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The Logistics Strategy for Wilson Logistics

-A Strategy for the Business Unit Logistics, Guiding Wilson towards Becoming a Third Party Logistics Provider-

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Abstract

This thesis presents the strategy for the business unit logistics at Wilson Logistics Holding AB and will give the answers to "Why" and "How" logistics must be developed. Moreover this thesis exposes "the extension of the change" that the new logistics activities forces Wilson to pass through, to become a logistics provider.

First, this report identifies the threats that Wilson Logistics face if the company continues to provide only forwarding services and distinguishes the opportunities Wilson can enjoy from also providing logistics services.

Secondly, to design a strategic positioning with effective guidelines, the report examines the logistics providers' industry and applies to Wilson a specially, for the logistics provider industry, designed strategic positioning model.

Thirdly, in order to reach the most competitive strategic position, the strategy put emphasis on the identifying of the right value creation modes and points out guidelines that leads one step ahead.

Fourthly, the strategy gives and explains a set of logistics activities, that the Wilson subsidiaries must be able to perform. These logistics activities are compiled in co-operation with Professor Dag Ericsson.

Finally, the extension of the gap between which logistics activities, Wilson subsidiaries can provide today and the level that the strategy gives is investigated through a questionnaire to all the subsidiaries.

Key Words

Third party logistics, logistics provider, logistics strategy, value creation, strategic positioning, outsourcing, logistics activities.

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1. Introduction

1.1 Background

The 3rd of June 1999 Nordic Capital, one of the leading private equity companies in Scandinavia, acquired Wilson from Schenker-BTL. Nordic Capital's aim is to introduce Wilson on the Swedish stock exchange in the end of year 2001. Supporting and maintaining this aim, the Wilson Logistics board of members has identified several issues that the company shall pay attention to. One of these issues is to extend the logistics service offering.

Henrik von Sydow, C.E.O. at Wilson Logistics, further points out the importance of an extended logistics service offering in Network News (1999):

> -*"By only offering basic forwarding services, we would lose out on the opportunities to add value in the supply chain and we could ultimately put our existing business at risk. A gradual shift towards more integrated logistics services in combination with basic forwarding services is therefore necessary".*

This issue will help Wilson to achieve its financial goals and attract buyers on the stock exchange. To communicate this strategy change further in to the market and the organisation, the company name was changed from Wilson to Wilson Logistics and a new Holding company was established, responsible for carrying out the new strategy.

Wilson Logistics is now ready to take the step towards changing into a third party logistics provider. In doing so Wilson Logistics increases the means of reaching the vision of being a good company to work for, with and to invest in.

There have been signals that not 100% of the organisation are sure that becoming a logistics provider is the right way to go. And no company wide, regional or local logistics strategies have yet been shaped to fit the market and the company.

1.2 Purpose

The objective for this paper is to work out a strategy for the business unit logistics at Wilson Logistics. Doing so this report will give answers to the questions "Why?" and "How?" and reveal "the extent of the change" that the new logistics activities impose Wilson to pass through, to become a logistics provider.

1.2.1 Convince the organisation why

First evidence and signals must be brought together in this paper that providing logistics to the market will create that extra value from which Wilson get hold of the means of appropriating above normal returns.

1.2.2 The strategies pointing out how Wilson must preside to become a successful logistics provider

Wilson is a large organisation consisting and composed of many companies. There is need for an obvious logistics strategy turning such great organisation on the right track, putting high demands on the strategies to be straight, so that mistakes and indifferences are to be avoided.

1.2.3 Understanding the extension

Changes claim resources. If this strategy demands changes to become reality, then extra resources will need to be put in to the organisation. A part of this paper will be the basis for understanding how great the change is and thus give some understanding of the extension of the change.

1.3 Wilson Logistics

This paper is about the design of the logistics strategy for Wilson Logistics. For readers involved with the organisation, it is clear what Wilson Logistics is, but for the laymen an explanation is in its place. The best way of describing a company is to describe it through its history and through its responsibility as to say its mission and vision.

1.3.1 The Wilson Logistics history

On the Wilson Intranet you can learn the following about the history of Wilson:

"In 1843, John West Wilson from Hull established the company J.W. Wilson in Gothenburg with operations in shipping and commerce. In 1850, regular steam ship services were started between Hull and Gothenburg for transporting cargo, mail and passengers. The Wilson Line with its red and green ships became the leading line for Swedes who immigrated to USA via Britain.

During World War I, most shipping operations were closed down. Thereafter, Wilson developed into one of Sweden's leading forwarding companies. During World War II, the company played an important role as an agent for the Ministry of War Transport in London and, among other things, was involved in the transport of ballbearings from Sweden to Britain.

Global expansion started in 1990. The latest acquisitions are the Combined Logistics Group and Castelletti Overseas in Italy.
Today the Wilson Logistics Group has subsidiaries in 33 countries and employs 2,300 people at 130 offices. Growing both organically and through acquisition, the Wilson Logistics Group is the No.1 intercontinental Logistics Company in Scandinavia and one of the leading companies in Europe. Future plans include a stock exchange listing within three years" (Wilson Intranet, 2000-10-12).

1.3.2 The Wilson Logistics mission statement and vision

The role of the mission statement and the vision is to provide all stakeholders such as the employees, shareholders, suppliers, and customers and so forth, with a view over what the organisation is supposed to do. Understanding the mission statement is one way of understanding a company. When building up the strategy, designing it for a business unit, it is extremely important to understand the overall corporate mission statement and vision, so that the business unit strategy is in line, with and supports the corporate goals. The Wilson Logistics mission's statement is:

> *"To become a Global Billion Dollar Logistics Company by providing Global Logistics the Scandinavian Way."* (Wilson Intranet, 2000-10-12)

Another effective tool of communication is the company vision. A vision is supposed to "visualise" common future goals, which point out the direction of the strategy like the point of an arrow. Naturally the corporate vision also affects all stakeholders through speaking to a deeper and inner meaning. What factors have to be fulfilled to make stakeholders content? In the Wilson case the vision speaks to the stakeholders, reminding them, directly withholding and maintaining that co-operation must lead to something better. Now a look at the Wilson vision that says:

"Wilson should be a good company to:
+ work for
+ work with
+ invest in" (Wilson Intranet, 2000-10-12)

1.3.3 Wilson offices around the world

The fastest way of explaining organisations global coverage is through studying a map. Below the map illustrates how widely Wilson is presented around the world.

Figure 1.1 Wilson offices and exclusive partners (Wilson Intranet, 2000-10-12)

Before digging deeper into what the strategy is supposed to heal, this report must take a short glimpse at some terminology issues. The strategy will not include the "Exclusive partners", the Wilson agents.

1.4 Definitions of Central Concepts and Terms

Reading this thesis will be hard for a layman outside the logistics industry. Some obstacles are all terms that can create confusion. In order to clarify and shape order, some industry specific terms will be defined in the following.

1.4.1 Logistics

The most central term to define in this thesis is the expression logistics and logistical activities. One of the shortest and most simplistic definitions is:

> "The time related positioning of recourses"
> (The UK Institute of Logistics and Transport, 2000)

The Council of Logistics management gives a longer and more defining definition:

> *"Logistics is the process of planning, implementing and controlling the efficient, effective flow and storage of raw materials in-process inventory, finished goods, services, and related information from point of origin to point of consumption for the purpose of conforming of customer requirements. Note that this definition includes inbound internal and external movements, and return of material" (Council of Logistics Management, 93 p321-322).*

This definition is good because it points out a few important components of logistics, namely, the physical flow as "the effective flow of materials", the storage as "the storage of raw materials", the information handling as "and related information" and the management as the process of planning, implementing and controlling. A logistics provider has to provide all of these components. A company just providing transportation from point A to point B

would just be a transportation service provider not a logistics services provider (Berglund, 1997 p. 15).

