INTRODUCTION

The setting of this paper is the impact of globalisation on today’s economy and more specific on the sector of transport and logistics. The globalisation process has been recognized as one of the main underlying forces impacting logistic service providers (Lemoine, 2005). The definition of globalisation passed on by the International Monetary Fund (IMF), “the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, freer international capital flows, and more rapid and widespread diffusion of technology”, illustrates that the globalisation wave is a combined process of various actions and trends. As a consequence the measurement of the impact of globalisation on logistic service providers (LSP’s) is a complex research problem.

The world has become one global village interlinking businesses and their supply chains all over the world. Today companies (shippers) need to orient their business outside the borders of their home country and control their costs to survive the fierce competition. Cost control generally means cutting down unprofitable business units and focussing on one’s core business. Therefore off-shoring parts of the value chain to low-cost countries and outsourcing parts of the value chain - in particular tasks that are catalogued as secondary activities such as logistics - are general adopted ways of organising business today. Following to this trend an increasing amount of supply chain activities are transferred to the logistic service providers (LSP’s).

Following to the internationalisation of the economy value chain activities (sourcing, production, manufacturing and sales sites) are spread out all over the globe. The expansion of Europe and the growth of China and India towards important economic entities are changing the face of logistics. Outsourcing and off-shoring activities drive the complexity and longitude of
the supply while complex supply chains fuel the need for efficient international logistic management. It is a self-propelling process.

In order to be efficient logistics needs to operate crossing company borders with all agents of the supply chain. Monitoring the supply chain from source to consumer is a constant quest for optimisation. International success is guaranteed by the continuity of the supply chain and sharp control of the logistics costs, improving customer and shareholder satisfaction. This is true for both the demanding parties (shippers of goods) and the supplying parties (logistic service providers). Efficient logistics is considered as a strategic priority to compete in a globalized economy. Therefore the management of relationships between shippers and LSP’s is crucial. 60% of Fortune 500 companies in Europe have at least one contract with a third party logistics provider (Eyefortransport, 2006). Next to international orientation of business and cost control LSP’s also need to monitor the market and track the needs of their customers (shippers) in terms of competitive value proposition.

Nowadays their exists a wide proliferation of products with shorter product life cycles and an increased rate of product innovation resulting in an increased movement of goods. In this world of high variety and volatile demand leaness of logistic processes (Just-in-time, quick response, elimination of waste, forecast driven business models) is insufficient. Within this context the move from lean to agile supply chain management skills is key (Harrison and van Hoek, 2005). While lean means containing little excess; "a lean budget", agility means moving quickly and lightly; "sleek and agile as a gymnast". That’s what shippers expect from their LSP’s today, demand-driven, information based instead of inventory based and most importantly a high rate of agility.

The aim of this paper is to reveal the strategic choices and ways of responding to the globalisation wave by LSP’s located in Belgium. The case of Belgium is being chosen as Belgium serves as one of the most important logistic gateways for Europe.

METHODOLOGY

To measure the impact of the globalisation it is designated to track the evolution of activities, list the current service offer across industry segments and track the presence across several diverse regions of the world. It is important to understand how LSP’s were organised in the past, how they operate today and how they envisage the future in terms of service offer, international presence and organisational structure. This dynamic approach will reveal the new challenges LSP’s are opposed to following the globalisation process. Weather LSP’s focus on few industry verticals or various industries and weather they have a global, regional or local orientation are both crucial questions in this research.

To answer these research questions a bottom-up approach is applied in this research setup starting with the analysis of the trends and strategic choices via a two-folded market research. First, a qualitative market survey was conducted during the months April and May 2006. Second, a large scaled
survey targeted at logistics managers is planned in the months of October-November of this year. This paper delivers the results of the first part of the research. Twenty in-depth interviews were realised with a variety of small (5), middle sized (6), large (5) LSP’s and federations of the transport and logistics sector (4). The targeting of the respondents was based on the directory of LSP’s in Belgium constituted by Truck and Business, completed with own desk research. The results of both qualitative and quantitative market surveys will be mapped in order to find conclusive strategic choices. Porter’s Diamond of National Advantage (factor conditions, demand conditions, firm strategy, firm structure and firm rivalry) and the diagram of Porter’s Five Forces (rivalry, threat of substitutes, buyer and supplier power, barriers to entry) were used as a framework for interview guidance (Porter 1980, 1990) (see Figure 1).

Figure 1: Porter’s Diamond Model and Diagram of Five Forces

Source: www.12manage.com

LITERATURE REVIEW

A lot has been written from the perspective of customers (shippers) who use LSP services. This is the main focus of surveys conducted by consultant companies such as Capgemini (Annual Third-Party Logistics Study) and Computer Science Corporation (Annual Global Survey of Supply Chain Progress). Our objective is to identify key trends and strategic choices within the logistics industry from the perspective of LSP’s.

