The strategic intent of logistic service providers on three processes: French case

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Purpose: Our aim is to discuss the strategic intent of French Logistic Service Providers (LSPs) through three logistics processes: innovation, traceability and pooling.

Research Approach: Previous literature mostly describes the LSP as a proactive actor dealing with supply chain strategy. This paper uses some of the results of three qualitative researches (on innovation processes, traceability, and logistics pooling) between 2010 and 2014 on French LSPs. Content analysis is then used to build from these empirical results a theoretical framework.

Findings and Originality: Concerning innovation processes, the contract length and the shippers’ vision of outsourcing explain the lack of LSPs revolutionary innovations. Incremental innovations such as technological and organizational are much more implemented because of a lower risk level. They do not lead to a long-term strategic intent even if they consider this as a major strategic issue. Traceability of supply chains appears to be a strategic issue for firms. As intermediate actors of a supply chain, LSPs could consider traceability as a possibility to offer a distinctive service. In fact, the only reason why LSPs improve this kind of process is to transfer their responsibility to their customers. They split the responsibilities and no strategic intent appears in the actors’ interviews. Concerning logistics pooling process, LSPs are not getting involved and do not implement a logistics network process, they prefer offering services they know well, as they always did since the last thirty years. The creation of networks with multiple shippers means dealing with their customers in the way they are not used to, in more complex processes.

We conclude that LSPs are not proactive in these three strategic processes, which lead to the conclusion that they miss a strategic intent. Much has been written on the operational role of LSPs. However, little has been written concerning the strategic intent of this actor of the supply chain. This paper bridges this gap, providing the necessity for this interface actor to have a strategic intent that could lead to improve the supply chain management.

Research Impact: The paper strives to limit the enthusiastic theoretical way of thinking of the LSP’s strategic intent. It brings some empirical elements to understand the strategic intent of these third parties. Driving factors and strategic behavior are diagnosed and discussed.

Practical Impact: Our aim is to understand better LSPs role and the possible weight they could gain in the case of a strategic intent. They could also propose and develop new added value services that could improve their position in the supply chain. We will show that strategic intent might create value and help them to be considered as partners instead of subcontracting firms.

Keywords: Logistics Service Providers, strategic intent, inductive approach
**Introduction**

Globalization, lead time reductions, sustainability requirements are some of the reasons explaining that managing supply chains has never been so complex (Hertz and Alfredsson, 2003; Christopher, 2012). Firms refocus on their core businesses and value-adding operations, so outsourcing to Logistics Service Providers (LSPs) is a part of a general trend.

Using their capabilities, LSPs can coordinate the organizations in the supply chain, the activity and flows within the chain, the logistics resources and systems (Cui and Hertz, 2011). Initially their businesses were centralized on transport but the outsourcing perimeter was extended to warehousing and distribution operations. However, the function of LSPs is focused on the operational coordination among supply chain members. Amongst LSPs, two main categories are distinguished: 3PLs and 4PLs (Hertz and Alfredsson, 2003). The first one has logistics assets and the second one works primarily through information systems, using other 3PLs or carriers as subcontracting firms, since they do not own any assets or very few of them.

Over time, LSP’s role has evolved, some authors qualify them as leaders (Fulconis and Paché, 2005) others as orchestrators (Zacharia et al., 2011). They are serving as interface actors, being a key player in the supply chain organization.

We use three doctoral researches, with a homogeneous methodology. The first one focus on the innovation in the logistic service providing sector (Kacioui-Maurin, 2011), the second one deals with the total traceability implementation in the food processing sector (Lazzeri, 2014), and the last one concerns the logistic pooling in the distribution sector (Michon, 2014).

These three researches, based on a strategic and logistic managerial way of thinking, are part of an interpretative approach and are based on qualitative methods using in depth case studies. The case study method (Yin, 2003), was chosen for each of these doctoral searches to improve the comprehension of complex in-field studies with multiple analysis levels and to discover new issues. Each of these three in-field studies describes one specific logistic process. The results highlight that LSPs (table 1) have a responsive behavior in relation to their client’s requests according to the three observed logistic process (innovation, traceability and logistic pooling).

Through a compared analysis, we are willing to identify the factors that can explain the lack of PSLs proactive behavior if we consider the studied process, in the French case.