1.4.2 Third Party Logistics Provider

Also commonly used is the expression, Third Party Logistics Provider (TPLP, TPL or 3PL). According to Global Logistics, 2000, p11, a TPL,

> *"Is a company that takes control of the operations of all parts of the supply chain on a contract basis".*

This definition points out the contract part and so does Virum's, (1993, p. 17) definition of third party logistics as:

> *"the service offered by a middle man in the logistics channel that has specialised in providing, by contract, for a given period, all or a considerable number of the logistics activities for other firms"*

By this definition Wilson is a third party logistics provider, but as Berglund, 2000, p. 17 points out:

> *"Third-Party logistics is a phenomenon that in simple words can be described as the outsourcing or subcontracting of logistics operations to external service suppliers. A provider of third–party logistics is consequently an organisation which provides logistics services."*

From that simplification of the terminology, Wilson is a logistics provider, but from the customers' point of view, Wilson is a third party logistics provider.

From above definition this thesis chose to use the word logistics provider for what Wilson Logistics is developing, though from a customer point of view it would rather be third-party logistics provider. Remember that, which name is used, depends on the perspective the listener or user has.

2. Problem analysis leading to Sub-problems

This first part of the document is an explorative study in order to specify the questions at issue later to be answered. The objective of this document is supposed to be the framework of the logistics development in Wilson Logistics in that, this document is responsible for setting the guidelines and strategies for the business unit logistics.

On a company wide level this business unit strategy answers the question how logistics vision is being fulfilled. While to the operative level this strategy only signal in what direction to move and giving guidelines for what to do. The final decision on how to realise this has to be taken where the strategy affects the most and where the knowledge of the best solution is, at the operative level. This means that; decisions are taken as close to where it happened as possible, which is why there is the knowledge and the enthusiasm to find the right solution.

The strategy will answer how logistics vision is going to be fulfilled, at a business unit level by, signalling guidelines, what the operative level must reach and not how they shall proceed to provide it. This does not mean that corporate does not support the changes, but on the contrary that best decisions are made where the knowledge is at its best.

The following main problem is identified:

Wilson lacks a strategy for the business unit logistics. This strategy shall explain, on a business unit level and give clear directions to the operations level, how Wilson should develop from a traditional freight forwarder into a modern logistics provider.

From this main problem spring a fan of sub-problems that have to be answered in the process of solving the main problem. Following headings are discussions leading to sub-problems and their information needs.

2.1 What is Strategy?

The main problem in this thesis is to work out a business unit strategy. Consequently, an important piece of the puzzle is an understanding of what the term strategy stands for. The term strategy is a little bit confusing. Many people know what a strategy is but can not exactly clarify what it means. Over the years, many definitions of strategy have been developed. Close examination of such definitions tends to converge on the following – strategy is concerned with making major decisions affecting the long-term direction of the business (Ensor & Drummond, 1999 p. 2). A definition found appropriate was Johnson & Scholes' (1997) definition of strategy:

"Strategy is the direction and scope of an organisation over the long term, which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholders expectations".

2.1.1 Different views on strategy

Mintzberg (1987) explains five different views on strategy. He calls it the Five P's of strategy and includes strategy as a plan, ploy, pattern, position and perspective. The views on strategy that fit this work most are strategy as a plan and strategy as a position. Strategy as a plan emphasises the conscious predetermined planning of a course of action, rules or guidelines to deal with some more or less defined situations. Strategy as a position is seen as the means of locating the organisation in an environment.

2.1.2 Levels of strategy

Johnson & Scholes (1997) also discuss levels of strategy. They distinguish between three different levels of organisational strategy: corporate strategy, competitive or business unit strategy and operational strategy. First, there is the corporate level that refers to the overall purpose and scope of the organisation. The second level, competitive or business unit strategy is how to compete successfully in a particular market. At this level of strategy, the basis of strategic decisions is how the customer's or the clients' needs, best can be met, usually to achieve some sort of competitive advantage for the organisation. It is therefore very important that there is clarity about the needs

of customers and who the competitors are. The third level, operational strategy is how the different functions in the organisation contribute to the higher levels of strategy. The level that will be discussed and worked with in this thesis is the second level, competitive or business unit strategy.

2.1.3 The strategy process

Mintzberg (1995) divides the strategy process into two different parts, formulation of strategy and implementation of strategy. The principal sub-activities of strategy formulation as a logical activity include identifying opportunities and threats in the company's environment and attaching some estimate or risk to the discernible alternatives. Before a choice can be made, the company's strengths and weaknesses should be appraised together with the resources on hand and available. The strategic alternative that results from matching opportunity and corporate capability at an acceptable level of risk is called an economic strategy. Personal and ethical values, aspirations and ideals then influence the final determination of strategy. Implementation of strategy is not going to be dealt with in this thesis. Identifying these opportunities/threats and strengths/weaknesses requires a thorough strategic analysis. Opportunities and threats can as Johnson & Scoles (1997) explain it, be identified through a fourth step environmental analysis. By analysing the company's internal capabilities, strengths and weaknesses can be identified. The environmental analysis in next section describes the steps that *can* be used to identify opportunities and threats and does not exactly match with the approach that will be used.

2.1.4 Environmental analysis

The first step in an environmental analysis is to assess the nature of the environment in terms of how uncertain it is. The second step is to audit environmental influences, considering how political, economic, social and technological (PEST) influences affect the organisation. A third step is to identify key competitive forces by using Porter's (1980) five forces analysis. The aim is to identify key forces at work in the immediate or competitive environment and why they are significant. The five forces are according to Porter's model threat of entrants, suppliers bargaining power, buyers bargaining power, threat of substitutes and competitive rivalry. From these

three steps, there should emerge a view of the really important developments taking place around the organisation. The fourth step is to analyse the organisation's competitive position that is how it stands in relation to other companies competing for the same customers. This can be done in a number of ways like strategic group analysis, analysis of market segments, competitor analysis and attractiveness analysis.

2.1.5 The strategic positioning model

Berglund (1997) has developed a model, that can be used to measure third party logistics providers' positions, or in other words the providers' strategies viewed as positions. The model is based on Mintzberg's (1988) generic strategies and on the general situation for TPL providers. By comparing empirically found description variables with older models and the existing positioning literature, he has developed a set of variables appropriate for describing third party logistics providers. The model has two different perspectives to describe the logistics providers, the served market perspective and the internal perspective. The served market perspective's aim is to describe the logistics providers from an observer's perspective. The variables Berglund has found to be most useful in describing the logistics providers from the served market perspective are:

- Geographic scope
- Client industries
- Parts of clients' supply chains
- Range of included activities
- Differentiation variables (performance in relation to cost, service levels, and quality of services etc.)

The aim of the internal perspective is to describe the logistics providers in terms of their own production process. In this perspective, the following variables were found to be most appropriate:

- Range of included activities (shared with the served market perspective)
- Vertical integration

- Providing standard services or developing solutions

The strategy on corporate level is already formulated. Especially one part in this strategy affects this work to a great extent - to further expand logistics concepts and added value service. To be able to answer the main problem, how Wilson Logistics should develop into a logistics provider, there is a need to know what position is the most attractive for Wilson Logistics, considering the competitors. One sub-problem is then formulated as:

- ***What strategic position should Wilson Logistics strive for?***

The information needed, to be able to answer this sub-problem, must also be identified. The information needs identified are:

- *Which directions are Wilson Logistic's competitors heading for?*
- *Benchmarking of "best-in-class" logistics providers*

2.2 Understanding the extent of the change

Successful strategies are also dependent on the organisation having the strategic capability to perform at the level, which is required for success. Strategic capability can be related to three main factors; the resources available; the competence in the organisation; and the balance of resources, activities and business units in the organisation. The strategic capabilities that will be investigated are the logistics activities that can be performed in Wilson Logistics different locations world-wide. Other strategic capabilities will not be included in this internal analysis.

Before implementing the strategy that will signal to operative level where to go, and what to do, there must first be made a solid appraisal of the situation considering and estimating, whether the strategy will be possible to achieve. This estimation must be done from an evaluation of the extension of the expected changes. The size of the change, that the strategy implementation will cause, can be understood by observing the gap between, state of what Wilson is now and the state that Wilson must become, according to the strategy.