According to the 10th Annual Third-Party Logistics Study, LSP’s mainly offer tactical services while customers seek close collaboration and strategic views. An important finding of this study is that price has become the main differentiator despite of value added services. This study was conducted by Capgemini and the Georgia Institute of Technology and covered North America, Western Europe, Asia-Pacific, Latin America, South-Africa and the Middle East (Capgemini, 2005).

The Outsourcing Logistics report (2006), issued by Eyefortransport concludes that service reliability is more important than price. The reason for this contradiction is that in this study both shippers and LSP’s are interviewed, the latter putting services above price as competitive differentiator. Similar findings were noted in a study conducted by the Belgian institute for road transport (Instituut voor wegtransport, IWT) in 2005. They state that traditional
transport (transport from A to B at an agreed rate) is in ongoing transition towards logistic management and oriented to value added logistics. While price is the focus within the sector of traditional transport, delivered services and quality are as important as price within logistic management. This is in contrast with the previous study where service was stated to be more important than price.

It is clear that the pressure on LSP’s is high and that both price along with enhanced service proposition (moving up the value chain), are important factors to compete with existing players and new entrants. The following citation shows more is expected from the LSP’s: “If our 3PL has a close cultural fit with Unilever, if it delivers added value to the relationship, and if it continues to get the basics of service, safety and cost right, then there’s a good chance we will renew the contract”, explains Rod Turner, operations and distribution Manager of Unilever (Eyefortransport, 2006).

The important strategic issue LSP’s are confronted to today is to decide how to operate in a global interdependent marketplace. They need to choose what kind of organisational mode to apply to their business. Lemoine (2005) identified five external (environmental uncertainties, host country specific conditions, competitive environment, ICT and customer demands) and five internal (firm size, experiential knowledge, financial resources, skills and culture) factors related to the LSP’s as decisive elements for strategic choices.

LSP’s have used a wide range of organizational modes in order to survive the fierce competition and perform activities in the international markets. Ranging from arm’s length agreements (non-formalised) mainly applied for low value transactions (transport from A to B), to transitory alliances (short term collaboration agreements), working partnerships (contractual relationship for a short to medium term with a low degree of sharing information, resources and funding) to strategic alliances (long term, formalised and based on win-win principle with a high degree of sharing risks and profits) and joint ventures. Within the latter mode efforts are combined between 2 or more LSP’s and activities are performed under a common name (Lemoine, 2005).

This wide range of organizational modes can be based on horizontal or vertical agreements. Horizontal agreements exist between LSP’s (intra-industry) and aim at increased bargaining power via the acquired access to complementary skills and new markets. Vertical agreements exist between the shipper and the LSP. In the end the evolution of business proofs that alliances and joint ventures evolve towards mergers and acquisitions in most of the cases because complex collaboration modes are time-consuming. In general LSP’s seek to expand their service offer and increase their international presence to maintain competitive advantages (Lemoine 2005, Verstrepen 2005).

In the next sections the LSP landscape will be illustrated followed by the case of Belgium.
The LSP landscape is characterised by increasing consolidation, pressure to cover the global market (follow the shipper, reactive attitude) and pressure on profits. These elements build a highly fragmented and competitive West-European logistics market (Verstrepen, 2005).

By its nature the demand for transport and logistic activity is a derived demand because of its strong relation to the demand for movement and treatment of goods, driven by internationalisation and economic growth. Next to the growing demand for transport, LSP’s are faced to the growing demand for coordination and management activities of larger parts of the supply chain.

Enhancing logistics partnerships, with improved communication and/or the development of effective relationship management is crucial to survival. In the following section the position of LSP’s will be analysed.

**POSITIONING**

Coordination of the supply chain activities along with the collaboration across agents and LSP’s has become so important that fourth party logistics providers were created to do the job. The figure below illustrates the positioning of LSP’s in terms of level of outsourced activities and level of collaboration. Over the years there has been an evolution from first party logistics (1PL) to 2PL, 3PL and 4PL service providers.

**Figure 2: positioning of LSP’s**

Most authors classify the LSP’s based upon the level of outsourcing activities, service package and level of collaboration (Van Mierlo and Macharis, 2005). According to Visser (2004) four types of LSP’s can be identified:

- **1PL**: Here we refer to the shipper, organising and executing all of the logistic activities autonomously, all activities are done in-house (100% in-sourcing).
• 2PL: The shipper (demanding party) uses a subcontractor to execute transport activities. The 2PL is responsible for clearly defined operational tasks.

