through flows.

The reason why Cat Logistics finally got the contract in competition with other TPL firms was their industrial background. They were assumed to have more insight in the needs of the end customer and to have a more neutral attitude towards transportation firms. Cat also had an outspoken plan to establish in Scandinavia and therefore the company was considered to take the assignment seriously and was interested in developing relationships with other customers.

The electronics company counted on decreasing volumes when the contract was written. Cat Logistics was therefore obliged to take in at least one other customer into the warehouse. The forecast failed and instead of a decrease in volumes, it turned into an all-time high. Cat Logistics on the other hand had already taken on a new customer to the same warehouse. This meant that yet another warehouse was established in Holland.

The relationship between the electronics company and Cat Logistics has meant new development not only in Holland but worldwide as it has taken over spare part services together with DHL for claims worldwide.

Cat Logistics does not perform the transportation on their own, but has a special agreement with transport firms. Therefore, Cat Logistics as a logistics provider can easily be combined with other transport firms. Cat Logistics sees themselves as more objective in its approach than a logistics firm.

3.5. Summarizing

These examples illustrate different types of logistics firms. As we can see, their existing network of customers, customers’ customers and partners seems to have played an important role for the development into a TPL but also in the continued development.

The development into TPL firms was for ASG and DHL with rich transport networks largely driven by customer but also customers’ customers like distributors and dealers. Transfargo and Cat Logistics, not being so large in the transportation business, both had to prove their competence by references. One of their biggest advantages was that they were not a transport firm, therefore they were more neutral.

The development as TPL firms was more difficult for the firms with strong transportation networks as ASG and DHL. The network was both an advantage and a limitation. An
advantage since many customers were originally transport customers. The limitation seems to have become clearer over time as large industrial firms outsourced their whole logistics business. Neutrality then became a bigger issue. For Transargo, being a much smaller firm, the whole firm seems to switch over to TPL business developing together with their customers. Cat Logistics started directly in the TPL business and was with extremely high adaptation for just one customer but then slowly adding new customers on the first customers’ request.

Internationalization was an important driving force for the customers and the customers’ customer, as well as for the TPL firms themselves. However, the TPL services seem, in the ASG and Transargo case, to create partly a different network of partners and suppliers than in the traditional business. It also 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.

Finally, 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 and Danzas have both been acquired by Deutsche Post, which also recently acquired part of DHL.

4. Concluding discussion

How can we explain the changes taking place? How has the TPL business changed over time in the TPL firms studied? How did the customers and the customers’ customers or suppliers actually influence the business? How have the different TPL firms managed the coordination and adaptation? These are some of the main questions that we have asked and also have tried to answer through the case studies.

We will start by shortly discussing some of the explanation for the changes we have seen tied to the emergence of TPL firms. Then we turn to discuss how the customers and customers’ customer of TPL firms have influenced the development of the logistics business of the firms. Finally, we turn to specific issues of importance for the development that we have seen in the examples. These are organizing and neutrality of the TPL business, internationalization and effects of strategic alliances, mergers and acquisitions.

As we have seen, the existing networks are important for the development into TPL and how they have balanced the degree of customer adaptation.

What we could understand from the cases was that two underlying driving forces for the TPL business development was the international competition and the outsourcing of noncore business. A need to increase efficiency and customer service for customers’ customers on a local basis became necessary. International competition triggered some industrial firms to make the final customer adaptation to their customers locally or in a centrally located warehouse in a third country and not at the factory. This was possible by the use of the TPL firm, its warehouse and access to transport network. In other cases, fast deliveries of a large number of spare parts became necessary in order to compete in the international automotive and computer industry. The large transport firms had a wide geographical coverage with many terminals. An access to these created faster deliveries and better customer service. In other cases, the total warehousing and distribution systems were the problem. Local warehouses in each country were getting too costly. Central warehouse for larger areas like the whole part of Europe could offer better effectiveness and efficiency. Many manufacturing firms wanted to create more centralized, combined with advanced, inventory and warehousing systems. Some existing customers or suppliers to Caterpillar turned to them to get help to create an effective system similar to Caterpillar, which finally led Caterpillar to enter the field.

These new demands coming from their existing network seem to have made the TPL firms move into the TPL field whether they were transport firms, freight forwarders, integrators, or manufacturing firms.