<table>
<thead>
<tr>
<th>LSP</th>
<th>2013 3PL Logistic sales in France (Millions €)</th>
<th>Typologies of services and clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>LSP1</td>
<td>670</td>
<td>All sectors</td>
</tr>
<tr>
<td>LSP2</td>
<td>625</td>
<td>Distributors, FMCG (fast-moving consumer goods companies), PGC, industries</td>
</tr>
<tr>
<td>LSP3</td>
<td>562</td>
<td>Distributors</td>
</tr>
<tr>
<td>LSP4</td>
<td>950 (worldwide)</td>
<td>Craft stores, furniture, textiles and leisure</td>
</tr>
<tr>
<td>LSP5</td>
<td>486</td>
<td>Distributors, food and beverages, chemical, automotive and transport equipment</td>
</tr>
<tr>
<td>LSP6</td>
<td>465</td>
<td>Positive and negative cold, food processing, distribution</td>
</tr>
<tr>
<td>LSP7</td>
<td>312</td>
<td>Food processing, industries, retail</td>
</tr>
<tr>
<td>LSP8</td>
<td>273,8</td>
<td>Retail, high tech and electronics, industries</td>
</tr>
<tr>
<td>LSP9</td>
<td>61</td>
<td>Temperature controlled food processing</td>
</tr>
<tr>
<td>LSP10</td>
<td>10,7</td>
<td>Specialized distribution, pharmacy and health care, high tech and electronics</td>
</tr>
</tbody>
</table>

Table 1. LSPs respondents
We present an inductive approach, in the first part, the chosen logistic process for this analysis and the main raw results. In a second part, we discuss these results, building upon a theoretical proofreading on strategic intent (Hamel and Prahalad, 1989). The LSP, being central in the supply chain, could develop a proactive strategic behavior. This leads to a conclusion based on recommendations to them.

**LSPs functions in logistics processes**

According to the European Outsourcing Barometer (2008), 68% of firms outsource the transport, logistic and distribution functions.

The LSP needs to be able to act as an intermediate, and to undertake at the same time some capabilities to solve problems of coordination and to develop adaptive capacities with their clients. The outsourced logistic activities might be standardized (e.g. transportation, warehousing) or complex (e.g. information system, traceability system and eventually management systems) (Roques and Michrafy, 2003). The proposed activities of LSPs, being controlled, executed and coordinated are on an operational level.

This ability to connect, to coordinate and to combine, might take place on a much larger supply chain: LSPs. They can be in charge of managing a large network composed of different actors, activities, and resources, being part of multiple supply chains, among which they will be in the position to create synergies.

We propose to illustrate the complexity and the variety of situations three logistic processes in which the LSP role could be central.

**Innovation process**

Innovation, in the widest sense of the word, is presented as a main driver for product and service differentiation (Porter, 1982). For firms, innovation’s aim is to insure their survival and growth in terms of activities and turnover. Intensive innovation occurred at a high level of competitiveness due to competition and to the high level of uncertainty. Logistics does not escape these problems. As Rossi et al. (2013, p. 587) points out “logistics innovation is often seen as a key driver for enhancing the competitive advantage of a company”. LSPs innovation can be considered “as the introduction of a new offer, new technologies on new markets and/or with new shipper which can involve a reorganization of the processes or another significant evolution of the LSPs competencies and services” (Kacioui-Maurin, 2011, p. 133). This process takes on main strategic issues. The concept of “new” and “customer value” are two main dimensions of logistics innovation (Rossi et al., 2013). It appears as the main way of improving LSP performance and profits (Selviaridis and Spring, 2007). As Rossi et al. underlined (2013, p.587) “this implies a firm being proactive by exploring new opportunities for customers that are intended to contribute to the performance and/or effectiveness of the firm”.

Existing literature suggests that “modular solutions” appear when the LSP articulates services that have a high degree of complexity and adapts their processes to their customer, such as the management of the after-sales service, the realization of operations of direct marketing, which coexist with more traditional ranges of services, such as the transportation of goods. This extension argues of the evolution of LSPs core business and of their mission in the supply chain. This inevitably, came along with the innovation strategy, proactive or reactive, concerning either the global offer or the processes, the technology supported and being incremental or revolutionary changes (Kacioui-Maurin, 2011).

In a doctoral research, conducted in 2010, LSPs conducted exclusively incremental innovation (Kacioui-Maurin, 2011). According to the framework of Hertz and Alfredsson (2003), LSPs can be considered as standard third party logistic provider, as customer adapter, as service developer, as
customer developer. Incremental innovations are much more implemented because of the lower risk they gender. The LSPs’ wish of innovation does not apply on all types of services they propose. According to the type of logistic service, the part of innovation will not be the same both for the LSP and its customers. “When we are with customers on more common services and when we are strangled by the price level, then there is much less innovation” (Engineering Manager, LSP5).