• 3PL: Following to the outsourcing trend during the eighties 3PL’s entered the LSP arena next to 2PLs. They offer value added services such as governance of the supply chain (order management, custom clearance, ...) along with solutions for improvement of operational performance. A long-term relationship between the shipper and the LSP is preferable in this setting. Traditional tasks such as transport is outsourced to 2PL’s. Some 3PL operators supply “downstream” customised activities (postponement tasks). Katoen Natie for example, a global 3PL based in Belgium supplies actual postponed manufacturing and assembly services to industries such as the chemical (Dupont) and automotive sector (General Motors). For various companies (Delmonte, Quicksilver,...) they offer labelling and quality control (Vannieuwenhuyse and Misschaert, 2005).

• 4PL: Both the organisation and the management of logistics is sourced out to 4PLs. In many cases they control the complete supply chain from point of sourcing to point of sale and point of using. They are non-asset based and the traditional transport and basic logistic services are sourced out. They play an advising role in supply chain design, development and implementation of solutions. Furthermore they take part in strategic decision-making and envisage the sharing of risks and profits with shippers. Recently a new kind of operator has entered the 4PL arena, the ICT-based broker, playing an intermediate role between shippers and their choice of logistic service provider to offer competitive prices.

In the next sections the logistic landscape in Belgium and the behaviour of the logistic providers will be described in terms of their service offer and strategic choices following the globalisation wave.

**CASE OF BELGIUM**

Both from a geographical and value creation point of view, Belgium has a central position within the European distribution, located in the area called the *Bleu Banana*. This area concentrates 60% of the European purchasing power taking off in England crossing the Benelux, via the Rhine through Switzerland until the industrial hart of the North of Italy, Milan. The internationalisation of the economy creates important flows of goods and services over our territory increasing the transport intensity and the growing need for logistic management. Along with the challenges LSP’s are faced to, this also creates opportunities for international LSP’s.

Today Belgium has around 8.800 2PL’s and somewhat less than 1.000 3PL’s, of which +/- 25 big players (Febetra, 2006) active on its territory. For 4PL’s no
figures exist at the moment. Further market scanning will need to be executed. The Directory of LSP’s in Belgium (Truck & Business Belgium) lists 262 companies. Table 1 shows the top ten LSP’s in Belgium giving the storage capacity and the range of supplied logistic services. Four operators out of the top ten offer a complete selected service package. The remaining six operators offer at least seven out of the eleven selected services.

Table 1: Top 10 LSP’s in Belgium

<table>
<thead>
<tr>
<th>LSP</th>
<th>m²</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
<th>J</th>
<th>K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katoen Natie</td>
<td>550 000</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Groep H. Essers</td>
<td>337 000</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Hojensbergnaert</td>
<td>322 952</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Riga Natie</td>
<td>274 964</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<td>●</td>
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<td>●</td>
</tr>
<tr>
<td>Volkers Belgium</td>
<td>273 078</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<td>●</td>
</tr>
<tr>
<td>Schenker Belgium</td>
<td>261 037</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>ACR Logistics Belgium</td>
<td>227 000</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Exel Belgium</td>
<td>215 750</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Belgian New Fruit Wharf (Sea Invest)</td>
<td>200 000</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Weerts Logistics</td>
<td>190 000</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<td>●</td>
</tr>
</tbody>
</table>


Figure 3 shows the frequency of the offered services in terms of percentage. The traditional services such as transport and distribution remain in the top four of offered services. But it is clear that stock management becomes as important. 68% of the LSP based in Belgium already offer value added logistics such as packaging, labelling (55%) and quality control (42%). Half (49%) of the LSP population offers at least eight different services (Figure 3).

Table 2: Services and Package

<table>
<thead>
<tr>
<th>Services</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storage</td>
<td>98</td>
</tr>
<tr>
<td>Transshipment</td>
<td>89</td>
</tr>
<tr>
<td>Stock Management</td>
<td>85</td>
</tr>
<tr>
<td>Transport and/or distribution</td>
<td>82</td>
</tr>
<tr>
<td>Order Management</td>
<td>71</td>
</tr>
<tr>
<td>Packaging</td>
<td>68</td>
</tr>
<tr>
<td>Labelling</td>
<td>55</td>
</tr>
<tr>
<td>Customs Authorities Management</td>
<td>54</td>
</tr>
<tr>
<td>Invoicing</td>
<td>46</td>
</tr>
<tr>
<td>Quality Control</td>
<td>42</td>
</tr>
<tr>
<td>Reverse Logistics</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: Own setup based on the Directory of LSP’s in Belgium, Truck & Business Belgium

<table>
<thead>
<tr>
<th>Package</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full package</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>8</td>
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<tr>
<td></td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>6</td>
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<tr>
<td></td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Single service</td>
<td>2</td>
</tr>
</tbody>
</table>

N=262

It is interesting to analyse to what extend the LSP’s outsource their own secondary services such as transport, storage and distribution in order to
determine if LSP’s grow in the direction of non-asset based business models. On the contrary the elaborated offer of value added logistics and postponement services require investments. Analysing to what extend these kind of services are a reality in today’s service offer can help us understand the challenges and strategic choices LSP’s are confronted to. This question will be addressed in a quantitative market research (N=250). Furthermore it will enable the understanding of the fragmented market and to distinguish more precisely the trends between small, medium and large players that are noted during the in-depth interviews.