2.2.1 Changes claim resources

This change will take claim of resources. These resources can be such as time, investments, personal and or education or practically of any kind that ends up in either stealth of resources, from another areas, or emerges as needs for new input of other resources.

What is extremely important to realise is that this strategy change will not come for free, even if done with high priority on keeping the costs down. This strategy, its implementation and change will take engagement in some kind of resources, which the organisation has to be fed with.

According to fundamental and simple physics: "Work is Power times Time". This law is applicable to explain the unchangeable fact that changes claim resources. In this sense "the Work", is the task of fulfilling the strategy. The "Time", is the implementation period, and then "the Power", are resources. How much "power", resources, or efforts are we willing to put to this, in order to achieve the clear goal of this strategy? Do we have the strength, that this strategy will take claim of, to be fulfilled? Asking this demands first answering this sub-problem:

- ***How extensive is the change, which the logistics activities will cause?***

2.2.2 Information needed to judge the extent of the change

There is not only need to know where the strategy will reach, which will demand the organisation to perform and create, but there is also need to know the status of today, preferably measured on the same scale.

The strategy presented here will demand that the countries provide a set of activities. If these activities are the level, which Wilson is supposed to reach, then the change the company has to go through could be described as the difference between how many of these activities the different companies can provide today and what they will be expected to provide tomorrow. Then we need to know:

- *Which activities can Wilson provide today?*

What we mean by providing an activity has also to be defined. Will it be enough for a subsidiary to know what the activity means, or do the companies really have to produce the service activity today?

- *What does it take for a fellow subsidiary to uphold that it can provide an activity?*

How these information needs are satisfied will be explained in the methodology part.

2.3 The importance of a clear view within the organisation

At corporate level the decision, that Wilson must stretch from being a traditional transportation forwarder into providing the market with the combination of forwarding and logistics services, is already made. When implementing this strategy this document will become a part of that implementation. In being a part of the strategic implementation the document itself must guide, lead and encourage the organisation and the co-operators to fulfil the strategy.

This new direction of Wilson Logistics business will affect many people in the organisation. Ingrained routines will be replaced by new tasks and areas of responsibilities will change among Wilson's co-workers.

A change is often met with resistance. Organisations are typically resistant to change and the resistance tends to be especially strong in situations when the change is radical, unexpected and has negative consequences for the involved persons (Bruzelius & Skärvad, 1995 p. 365). Hedberg & Sjöstrand (1979) use the word "organisational inertia" to explain the difficulties to accomplish alteration. They distinguish between two types of organisational inertia, manoeuvre-inertia and insight- inertia. Manoeuvre-inertia depends on locked upped resources. Insight-inertia is due to forces that prevent or make it difficult for the members of the organisation to observe or come to insight to the need

for change. Lack of knowledge and education can make insight-inertia to arise an organisation.

It is important that there is a clear view within the organisation of the strategy to be followed (Johnson & Scholes, 1997 p. 448). But when talking to managers like Henrik von Sydow, CEO and Peter Jönsson, Logistics manager, at Wilson Logistics, you get the impression that the reasons, why Wilson Logistics should develop into a logistics provider, is not 100 percent clear in the organisation. Several motives must be pointed out in order to convince the organisation that this strategy change is the right thing to do. Persson & Virum (1996) explain that the motive behind the change must be easy to understand and well communicated within the organisation. The best motive is often found in the external environment, i.e. in the company's competitive environment (Persson & Virum, 1996 p. 264).

The effect of resistance to change will not be visible before the strategy is in the stage of implementation. Implementation of the strategy is not in the scope of this thesis, but we think that an explanation of why a certain strategy is chosen should be communicated to the organisation as early as possible and must therefore be paid some attention to in this thesis. An early explanation can for instance identify people trying to work against the realisation of the strategy before it is too late and different means can be put in action to convince these people of the necessity of a strategy change and thus facilitate the implementation. A wish to attain a clear view within the organisation of the strategy to be followed and to avoid insight-inertia, yet another third sub-problem is identified as:

- ***Reasons why Wilson Logistics must change from a forwarder into a logistics provider***

The information required for answering this sub-problem are the following:

- *Which are the external trends affecting the logistics business?*

2.4 This logistics strategy should be a guide to higher profits

The main reason for the logistics strategy, which is to be developed in this document, is to support the company wide vision. The company wide vision put up a desirable goal motivating us by expressing, that Wilson Logistics should be a good company to work for, with and to invest in (Network News, 1999, p. 3f).

Luckily there are many means of reaching this vision, but in the end, all of them depend on the amount of flexibility created by higher profits. Higher profits come from lower costs or higher revenues or even better a combination of both. The responsibility of the "business unit", or jurisdiction of the logistics products, is to increase the revenues through creating more attractive logistics products to the market and doing this at the lowest possible cost.

2.4.1 Connecting profits to the vision

Profits make room for a future that will make Wilson into a good company to work for. Good to work for, in the means of increased possibilities to survive and expand, which stand for opportunities to create more stimulating jobs, in a modern market, that is highly asked for by the customers. All this makes the Wilson fellow-workers and co-operators more important.

Good to invest in comes naturally from higher profits. And finally, good to work with, from the customer's point of view, can only be provided from Wilson Logistics when the co-operation supports the customer's interests by creating high customer value. Value creation will thus be the attacking front, where the business unit logistics in Wilson shall aim its gunpowder. Following discussion will focus on this area.

2.4.2 More value to the customers increase Wilson's revenues

High value to the customer means that Wilson's customers will be more profitable co-operating with Wilson, than with any of Wilson's competitors. From the value created to the customers business, there emerges room for Wilson to reap that value, that is their share, their income. The core thesis supporting this, spells:

The higher value created to Wilson's customers, the larger part of this value can be incomes acquired by Wilson.

This is naturally self evident to all of us, but not foreseeable. When later, in this paper, setting the visionary future position of the logistics strategy, it will become important to focus on the value Wilson can create to its customers and on the costs producing this value.

2.4.3 A framework explaining value creation for logistics providers

We may know many ways of creating value to Wilson's customers, but if we want to take the offensive point of attack on value creation, there is a need for a simply understood, easy to remember model.

Fortunately there already exists a model gathering the core cornerstones of value creation for logistics providers. This model put together by Berglund (1997, p60ff) explains the corner pillars, of value creation for logistics providers, in a simple understandable manner. This model enables and motivates innovative development of activities, so that these activities can be made to create maximum value to the customers. Below Berglunds reminder of value creation is exposed.

Description:	Operational Efficiency	Integration of client operations	Vertical or Horizontal integration	Developing of clients operations efficiency
Driver of advantage:	Effects from focus	Economies of scale	Asset reduction & better offer	Developing of clients business
Example:	Run warehouse efficiently	Shippers share warehouse	Outsourcing warehousing to others	Cross-docking or new concepts

Figure 2.1 Framework for value creation (Berglund, 1997, p65)

Again, please, don't forget that this value, created to the market, give Wilson possibilities of raising gross profits through higher prices and lower costs.

Berglund (1997, p60ff) explains how logistics providers can create value to the market. This value refers to the additional and extra value an external logistics service provider, (Wilson is a logistics service provider), can bring to a client.

This concept of value creation is though not to be mixed up with the value in the conception of value-adding activities, that refers to the value added on the core logistics service by non-traditional logistics services, such as manufacturing, pick & pack or labelling.

Berglund further points out that the challenge, logistics providers face, is to provide customers with services that add more value to the process of transformation, (production in a wide sense), than the customer can achieve internally by itself. All firms are capable of performing logistics services. The differences between the competitors, the individual company and the client depends on their economic resources available for logistics within these firms. The basic difference in economic situation is that resources in logistics firms are allocated to logistics, whereas, in the client's organisations logistics is just one area among others. Berglund (1997 p61) means that:

"Thus given the same financial resources, a logistics service provider can acquire more physical resources and skills than a company primarily engaged in the process of transformation. This makes it possible for a logistics service provider to perform more logistical services at a higher performance level than other firms".