LSP innovations processes are complex, dynamic and implemented under constraints. They are complex because they combine different innovations by their nature and intensity. They are considered to be dynamic because of the permanent evolution of the LSP services and their core business. Thus, it supposes the creation, the mobilization and the capitulation of resources and skills (individual or collective). Finally, under constraints, innovation is strongly influenced by characteristics of every LSP but it is especially strongly forced by the characteristics of the relations maintained between the LSP and its customer(s) such as the contract length or the shippers’ vision of outsourcing. "The duration of contracts (3 to 4 years) can slow down the investments. And the life expectancy of a customer is 6 to 8 years. Our customers can be more or less mature according to the type of product. That’s the reason why they can be more or less concerned with innovation. The impact of what is around the customers is very important.” (Engineering Project Manager, LSP5)

These variables can modify the path of innovation of the LSP but more globally that of each actor of the value chain. None of the studying LSPs adopts proactive approach regarding innovation. As strategic they can be, the processes of innovation in logistics services remain processes under constraints.

Traceability processes
Traceability constitutes the functionalities of a tracking and tracing system. “The tracing capability allows, for any product and from any stage within the value chain to identify the initial source (backward tracing) and, eventually, its final destination (forward tracing). The tracking capability allows, to identify for any product, the actual location at any given time. Together, these capabilities constitute the functionalities of a tracking and tracing system” (Fritz and Schiefer, 2009, p. 317). Though, it is an up-to-date topic, for researchers and managers. Since the mad cow disease or “BSE”, it has become a priority for firms. It is now more than two decades since this health crisis but traceability is still present in the news (e.g. counterfeiting, product recall).

In addition to the quality management, the implementation of traceability presents reputation, marketing, logistics and legal issues (Marucheck et al., 2011). It is a vector for a strategic development for companies (Rabade and Alfaro, 2006; Lazzeri and Fabbe-Costes, 2014). A majority of authors tend to consider traceability as a mechanism that jeopardizes overall group viability and enhances competitiveness (i.e. competitive advantage, better control of process costs, including logistics).

However, studying traceability across a company is not enough. Most traceability systems are not limited by the border of a unique company but spread (or try to spread) all over the logistics partners involved in the chain. There has been keen interest in successive subcontracting. This has led fragmentation of supply chains and therefore a lack of visibility. These changes usually increase risks of failure.

Some authors argue that firms would manage their supply chain need to work towards a more complete traceability, the so-called «total traceability». It represents the ability to follow in real-time, throughout the whole supply chain, the physical, informational, financial flows, and the activities and resources (e.g. stock) (Lazzeri, 2014).
A doctoral research was conducted in 2014 in a food chain. We interviewed firms, shippers and LSPs, about their motivations prompting them to display a growing interest in total traceability. They all consider that this is a relevant topic. Practices are also moving in this direction. Moreover, firms have specific motivations. The research results enhance that the main reason why LSPs develop total traceability deals with responsibilities. There is no strategic behavior. This result can be explained by the fact that LSPs are subcontractors. Their main aim to develop traceability is to be discharged from further responsibilities. "I can say that I am an efficient LSP, I can trace the driver and say he arrived on time there, so I have proof. That’s why we adopt and acquire technology, it’s to improve total traceability" (Logistic Manager, LSP1). As highlighted by the Director of the Agency of a carrier, technology development with pictures can help manage litigation and claims, on receipt of goods. "Supermarkets cringe with these systems. They cannot tell us, "you were late, you did not come." It allows us to manage customer complaints more quickly " (Logistics Director, LSP1).

Traceability variable appears, as a basic service proposed by the LSP, which ensure not to alter the operational information available on physical flows in order to transmit the report to customer demand. "When loading containers of products that travel by boat, usually it’s sealed. But not systematically. It depends on the customer demand. We are truly provider. We do what we are asked to " (Logistics Manager LSP6).

The results show that the LSP, who is an intermediate actor, has an important function in the traceability system. Nevertheless, they should consider the potential benefits of the implementation of total traceability as well as being more pro-active in regards to their customers.