The question is, however, how the customers and customers’ customers, in combination with their existing business, actually influence their balance in the degree of adaptation and/or customer coordination chosen when moving into the TPL field.

4.1. Customer adaptation and customer coordination

Since understanding customers’ situation and developing knowledge about customers’ business often are a necessity in order to be trustworthy as a TPL, the references from existing customers are extremely important. The existing customers and their development in the TPL business not only develop the knowledge and capabilities of the TPL firms, but are also often a prerequisite to get new ones. Further, in some cases, customers also actually demand customer coordination.

Therefore, the existing customers and systems will play an important role for how firms enter into TPL business both directly and indirectly. This is also obvious in the cases where ASG and DHL customers came from their traditional transport business while Cat Logistics and Transargo used references from existing business. Since the TPL business normally starts as a side activity, the business idea and attitudes of the firm’s existing system are still dominating. In the case of Cat Logistics, their warehousing system dominated and customers’ adaptation seems extremely important, while ASG and DHL are more focused on the customer coordination perspective (see Fig. 3).

Further, the international customers and partners play an important role in the TPL development since many of the early customers were foreign companies wanting to compete on equal terms with domestic firms.
The importance of the first customers led many of the TPL firms to develop in many directions without a clear focus. Once the TPL business and number of customers are growing, the balance between the two dimensions becomes more relevant to manage. We know there is a natural tendency to increase the degree of integration in your relationships to customers and customers’ customers over time [13,19]. In the cases it seemed that the TPL firms were taking on more advanced activities for the customers, thereby increasing their integration to the customers and the customers’ customers. In some cases, it was rather the customers’ customers that were initiating development and continued integration while customer relationship was more stable.

By taking on more advanced activities and increasing integration with the customers, ASG, Transfargo, Cat Logistics, and DHL are continuing their development into “customer developers” or complexity manager [20]. This involves working with both advanced level of customer adaptation and a high general problem-solving ability. Further, it restricts the number of customers suitable for coordination (Fig. 4).

What customers should be in focus? How will the firms cope with a parallel development? To what extent will their parent firm business philosophy continue to influence? To what extent will the existing customers influence the coordination with other customers?

To develop niches seems to be used as a way to increase customer adaptation for TPL and also to create the specific knowledge needed. In the ASG case, the business was divided 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 it was possible to take different demands into consideration and still develop specific knowledge and to coordinate a limited amount of customers. Between the niches, the degree of coordination and adaptation can differ depending on the customers. Furthermore, both customer and customers’ customers would, to a higher extent, want to influence with whom the customer coordination can take place.

We can expect that in the case of a TPL firm being either a customer developer or a customer adapter, the customer and their customers will demand a higher influence on the coordination between TPL customers and thereby limiting the choice of new customers. This might be much more difficult to accept for large firms with a traditional business philosophy as DHL or ASG/Danzas than for Cat Logistics and Transfargo. As we can see, there are not only advantages but also certain limitations of the new TPL business being tied to the existing larger firm, which we will discuss next.

4.2. Organization and separated business and neutrality

Over time some of the TPL firms break out from the existing business. In the case studies, two of the TPL firms, ASG and Cat Logistics, actually put their logistics services into a separate organization. In the ASG case, the TPL firm later became a separate company while Cat Logistics stayed as a part of the larger organization. In the case of Transfargo, the whole firm rather seemed to develop into a TPL provider, leaving most of the traditional business behind. For DHL, the logistics services are still seen as an integrated part of the transportation business. However, this also seems to be reflected in the customers’ demands on DHL.

One of the reasons of creating a separate TPL business is that customers demand the most effective solutions from the providers. Customers see the neutrality of TPL firms as an asset. This is enhanced by the fact that customers normally use several transport and warehousing firms for different parts of the world and for different kinds of goods.

Furthermore, if a TPL provider wants to coordinate supply chains, the question of neutrality seems to play an even more important role.

Finally, the separation means that the new firm will have a smaller amount of customers, a different set of representatives, and a more limited network. The problem is of course also how to create the right knowledge base in the

![Fig. 4. The next step in the movement?](image-url)
firm. Further, each customer coordination and adaptation will be more important. Being a separate firm might also mean that there is a higher risk of being acquired.