This opens doors for Wilson Logistics in the sense of being a logistics provider, pointing out that Wilson must reap the possibilities to perform logistics services at a higher performance level than other firms. With this favourable economic situation in mind, value for clients are explained by Berglund (1997, p. 61) to be created in different ways and explained as " a framework for value creation available to logistics service providers". Below follow explanations of the four

cornerstones in figure 2.1, of the framework for value creation, which Berglund (1997) has developed.

2.4.4 Operational Efficiency

The first basic way for logistics service providers to create value for clients is explained by Berglund (1997, p. 62) as, to achieve operational efficiency at a higher level than alternative sources, and provide a better service-cost ratio. This means that by performing activities at a higher efficiency, as to say a lower cost, then the customer, Wilson could keep lower costs then the customer.

An example given, on operational efficiency can be to run a warehouse efficiently. Berglund stresses that this requires first, adequate physical facilities and equipment and secondly excellent operational skills.

What has to be declared by the logistics strategy in this document to Wilson operations in different countries, are directions that throw light on what factors to use and to achieve as great operational skill as possible.

2.4.5 Integration of client operations

The next cornerstone in the value creation framework, declared by Berglund, builds on the simple idea that sharing resources gives lower costs. This could be done by introducing integration of clients or, in other words to share resources among the different customers. An example of integration is given as, multiple client warehousing or transport-networks in which several clients operate jointly.

For Wilson this is commonly used in freight forwarding, to keep costs down, but by further stressing this point in the logistics strategy directions, hopefully this cost reducing strategy, of sharing resources, will be kept in mind for every logistics activity processed in the Wilson network. Even if there is no sharing between customers from the beginning, when shaping logistics activities, there should, already from the beginning be ideas on how to achieve this.

Integration gives economy of scale. The task of the strategy will then be to enlighten this opportunity and to point out the cost drivers that should be focused on to achieve as much sharing as possible.

2.4.6 Vertical or horizontal integration

This third corner pillar of creating value, springs from the advantages of subcontracting and outsourcing. This is a step for creating value to the provider of logistics, in this case to Wilson. Value is created and done by utilising outsourcing and subcontracting. Wilson can benefit by creating value from others into its organisation.

First Berglund (1997) discusses the concept of Vertical integration, as the development of a lower tier of service provider structure. In vertical terms this means that Wilson should focus on producing services that are of core competence character, or by buying services where costs and performance benefits can be found.

This is what Wilson does in freight forwarding and could also be done in logistics as well, "where costs and performance benefits can be found". To which extent subcontracting is going to be recommended, has though to be fitted to the positioning part of the strategy, later presented in this document.

Secondly Berglund signals the benefits of "Horizontal integration". This means that the logistics provider can join forces with similar probably not competing companies. The gain could be to increase geographical coverage.

In Wilson, we can compare this to the alliance between SJ-Cargo Group and Wilson Logistics Sweden (Network News, No 1, 2000, p. 31), where the alliance between the non-competing companies contributes to a complete logistics solution ready to be provides to the customers.

2.4.7 Developing of clients' operations

The final way to create value to the customer, pointed out by Berglund, in his framework is to capitalise on the economic strength of the logistics service provider, which enables him to possess high level skills in logistics. High level

skills in logistics are those needed for designing and analysing of customers logistics systems in order to understand the customers' overall business objectives.

This view opens possibilities to create great customer value from management of the total parts of the customers supply chain. The aim of this way of creating value is not to provide value through internal development, but by developing the client's organisation. This takes the service provider close to what traditional logistics consultants do.

Wilson Logistics already provide activities that concern parts of their customers supply chains and uses high level skills in the company to create these (Proof of Delivery, 2000). The task of the logistics strategy will then be to give directions for what to do to grow in this area and what to seek to extend Wilson's capabilities in this area, meanwhile adapting this to the strategic position on the market. Above discussion about value creation, leads to the sub-problem:

- ***How shall the logistics services be performed and shaped at Wilson, to create as high a customer value as possible, meanwhile causing as low production costs as possible?***

The information needed to put up the strategy, is what guidelines regarding factors as IT or operational skills, have to be given to reinforce or diminish and achieve the value according to Berglund's framework for value creation.

- *Which guidelines, have to be given to support value creation?*

2.5 The strategy must lead to a tangible demand and clear directions

This strategy, which is being developed throughout this document, is meant to transform into reality at Wilson's subsidiaries. From the subsidiary perspective the strategy directions might seem diffuse and vague, as these are directions believed to be applied to certain activities and give general directions, what to do and not exactly how. On the other hand, however, this strategy also aims to

give tangible directions on exact activities that the subsidiary companies must be able to provide. This leads to the sub-problem, which are these activities:

- ***What activities do the customers expect, demand and ask for?***

2.5.1 Providing an activity

We know that the activities perhaps already are provided, in some regions and subsidiaries. Those countries performing the activities are naturally not affected by the change. But to all the others there emerges a definition problem expressed as; Services can't be performed before they are sold. Defining what we mean, that an activity is performed, is the information need, defined as:

- *What does it take for a fellow subsidiary to define that it can provide an activity?*

2.6 Summary of the main problem, sub-problems and information needs

The main problem is formulated as:

Wilson lacks a strategy for the business unit logistics. This strategy shall explain, on a business unit level and give clear directions to the operations level, how Wilson should develop from a traditional freight forwarder into a modern logistics provider.

As discussed above, there exists a set of sub-problems. To one and each of these there exists a number of information needs that have to be collected in order to answer these sub-problems. After collecting the information needs it will be possible to answer the sub-problems and thus solve the main problem. The sub-problems are presented below, to these their information needs are attached. This is the order they will be employed in this report and it is not the same order as we have presented them above. We have done this to get a smoother order in our analysis chapter. First the reason why must be declared, then the three parts of the strategy; positioning, activities and Value creation are handled and finally a picture of the extension of the change is pointed out.

- ***Reasons why Wilson must change from a forwarder into a logistics provider***
  - *Which are the external trends affecting the logistics business?*

- ***What strategic position should Wilson Logistics strive for?***
  - *In which directions are Wilson Logistic's competitors heading?*
  - *Benchmarking of "best-in-class" logistics providers*

- ***How shall the logistics services be performed and shaped to create as high customer value as possible, meanwhile causing us as low production costs as possible?***
  - *Which guidelines have to be given to support value creation?*

- ***What activities do the customers expect, demand and ask for?***
  - *What does it take for a fellow subsidiary to define that it can provide an activity?*

- ***How extensive is the change, which the logistics activities will cause?***
  - *Which activities is the logistics strategy supposed to demand?*
  - *Which activities can Wilson provide today?*
  - *What does it take for a fellow subsidiary to uphold that it can provide an activity?*

How these information needs are completed and which method is used to collect information is discussed in the "methodology" chapter below, but first the delimitations need to be identified in order to make the goal of the report and the resources match.

2.7 Delimitation

Here we define and cut away the areas that this report doesn't handle, treat or discuss.

- How Wilson subsidiaries shall perform the strategy guidelines and activities. Please note the difference between what and how.

- Strategic capabilities other than logistics activities will not be included in this document, such as transport services.

- Exact implementation of the strategy.

- Exclusive partners, the Wilson Agents, are not included.

3. The research methodology and data collection

In order to make this strategy construction transparent, so that its reliability can be discussed, the methodology is brought up in this chapter. This makes it possible for you as a reader to understand and shape your view and perspective of how the strategy was formed and to what extent the conclusions are reliable. The methodology gives you advice on how to interpret.

The approach of this work is to be descriptive and explorative (Lekwall & Wahlbin 1993, p129) and to form guidelines to the organisation in form of a strategy for the business unit Logistics. The guidelines from the business unit logistics are meant to be directions to Wilson Logistics Holding AB's subsidiaries, what to do, completed with a set of activities, which must be fulfilled. This strategy will make descriptions of the market in order to declare how it works. Understanding the market this paper will draw conclusions formed as a number of guidelines.