**Pooling**

The logistic pooling can be described as the process, for a group of shippers, of sharing logistic resources and sharing information in order to create value or at least to reduce logistic costs (Pan, 2010; Michon, 2014). Collaboration is the foundation of this kind of process since shippers agree together to participate in a pool, by sharing transportation or warehousing, and therefore are able to participate in an optimized logistics process (Chen and Paulraj, 2004). In the grocery sector, in France, regulation changed in 2008¹, forcing retailers to reduce their payment period to their suppliers. Therefore, they decided to reduce their stocks inside their shops and in their own warehousing. Retailers force suppliers to increase their deliveries frequency and to reduce the number of products per delivery, to fit as well as possible their sales, with the final objective of a just in time delivery process. Suppliers do have to organize differently their deliveries to fit these new retailers’ requirements. This leads to an increase in logistic costs unless solutions are found to, at least, stabilize these costs. Logistic pooling is a solution since at least two shippers are collaborating to organize their deliveries to their similar clients. In a more optimal way, they organize also the upstream of the supply chain with a common warehousing site. These shippers are moving from a model where they buy a service to a LSP or a carrier, to a model where they need to share information and resources to implement a new logistic process.

They create a network, which need to be organized and managed. A real synergy has to be found to optimize the pool: the scheme “suppliers – retailers” has to be tested and implemented. All products don’t fit together with the transportation or warehousing requirements and need to belong to the same logistic product family. That makes the meeting point within the retailers quite difficult. The LSP is legitimate to eventually create, organize and optimize the pool, as one of the supply chain actors and as the intermediate, at the junction of different supply chains. Even if all the LSPs are not able to propose these services since they do not possess the right capabilities to do so (Simatupang and Sridharan, 2002), some of them have either experienced or are actually experiencing this logistic process.

In a doctoral research conducted in 2013, a LSP’s manager realized that proposing pooling cases represents “a profound change at a strategic level” (Commercial Manager, LSP8), for shippers and for LSPs themselves. The LSP in charge of a pooling case during 2006-2012, had to recruit a specialist in engineering, with a strong experience in change management, to help the LPS teams to think differently their “job”. He considered himself as a “facilitator” (Ex- Supply Chain Manager in charge of a pool- LSP2). This pooling case was the only one they experienced. They stopped proposing this service later on since the leader in the management team dismissed.

The LSP7 that is in charge of several pooling cases and develops this offer on the French market accumulates knowledge since 2003-2004, when they began with the first one: “that’s a complete new job and (LSP7) began a long time ago” (Logistic Director, LSP2). When interviewed, the supply chain manager in charge of pooling cases highlighted the human resource strategic plan they had to elaborate to propose this offer. “We wanted to hire a person (x) with a specific knowledge of VMI. She was working on this in a supplier, now she works for us and helped us develop what we didn’t really know” (European Director, LSP7). Also they had to find the right software to optimize this process: “first of all, we began with Excel, trying to find how to do this by ourselves since nothing existed, but then we ask a developer to build a IT tool to become much better. We are still working on it to improve it.” (Supply Chain Director, LSP7)

So when LSP7 decided to sell pooling processes, they had in mind to differentiate their service: “We chose to go on and to initiate a new thinking: let’s not do what the others are doing.” (Supply Chain Director, LSP7) Without this in mind this LSP would not have such a success in its pooling cases, being aware that each of the pooling case they work on, are not always getting to the operational point.

**Discussion**

We suggest to mobilize strategic management works and moreover the ones about strategic intent (Hamel and Prahalad, 1989) to show LSPs challenge. Strategic intent enables a “sense of direction”, it’s a guide to strategic thinking. The aim is to make new industry competition rules and change the game in ways to handicap competitors (e.g. new rules for market entry). Implementing strategic intent requires capabilities and resources to meet and win corporate challenges. As we observed earlier, at the operational level, LSPs control, execute and conduct complex activities, but are deprived of a strategic intent on a long-term basis for their present and future operations. They still remain under constraint, even if some of them are strategic.

The theoretical framing helps us formulate propositions and build a research framework (figure 1), to confront then to the field. We define the LSPs strategic intent (proposition 1), explain their strategic behavior (proposition 2) and finally identify the factors driving the LSPs strategic intent (proposition 3).
Strategic intent

The three studied process in these doctoral researches highlight the lack of LSPs strategic behavior. In the innovation process, in the traceability frame or in a logistic pooling scheme, shippers and/or distributors constraints are quite heavy at each stage of their action. LSPs know and control their historical core business and they apply it, without being in an anticipation consideration. While it was possible, for example, to foresee a strategic intent in the LSP behavior in the implementation of a pooling case, the real reason why this choice was made was only motivated by a leader, what can be called a “champion”. However, according to Hamel and Prahalad (1989), the strategic intent is federative and has a unifying influence (Bartlett and Ghoshal, 1994) for a common goal, with a proactive behavior of the organization as a whole.