4.3. Internationalization

Internationalization seems to be closely tied to the TPL firm development. International customers are growing internationally by TPL firms. TPL firms internationalize through their customers. Both are contributing to each others’ international development.

However, in our cases, the internationalization of TPL was limited to certain geographical regions like Nordic countries, central Europe, or maybe US, rather than being truly international. One exception was that the customer wanted the same TPL firm, ASG, in another country covering another geographical area. In other cases, the customers seemed to use different TPL providers for different regional areas. Most studies support that firms use different TPL firms in different parts of the world because no firms can really operate and cover the whole world with high quality. Further, customers often want to have alternatives for safety and competitive reasons.

Another issue of importance is to what extent the emerging TPL providers can use their traditional international transport or warehousing partners for their logistics services.

The existing international ties of the traditional business actually can complicate the internationalization of the TPL firm if the partner lacks the suitable competence. In the Transfargo case, this was a problem. An exception is the MNEs that made agreements with DHL in order to use the DHL transportation system to reach large parts of the world from one or a few warehouses suitably located.

Further, the size and numbers of suppliers and partners also influence the development of the TPL’s role to a large extent. The partners and suppliers have the expectation that they should develop together. In some cases, TPL business might be initiated from some other countries taking Scandinavia into a European agreement. In these cases, will they actually manage to keep a high quality in their logistics services in different parts of the world?

4.4. Effects of strategic alliances, mergers, and acquisitions

Will the large number of mergers and acquisitions in logistics business solve the problems or enhance them?

In the cases, we found that acquisitions and mergers had large effects on the TPL providers. New customers came and other customers left as a result of alliances, acquisitions, and mergers. In one case, the TPL firm actually used mergers and acquisitions as an opportunity to find customers.

We also found that many M&A have been taking place among the firms that we have studied, which actually changed the attitude towards how the business should be organized. This will probably increase in the future.

5. Concluding remarks

Moving into the emerging TPL business the development seems, to a large extent, to have been based on following and integrating with existing customers rather than being a strategic choice. It is better described as a learning process where the TPL providers are part of the development of the emerging field.

The firms entering the emerging business mostly lack the knowledge to decide what they want in the earlier stages. The TPL business is then mostly value-added services to existing business. Therefore, they accept to perform services that are less profitable and less interesting from a development perspective, which they might avoid later on.

In the process, the TPL business often gets separated from the traditional business. At this stage, it is more likely that they try to develop into the higher end taking a larger part of their TPL customers’ activities. This would mean a higher degree of internationalization and more mergers and acquisitions between different TPL providers. To increase the knowledge of the different types of TPLs would be necessary, which might mean more alliances are to be expected. An example could be consultants joining TPL firms with an advanced knowledge in transportation management and warehousing.

The TPL providers would seem to develop towards a customer developer or 4PL situation involving coordination of few customers and high customer adaptation. A way to do this seems to be focusing on specific niches of a few customers where both the knowledge development and adaptation can be high and can still be used for coordinating the customers’ activities.

It seems important for some of the TPL to move away from their parent firms and be separate units in order to be able to serve their customers as TPL providers. As many customers and customers’ customers use several transport and warehousing firms, the TPL firms need to be trusted by the customer as a more neutral part. This is also true when it comes to using TPL firms. This is actually one of the strengths of the consultant and IT firms.

However, being a small firm, it might be a question of changing the business idea of the firm rather than splitting the resources.

To internationalize is important but the ties to specific warehouses and coordination of customers make it difficult. The result is often of a more regional coverage, unless the customer wants to buy access to a worldwide transportation network as in the case of DHL.

Alliances, mergers, and acquisitions, not only of TPL providers, but also between customers, are common today and will probably become even more common. International alliances or mergers and acquisitions offer opportunities to get new customers, but there is also a risk of losing customers, but also increasing the degree of internationalization. The difficulty is, however, to balance between the different choices. Can you make different choices in differ-
ent countries? Where do you have your customers and suppliers and partners?

Finally, since the network of TPL providers heavily influenced their strategic development it seems reasonable to assume that this will continue to the next stage. Therefore, not only customers, but also the customers’ customers and partners will influence the business development heavily for the TPL as the TPL always has a rather high degree of customer adaptation. However, the attitudes and philosophy of the TPL provider, their customers, and between the different customers are important for the strategy to work.

References