In order to get hold of the majority of facts influencing Wilson Logistics and widening the strategy area of usefulness, the work of building the strategy consists of following three parts;

1. First a strategic positioning considering the competitors and
2. Secondly a value creation study leading to directive guidelines completed with
3. Thirdly a set of activities.

First the positioning work consists of evaluating information on the competitive environment, in order to draw conclusions on how Wilson must take position in the future. This information is collected through studying a doctor's dissertation on the strategic positioning of the third party logistics providers, see reference (Berglund, 2000). This dissertation is describing what Berglund found studying the third party logistics providers' competitive strategic positioning during four years of work. And as such it fulfils the objective of

describing the market perfectly, why no other competitive analysis is necessary to perform.

Second area the strategy is built up on is, how a logistics provider creates value to its customers. Understanding this part is necessary for designing guidelines to the subsidiaries.

Finally a set of activities that Wilson Logistics considered to be the minimum to provide to the market, are defined and given to the strategy by Dag Ericsson professor in logistics. These activities are performed by a set of competitors thus considered by Wilson Logistics to be asked for by the market. These activities complete the strategic guidelines designed through above positioning and value creation, with tangible activities for what to do.

This thesis collects a large number of data and puts it together to a logistics strategy. The data collection is both qualitative and quantitative and uses both primary data made just for this thesis and secondary data collected at libraries and the Internet. Below follows a more detailed description of the data needed.

3.1 Literature study

The literature needed for the thesis is supposed to give sufficient information in following areas:

- *External trends*
- *Which direction are Wilson Logistics' competitors heading?*
- *Benchmarking of "best-in-class" logistics providers*
- *What factors and cost drivers, have to be changed to support value creation?*

The data needed to solve above questions are found in literature and secondary data is produced for other reasons than the objective of this strategy, but judged and estimated to be sufficient and reliable to give answers to above information needs.

3.2 Expert Consulting

To be able to get information on some topics for which, neither time nor resources were sufficient, this strategy is strengthened by the advantage of utilising expert knowledge. This expert knowledge information is collected as primary data designed for only this strategy design purpose. The experts consulted, information-needs, also have that in common the information data is qualitative, it doesn't consist of exact figures, more the respondents conclusions on the case.

Below follows one information-need for which experts were consulted and the methodology is discussed. The methodology execution means the choice of the responding consultant and the formulation of the question.

- *Which activities is the logistics strategy supposed to demand?*

A time demanding investigation was first made by us, gathering the competitors' logistics service offerings on the Internet. The competitors we have examined are the competitors Wilson Logistics believes are their main competitors. The result was a list of 244 logistics buzzwords. In order to make the list smaller and easier to handle, an expert was asked to pick out the most important activities from that list and to explain them.

As this is a question of a logistics character, the best man to answer a question like this, must be a professor in Logistics, which is why the choice fell on one experienced logistics professors, named Dag Ericsson.

3.3 Descriptive survey

The third research method we will use in our thesis, to be able to collect primary data is a descriptive survey. A descriptive survey is concerned primarily with addressing the particular characteristics of a specific population of subjects, either at a fixed point in time or at varying times for comparative purposes. Of great interest is the underlying target population that the surveyed samples are supposed to represent (Gill & Johnson, 1997 p. 81).

When the population is small, it is often practical to study all units, a so-called total survey (Lekvall & Wahlbin, 1993 p. 144). The population we want to study only consists of 31 units and we will therefore make a total survey.

A population is usually defined with help from a register or a frame of the units that the population consists of. It is then important that there are no big differences between the frame and the population that is going to be studied. When all units in a register, that are not part of the target population are cut out, a frame selection remains (Lekvall & Wahlbin, 1993 p. 154). The frame selection in our survey is Wilson Logistic's subsidiaries. Wilson Logistic's has 130 offices in 33 countries. In cases when there are more than one subsidiary in each country, there will only be sent out one questionnaire to the head office in the particular country. Consequently, the respondents in our survey are the Managing Directors. All respondents were contacted by e-mail prior to the questionnaire being sent out.

The reason for doing this survey is to get information of what logistics activities Wilson Logistics can provide today. The questionnaire is based on the list of logistics activities mentioned above. The logistics activities are classified into three areas and there are three different response alternatives (appendix 1).

3.4 Validity and reliability

In this section we discuss the validity and reliability of the three methods used in the report.

3.4.1 Literature study

The books and articles used in this report are written by well-known authors and we have tried to use as newly written literature as possible. One problem we encountered was that very little was written about third party logistics from the provider's perspective. We found one author, Magnus Berglund who has written some books and articles about this subject and consequently we have used his literature as our main source.

3.4.2 Expert consulting

The consultant we used, Professor Dag Ericsson, is of good repute within the logistics field. The answer would naturally not be the same if put to another expert, but if put to an at least as experienced professor the answers would likely be close. The difference in answers depends on, that it is a qualitative question, which is often totally dependent on the perception of the judged environment by the respondent.

3.4.3 The survey

There are three broad sources of errors, sample error, frame error, and dropout error, which can arise when undertaking a survey. The survey we will undertake is a total survey of all Wilson's subsidiaries. Consequently, the issue of the surveyed samples and sample error (population validity) will not affect the outcome of the survey. The second source of error, frame error, refers to biases of the result that depend on a mismatch between the frame of sample and the target population. A frame error can for instance arise when the telephone directory is used as a register population. The problem with a telephone directory as a register population is that all people don't have a phone, some people have unlisted numbers and others have just moved in (Lekvall & Wahlbin, 1993 p. 155). Since our survey is directed at Wilson's subsidiaries, there certainly exists an updated directory of all offices that should be included. The risk of a frame error is thus extremely small.

The third source of error, dropout error, is more relevant in our survey. Dropout means a failure in getting all data that is needed for the survey. Some data fall off in the data collection process. The most significant measure to restrict the dropout is to have a clear and not too extensive questionnaire. Long and complicated questionnaires are in general devastating for the willingness to answer. Other measures to secure a high participation, are to contact the respondents in advance and inform them that a questionnaire is being sent out, give respondents some kind of reward, or remind them if they haven't returned the questionnaire (Lekvall & Wahlbin, 1993 p. 157-158).

The survey that was undertaken in this report had a dropout of 10 units out of 31. More information regarding the dropout and the reliability of the survey is presented in chapter 8.

It is very important that the person that should answer the questionnaire really does this. The questionnaires are sent to the managers that have most knowledge of the activities taking place in each country. To control this, we have questions about name and title of the respondents in the questionnaire.

4. Why change from a forwarder into a logistics provider?

The natural way of understanding the reasons for further developing Wilson's business into logistics emerges when learning the history of the logistics industry. To provide this opportunity to the reader, a short summary on the history first opens this chapter. To make the motive more complete, than the history alone illustrates, another view is taken to further enlighten the necessity of expanding into the logistics industry. This view exposes the risks and disadvantages of staying in the position as a just a forwarder in the future forwarding marketplace. Finally, this chapter deals with the opportunities in recent trends, which have made the logistics provider industry more advantageous.

4.1 The history of the logistics industry

The logistics history can be explained from many different point of views, any version presented will though give a teasing insight into an industry that has been lucrative to all of its entrants. Here come two versions of the same history. First a total-logistics-wide history, that treats all actors in the logistics industry, both the customers and the providers interests are presented. Finally the logistics provider's history of four waves is presented alone from another perspective, this is done to limit the perspective on the business where Wilson Logistics is an actor.

4.1.1 The total-logistics-wide history, by Dag Ericsson professor of logistics

"Development of modern logistics started in the 1960s. The first generation was highly cost oriented. The innovation was the shift of focus from functional costs to total costs in the whole physical flow. The oil crises in 1973/74 were the triggering cues for the second generation of logistics – the revenue oriented approach. The focus on revenue – using logistics as a means of competition – is easy to understand. The mission was to increase sales in a zero growth market. The third generation in the late 70s came as a remedy for the problems caused by too much emphasis on sales. Too much capital was tied up in order to satisfy customers. The rate of sales versus capital tied up in inventory was

falling below 1! The rescue was the third generation – capital oriented – logistics.