RESULTS IN-DEPTH INTERVIEWS

The results of the in-depth interviews are structured following company size and are introduced with general findings across company size.

Today the market for all freight flows is accessible for all competitors, except for cabotage services (transport within a country supplied by another country) supplied by new member states. Within approximately four years these services will also be liberalised (Van Mierlo and Macharis, 2005). Competition from the new member states comes mainly from Poland & Czech Republic. Still most of the haulage is lost to Germany, France, Italy & Spain because of the high level of wages in Belgium (total transport cost is composed of +/-41% wage followed by +/-21% fuel). How players respond to the internationalisation of business processes depends highly on their company size. There is a correlation between company size and their choices regarding strategy and organisational structure. In general these interviews indicate that challenges, across company size, in the logistic sector are wages, labour force and congestion on the Belgian roads.

Small businesses (most of them 2PL) are focussing on basic transport services and are confronted to fierce competition and high pressure on their margins. Due to their large number many are doomed to disappear from the logistic landscape. Many apply a survival strategy limiting their operational range and truck fleet to avoid bankruptcy. To stay in the market and guarantee their future they need to focus on local and niche markets where language, culture and customized service prevail over price. For this group it is difficult to evolve towards logistic services because of direct competition by their own customers (3PL’s) and highly required investments.

Middle-sized LSP’s (mainly 3PL’s) offer next to transport services also a basic level of logistics services and are opposed to pressure from their customers (shippers) regarding collaboration with East-European partners (collaboration or “green-field” investment). Many consider or realised strategic alliances to assure continuity of business and European presence. The Belgian transport company Maenhout, based in Ostend, is an interesting example. The Wim Bosman Group, a Dutch 3PL acquired more than 50% of the shares and closed a collaboration in June 2005. Maenhout focuses on the Benelux, UK, Ireland and Southern Europe while Wim Bosman is present in Northern, Central and Eastern Europe. Together they increased their European presence and increased their customer satisfaction. In general middle-sized
companies have a positive view towards future challenges and envisage two
growth areas: total supply chain management service, both on the inbound
and outbound side and production logistics (value added logistics) in terms of
assembly and customisation.

Large LSP’s are also opposed to tough competition and (mainly 3PL’s, some
with 4PL services) focus on logistics services with high added value. 80 to
90% of the basic transport services are outsourced towards 2PL’s. They apply
the strategy of a “follower”, largely dependent on the shippers’ requirements,
maintaining an international strategy with a focus on global growth. Many do
have important amounts of capital allowing them to invest in equipment and
guarantee a market drive and flexible approach, responding to customer
needs. The largest ones choose ‘greenfield’ investments to operate abroad.

The strategic answers to overcome today’s market challenges and gain
competitive advantage are dependent on the size of the LSP. Small LSP’s
focus on local transport activities and niche markets. Still, this research
concludes that these chosen markets require low investment so future
success is not guaranteed because the barriers to enter are too low making it
easy for rivals to attack. The only competitive advantage is based on cultural
knowledge and language skills. Medium sized LSP’s limit their operation
radius to +/- 500 km due to harsh competition above this radius. Still, following
the demand of their customers most opened a subsidiary in the new member
states and others consider to follow the same trend by forming and setting up
strategic alliances. Large players maintain an international focus combined
with mergers and acquisition opportunities along with green-field investments
with focus on VAL services to various industries.

CONCLUSION

In Belgium most of the transport companies have a small and medium-sized
profile and don’t have enough financial resources to invest in value added
logistic services next to the classic transport service. Small companies are
therefore forced to fierce survival strategies with a focus on local and niche
markets. Medium sized companies also experience fierce competition but
seek strong strategic alliances to guarantee their future success and increase
their geographical scope. Large companies experience tough competition but
can cope with the competitive forces by increasing their network globally
(investments). There is clearly a link between size and strategic choice.
Further work is necessary to test the insights gained on this topic via this
qualitative survey with a quantitative survey. Therefore a large scaled survey
(N=250) targeted at logistics managers will be realised in October-November
of this year.
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