*Proposition 1: the strategic intent is characterized by an active management process that includes a federative and common goal and a pro-active behavior of the LSP.*

Strategic behavior

The strategic intent matches with a long-term ambition. It is a change driver and helps to transform the environment, modifying some competition rules (Hamel and Prahalad, 1994). Developing a strategic intent in each of these three processes might be a good way to make a move toward value creation.

*Proposition 2: LSPs’ strategic intent leads to a long-lasting transformation of its environment.*

Firms, with a strategic intent will to manage their supply chain, develop a total traceability. Competition is based on anticipation capability, on the process adaptability, and on execution speed. The global vision of the supply chain of the flows, of the activities, and of resources, might help LSPs to decide which partners they can mobilize. LSPs, in trying to capture their clients’ needs, can propose not only standardized goods and services, but also high quality products, target and customized products, renewing their offer regularly.

The main objective is to differentiate their logistics service against their competitors and to adopt a lasting competitive strategy.

*Proposition 2.1: the LSPs’ strategic intent helps to offer distinctive and customized logistics services.*

LSPs could anticipate future needs, thanks to data monitoring. For example, business intelligence offers the possibility to anticipate major commercial events (promotion, new product introduction, etc.….) forecasted by the shippers.

*Proposition 2.2: LSP’s strategic intent helps anticipation thanks to business intelligence.*

Developing a strategic intent fosters logistics efficiency beyond the operational framework. A strategy linked to an uniformization and a flow optimization (transportation and warehousing) allows proposing to their clients, new services. The logistic effectiveness accompanies conquest of new markets.

*Proposition 2.3: LSPs strategic intent allows for development and growth thanks to logistic efficiency.*

LSPs might be considered as a preferential partner, and with a special engagement at the top level of strategic decisions as they tend to get a strategic intent with a proactive behavior. If not, as we have noticed, LSPs work under the shippers’ constraints.

Factors driving LSPs’ strategic intent

LSPs’ jobs and missions can take variety of processes and activities partly co-built and/or co-produced with the supply chain partners in which the LSP is integrated. As a result, the supply chain structure will influence their strategic intent.
Proposition 3: Intra and inter organizational factors influence the LSPs’ strategic intent.

Shippers are mainly the supply chain pilots in the studied process. The financial issue of stocks in the process case of total traceability gives to the shippers a power on the nature of the LSPs’ business relationship they carry on. Furthermore, the use by shippers of many logistic service providers to avoid the LSPs’ rootedness prevents the LSPs’ strategic ambitions. Ultimately, the use of outsourcing of logistics activities can limit the LSPs’ global vision.

Proposition 3.1: the supply chain structure influence the LSPs’ strategic intent.

The inter-organisational relations, and their state between the LSP and its client(s) and its supplier(s) can be considered as an obstacle to develop strategic process in the process we studied. The trust between partners, the prior relationship, the frequency and nature of their exchanges (relational or purely contractual) might be considered as influencing these relationships. In the case of innovation process, the contract lengths do not allow the LSPs to develop revolutionary innovations.

Proposition 3.2: the inter-organisational relationships influence the LSPs’ strategic intent.

We notice, in the studied process, the importance of developing capabilities to propose new services, acquire new technologies, or structure strategic processes. In the case of logistic pooling, interviews of LSPs showed mainly an expertise in these classical offers, and a quite surprising passive behavior to observe what the main 3PL in logistic pooling cases management is doing. Even if some LSPs are describing in professional magazines an experience they have in pooling, on their web site pooling does not appear as a specific offer, as reverse logistic does. It would be convenient to develop organizational competencies and create a leverage effect on resources.

Proposition 3.3: LSP’s resources and competences influence their strategic intent.

Conclusion

We provide empirical elements to understand the LSPs’ behavior. We limit the enthusiastic theoretical way of thinking of LSP’s proactiv behavior in the supply chain. The findings offer a research framework. The next stage is to carry out a specific study about the strategic intent of LSPs, their strategic behavior and the driving factors. Apart from the theoretical implications for academics in better scooping future research, the framework presented here should be of relevance to practitioners envisaging the possible weight they could gain in havinga strategic intent.

Despite its contributions, this paper has limitations. First, study is focused on the French market, we need to enlarge the perimeter on LSPs corporate strategy. Then, the study is built upon three doctoral searches based on specific logistic processes. It would be interesting to build research design for this issue and include more logistics processes such as reverse logistic processes. Finally, it would be relevantto interview shippers to analyze the inter-organisational relationships in depth and their impact on LSPs’ strategic intent.

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