All of these three first generations of logistics were based on the prevailing paradigm of the first industrial revolution. The key words could be summarised; standardisation, continuity, planning, and economies of scale.

However, in the mid-80s the first signs of a second industrial revolution started to show. Something was ”trying to happen” as a response to changing customer requirements when the industrial society slowly was replaced by the emerging knowledge society. The new key words were; freedom of choice, discontinuity, flexibility, and economies of scope. Quite an antithesis to the old key words! The paradigm shift was under way!

The next two generations of logistics were also typical children of this delta period – the re-period. Rethinking, restructuring, reinventing, and reengineering. The fourth generation was focusing interfunctional processes and process innovation for time based competition. The fifth generation was IT-driven and not simply IT-based.

The advent of the digital economy, however, has triggered a new very different breed of logistics – e-logistics. The key words of the digital economy can be summarised; speed, flexibility, connectivity, interactivity, and intangibles. Success in this environment requires e-logistics.

The *e*Logistics concept is the sixth generation of logistics especially designed to fit into the digital economy and the new business logic. The concept is based on a holistic view of the total materials, information, and payment flows all the way from the raw materials supplier to the ultimate user. *E*-logistics delivers total solutions that are built on virtual rather than ownership based integration. Information and communication technology (ICT) enables the creation of an intelligent value web in which individual activities are optimised based on the creation of value to the customer. *E*-logistics is one of the cornerstones for successful e-commerce, but it is also a key factor in e-business and the rethinking of traditional industrial enterprises”, (Dag Ericsson, 2000-05).

4.1.2 The logistics provider's history of four waves

An interesting observation, is made by Berglund (1997, p129) describing the different entering times when providers started with logistics services as "waves". The different logistics providers started at different times. The warehousing based companies as GATX, started out the first wave of logistics services providers in the 70s. After them, during the 80s, a second wave, the road based transport companies and the forwarders such as Circle and Excel came in and during the 90s the express based companies as DHL and FedEx made out the third wave.

Berglund, (1997, p141), noticed an indication of a fourth wave already during his studies. This possible fourth wave was coming from a few non-traditional entrant competitors. This group of competitors were identified as coming from the capital, IT and consultant industries and are pointed out as Andersen consulting, EDS, IBM and GE Capital. These new entrants were expected to radically affect the logistics industry, either as active participants or supporting providers through partnership or other formalised types of co-operation. When Berglund returns to this subject in 2000, p25, he comments on this as a fact that the logistics market "has attracted interest from a set of companies that are considered non-traditional" logistics providers. An active involvement of companies mainly working with management consulting, information technology or financial services clearly indicates that the providers industry should be considered from another angle than the traditional origin; non-asset versus asset-based companies to instead; skill or systems based players.

The logistics industry history brings light to its attractiveness on different entrants from close industries. This attractiveness of the industry must spring from the belief, that the business allows greater margins to be shared by these new entrants. The important observation for Wilson to learn is that, there are greater margins in the logistics industry than in the forwarding, This will also be further confirmed below, explaining why Wilson must enter seriously into the logistics industry.

4.2 Decreasing margins and a harder competitive environment in the forwarding business

Each industry progresses through a fairly predictable life cycle (Berglund, 2000 p. 31). As a general description of industrial evolution the s-curve (figure 4.1) is the most frequently used model (Porter, 1980 p.161). According to this model an industry passes through four phases, introduction, growth, maturity and decline. The forwarding industry is in the third phase, maturity. At this phase the industry is characterised by declining growth; which means harder competition of existing market share, experienced customers, and a focus on costs and service as a result of the two first factors (Porter, 1980 p. 162).

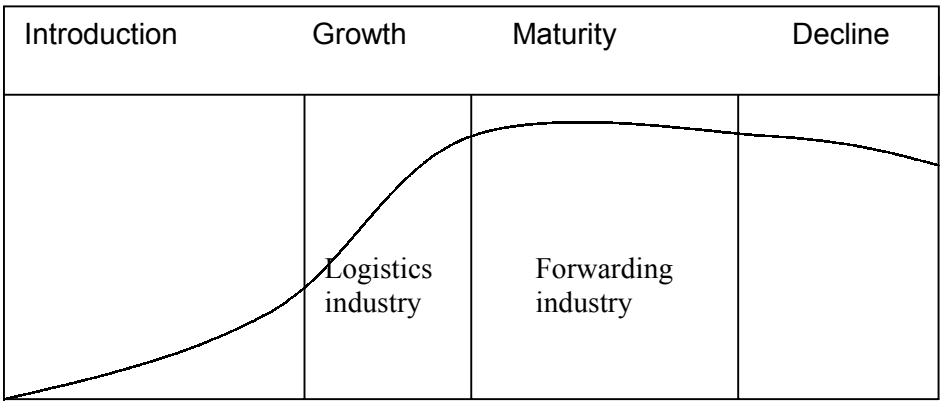

Figure 4.1 Phases in the product life cycle (Porter, 1980)

Another issue in the forwarding industry is the easiness to copy a service. A forwarding service is not particularly difficult to perform and it is therefore hard to find other factors than price to compete with (Lumsden, 1998 p. 82). This easiness to copy leads to more actors entering the market, which intensifies the competition and decreases the margins. Berglund (1999) mentions that declining margins and a tougher competitive environment in the providers' original services have made logistics a necessity for many forwarders. Declining margins is though not prevailing worldwide. In As ia and in countries such as Italy are the margins still rather high. In the Nordic countries there are decreasing margins and since the Nordic area is of great importance for Wilson Logistics, this threat must not be neglected.

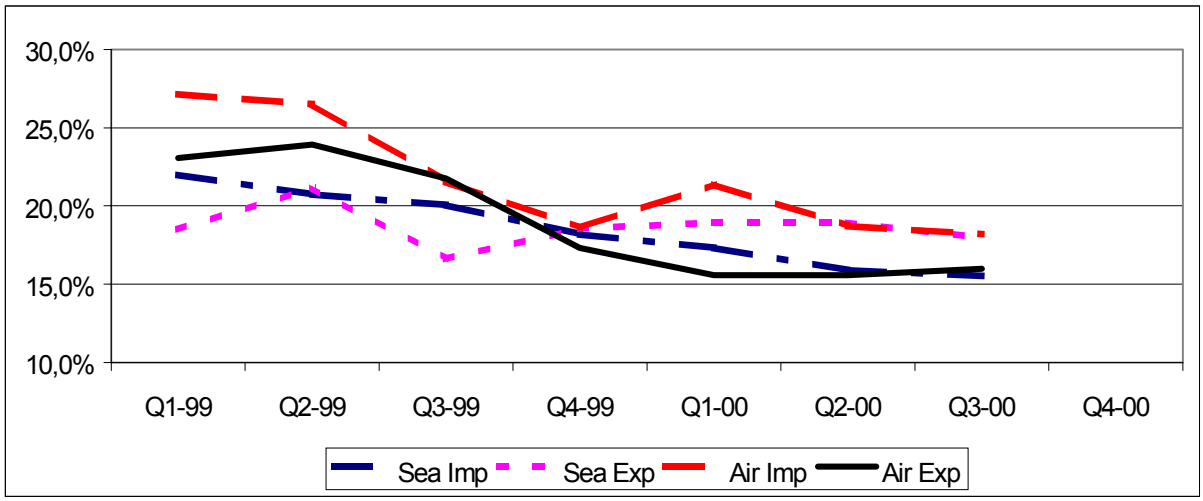

Figure 4.2 Decreasing margins in forwarding at Wilson

4.2.1 Carriers bypass forwarders

Given the transport industry's poor financial performance, many carriers are attempting to bypass the forwarder and go directly to the shipper. By eliminating the forwarders, the carrier reaps the profits that would accrue to the forwarder, thereby increasing the carrier's financial performance and casting a cloud over the forwarder's future (Coyle, 1998 p. 269). As an example, some of the major air carriers, at least in Europe, have already taken up the challenge; building direct relationships with customers and offering new levels of service (Airline business, 1998 p. 11).

4.3 The logistics provider's market is growing

The logistics provider industry is relatively young, probably about 10 – 15 years old. The market for logistics providers is large, of an evolving character, and subjected to a high growth rate. It is expected that the industry will continue to grow substantially in the coming years. Annual growth is projected through 2003 at 8 percent in Europe, 10-15 percent in North America and 20 percent in Asia (Datamonitor, 1999). This situation makes it possible for a great number of logistics providers, originating from a wide variety of bases, and offering services with a wide variety of characteristics, to thrive into the logistics provider industry (Berglund, 1997 p. 4). A reason to thrive into the

logistics provider industry is the possibility to reach higher up in the value chain. Since this service is more complicated and adds more value to the customer, it is possible to charge a higher price (Gerdrup, 2000-10-02).

The greatest reason for the growth of the logistics provider industry, is of course the outsourcing phenomenon. Without outsourcing of logistics activities, there would have been no market to serve for the providers. But what has driven this outsourcing process? We have identified four trends that have or will, from a logistics point of view, increase the complexity of the companies supply chains and place huge burdens on their logistics departments. If companies are to survive and prosper ten and twenty years from now, they have to consider this increased logistics complexity. One way to handle this issue is to outsource the logistics function. The trends that are identified are globalisation, increasing customer demands, increasing competitive pressure and e-business.

4.3.1 Globalisation

One of the most striking trends in recent years has been the rapid increase in the globalisation of supplier and customer markets. The rationales behind this globalisation are several. There is an opportunity for an organisation to grow its business by extending its markets and it is an opportunity to lower its costs (Christopher, 1997 p. 119). By moving labour-demanding production processes to new industrial regions or buying an increasing part of the materials from suppliers in these areas, a decrease in the organisation's production costs is possible. Access to a number of markets is also facilitated if production has been set up in the country in question (Tage Skjött-Larsen, 2000). Inevitably such companies will have an increased need to co-ordinate a far more complex network of flows of materials, products and information. Hence the challenge to the global business will increasingly be seen as logistical, i.e. how to integrate and manage the mesh of interconnections between suppliers, factories, distribution centres and customers (Christopher, 1997 p. 119).

4.3.2 Increasing customer demand

Customers today are much more demanding and have higher expectations of assortment, service, speed and cost. These expectations are fostered by

customers' experience in a few influential areas, for instance home computers, where companies like Dell have spoiled their customers with high service and customised products. Customers now expect such performance from other segments of the economy as well (Bovert & Sheffi, 1998). These higher expectations increase the complexity of logistics. Henrik von Sydow, C.E.O. at Wilson Logistics, says that the prime change driver of the very fast changing logistics industry is globalising customer demands (Wilson Logistic's Intranet, 2000).

4.3.3 Increasing competitive pressure

Tougher competition has driven companies to seek maximisation in the effectiveness with which they supply their goods to their customers. Often this requires reducing the cost of delivering the final good, reducing the time involved in delivering it and moving towards a demand-driven strategy (Datamonitor, 1999). Companies that don't have the logistics expertise in-house must outsource the logistics function. Andersson (1997) mentions "corporate initiative to focus on core business" and "restructuring of the supply chain" as the two most important driving forces for a shipper to outsource. Both factors are connected to the increasing competitive pressure. A company can not perform all activities efficiently, it must specialise in some areas and since logistics is often not considered to be a core competence it is outsourced. Restructuring of the supply chain is another way for a company to increase their competitiveness. Outsourcing is according to Andersson (1997) quicker and claims less investment than doing the restructuring internally.

4.3.4 E-business

The rise of e-business is also most likely to change the drivers of the logistics provider industry. Two obvious effects have been observed that affect the demands of services in different ways. First e-business is growing into an important market channel and procurement mode for existing trading and manufacturing companies who then need to restructure their logistics in accordance with this new channel. Furthermore e-business has generated a new set of potential logistics provider buyers, for instance amazon.com, who do not have an existing logistics solution or any particular logistics knowledge (Berglund, 1997 p. 161).

4.4 One-stop-shopping

When companies outsource their logistics function, they do not only look for logistics providers who are able to manage complex logistics systems, they are also seeking "one-stop-shopping alternatives where they are able to access a large number of different functional support services from a single supplier (Berglund, 2000 p. 77). Skjött-Larsen (2000) mentions three reasons for this trend towards a reduction in the supplier base:

1. Many companies have changed production strategy from in-house production of nearly all components to outsourcing a range of production processes that are not part of the company's core competencies.
2. Searching, selecting and evaluating suppliers on an ongoing basis may lead to large transaction costs.
3. The pace of technological development is so rapid that it is more important to choose suppliers who are at the leading edge of new technology than suppliers who are competitive in price.

This leave the logistics providers offering only individual services, the choice of either attempting to offer world-wide logistics solutions or differentiating themselves through offering niche services, either through geographical coverage or concentrating on specialised activities (Datamonitor, 2000 p. 31).

In March of this year two UK based logistics providers, asset based Exel and non-asset based MSAS Global Logistics merged in order to create a logistics provider that will be able to provide one-stop-shopping on a global scale. The merger exploits the complementary strengths of the companies, MSAS in airfreight forwarding and integrated logistics management and Exel in ground based supply chain services, particularly in warehousing and distribution (Datamonitor, 2000 p. 31).

The One-stop-shopping phenomenon has already attracted its attention to Wilson, but for another reason, namely that of providing a wide and complete range of transportation services. For the same reason there must now be an opportunity in widening the range of services to even provide logistics services.

The same customers who ask for one-stop-shopping of transportation services is very much likely to ask for a complete logistics service box. This is a great opportunity for Wilson to utilise.

4.5 Factors that have facilitated the logistics provider's development

Some factors have made the global environment for logistics providers much more advantageous as logistics providers have been able to grow and achieve economies of scale or work more effectively and be more competitive. These expansion factors are such as the deregulation and the information technology revolution. Both factors make it natural for Wilson to develop its logistics in a positive direction. In the next two sub-headings, is explained why.

4.5.1 Deregulation in the transportation industry

The economic deregulation has swept through the world. Among the involved regions and countries are USA, South America, EU and China. On its way, the deregulation has changed many factors for the forwarding, and particularly the logistics industry, such as harmonisation in border traffic barriers, relaxed restraint from laws and increased competition on different markets, when government owned actors have been privatised.

The effects on the different markets have been numerous and of different kinds. The deregulation in the airfreight industry in USA led to the innovation of the hub and spoke system as a means to effectively provide service (Bowersox, 1996 p.353). Within Europe one of the driving forces behind changes in logistics structure and strategy is the removal of trade and transport barriers between EU countries (Skjött-Larsen, 2000 p.2)

The deregulation effects on the logistics industry, have for long been well known, as Sheffi (1990) pointed out a decade ago:

> "The trend toward a world economy is not an American phenomenon, it is sweeping every national economy. Furthermore, this trend will intensify in the 1990s with the creation of the U.S./Canada free trade

> block, the all-European economy in 1992, and other such trade partnerships. This will place higher demands on corporate transportation departments as well as open more opportunities for logistics engineering."

The opportunities from deregulation can though not be seen as dying down, thus in recent days the USA President signed to ease sanctions on Cuba, U.S. food, drug sales to Cuba possible by spring and Britain to open diplomatic ties with North Korea (Reuters.com, 19 of October 2000).

Further reductions in sanctions between countries are to be expected around the globe and these will offer many new opportunities.

4.5.2 Technological development

Deregulation of transport described above, has led to greater price and service competition among companies in the transport business. European transport companies are looking for more value-added services to compensate for the reduced margins and to solidify their market position. New information technology is facilitating these developments (Virum, 1993). The technical development of computer hard- and software and communications has made it easier to plan, manage and control logistics operations. Consequently, logistics providers have been able to take over clients' operations in an effective way.

But why do companies want to outsource their logistics function if new information technology has facilitated the logistics operations? The answer is of course the continuing investments in both assets and knowledge that must be made to keep the pace of the fast development in information technology. This is what Berglund refers to as the skill and systems based players, see the recent history above 4.1.2.

Not many companies have the commitment necessary for initial and continuing development of such systems. Here, the role of logistics providers becomes evident in their ability to offer advanced computerised logistics systems, spreading the continuing development costs over a large customer base (Sheffi, 1990).

The world's leading logistics providers have developed their services and operations around IT systems that can save time and money for their clients. These systems become more important when the operations involved take place across continents. Global track and trace and EDI links with customs are now common systems to be found among the service offerings of the world's leading logistics companies (Datamonitor, 1999 p. 7).

4.6 Summary and conclusion of external forces

As globalisation intensifies and companies take a more "global view" of their operations, the importance of the logistics function will increase considerably for firms in all sectors. Efficient Logistics performance therefore has rightly been recognised as the next source of competitive advantage and a crucial strategic imperative for success of firms.

Declining margins and a harder competitive environment in Wilson Logistics original services, air and sea forwarding, have made logistics a necessity for long run survival. Declining margins and a tougher competitive environment together with the recent positive attitude of shippers towards outsourcing and focusing on core activities must be regarded as the strongest drivers for the emergence of the logistics provider industry. Some providers have used these additional logistics services and the partnership approach primarily to capture clients in order to secure volume for their basic services, whereas others go for the higher margins in logistics and value adding services (Berglund, 1999).

Let us summarise the opportunities, that are identified in this chapter, that speak for the fact that Wilson should enter the logistics provider industry and summarise the warning threats of continuing solely as a freight forwarder.

4.6.1 Opportunities for Logistics providers

- Offering logistics is a possibility to reach higher up in the value chain, where the margins are higher
- The logistics provider market is growing thanks to increasing outsourcing.
- The same customers who ask for one-stop-shopping of transportation services is very likely to ask for a complete logistics service box.

- New Information Technology investments will facilitate operations.
- Further reductions in sanctions between countries are to be expected around the globe and these will offer many new opportunities.

4.6.2 Threats against the forwarder industry

- Competitors have already entered the attractive logistics provider industry, so there is a risk of falling behind.
- Decreasing margins and a harder competitive environment in the forwarding business.
- Carriers are attempting to bypass the forwarder and go directly to the shipper.

5. What strategic position should Wilson strive for?

In order to design the logistics strategy guidelines for Wilson, this chapter will work through the logistics providers' positions in the logistics industry. The competitors' different characteristics can be used to make out different groups. Competitors with similar features can be grouped into, what can be called positions. To these groups or positions Wilson can either, stay and continue to be the same as these competitors or differentiate from that position, in order to be unique.

If Wilson chooses to stay in a position, keeping the same character as the competitors, this must be done with the conviction that Wilson will keep the customers for some reason. This reason to keep the customers, is normally based on economy of scale, as to say the position feature, is cheapest provided by Wilson, as Wilson is the biggest in this area and thus can provide the customers with the service at the lowest cost.

Be aware of that Wilson is only ranged approximately of the size number 15-20 in the world and the larger competitors are very big, like Kühene & Nagel that has 6% of the market, (Henrik von Sydow, 2000). Knowing this, it is understood to be impossible in many positions to be price leader; this leaves Wilson with the option to step out of these positions and choose to be unique and more exclusive. Exclusiveness defends a higher price. Let us call this "stepping out" for, the differentiation strategy. Kotler, (1996 p. 401), gives life to the expression differentiation with the following statement:

> ***"Differentiation is the act of designing a set of meaningful differences to distinguish the company's offer from competitors' offer"***

In this chapter guidelines will be designed to be either differentiation strategic, according to the positions of the market, or just strategic from what could be called common sense. First, different position variables are evaluated, one by one, each leading to a strategic guideline, directing preferably how to act to lead the logistics development in the right direction. Secondly to further develop and get a more valid background for the guidelines, a closer look at

two leading edge logistics providers, Panalpina and Expeditors is done in section 5.2. Finally all guidelines are collected together in 5.3. This is done to create a pedagogic overview of the guidelines designed from the competitive environment.

5.1 Description of the logistics providers industry

The industry of logistics providers has not yet reached the stage of maturity, but a reasonably clear segmentation in terms of strategic differentiation is emerging. There are several arguments supporting the conclusion that the logistics industry has not yet reached its maturity stage. For example, there are still a large number of logistics providers, both in the US and in Europe and the absence of a unique and undisputed terminology is another sign of relative immaturity. The industry is considered to be in a phase of growth and development, which makes strategic positions less vital for the current success and has led to similar positions among the logistics providers (Berglund, 1999 p. 2).

However, emerging differentiation of strategies has been shown in a survey undertaken by Berglund (1997). Two strategic dimensions have empirical support for describing different strategies among logistics providers, *range of logistics provider activities* and *operational vs. conceptual focus*. Since the two dimensions are somewhat correlated, he has chosen to only promote operational vs. conceptual focus. This dimension has two main positions, standard service and solution.

Since the logistics providers' current positions don't differ very much, this chapter will describe the whole industry altogether in order to give a good understanding of the logistics providers' strategic positions. The information that is collected comes from a survey undertaken by Berglund (1997), that is part of his doctor dissertation. The respondents are 19 major logistics providers with a wide variety of different backgrounds.

Berglund's research gives this report a fine input over how the logistics providers are positioned in their industry. Below will follow the characteristic

features of the logistics providers industry as variables, where one and each are evaluated and result in different guidelines.

5.1.1 Providing standard services or developing solutions

This type of variable is more comprehensive than the others and describes the whole character of the provider to a great extent. One can say that it measures the provider on a higher level of aggregation. Standard service providers base their strength on standardisation and the needs of their clients should be as similar as possible. Solution providers base their business on the ability to create logistics solutions and are thus able to manage complex situations that vary among clients. By looking at the providers' business missions, information can be collected to see if the providers offer standard services or solutions. In Berglund's (1997) survey, seven providers consider themselves as solution providers and two as standard service providers.

When the standard service providers and solution providers are compared, several differences appear. Annual revenues per contract are higher for the solution providers and the standard service providers reject substantially more requests for proposals than the solution providers, probably because the requests do not match with the service offering. Moreover, standard service providers use operative competence as the major leverage mechanism and the solution providers use systems development and a range of services. The solution providers also sub-contract to a much larger extent. Strategic core theory states that the number of different processes that a company can internally organise is limited and thus providers with a wide range of activities might be ineffective unless certain ones are subcontracted. In terms of personnel structure the solution providers have many more employees in management and engaged in development of providing solutions and a greater proportion of employees with university degrees compared to the standard service providers (Berglund, 2000 pp 128).

The recommendation to Wilson Logistics is to become a solution provider and there are two reasons for that. First, the major reason is that the revenues per contract are higher, second, the external factors discussed in chapter three will continue to make logistics more complex and cause a need for logistics

providers that are able to manage complex situations and create logistics solutions.

- *Wilson Logistics should strive to become a solution provider.*

5.1.2 Geographic scope

Geographic scope is interesting since different geographical scope would require different capabilities of the providers. In Berglund's (1997) survey of 19 logistics companies, the geographic scope of these companies were as follows:

- National – 1 Provider
- Regional – 5 providers
- Continental – 2 providers
- Multiple-continental – 5 providers
- Global – 6 providers

This result is in line with what would have been expected, after reviewing external trends. The globalisation of supplier and customer markets, described in section 4.2.1, have led to customers asking logistics companies for a global reach. Wilson Logistics C.E.O., Henrik von Sydow says that "either you remain a local hero, a niche operator, or you go global. There is no middle position that will ensure a competitive edge" (Wilson network news, No.1, 1999). Since we agree with this statement, the guideline to Wilson Logistics is:

- *Keep the direction towards becoming a global logistics provider.*

5.1.3 Logistics Provider's Client industries

In which industries does the logistics provider's clients or customers operate? Berglund's study from 1997 shows that; the number of client industries served is on average four, but ranging from two to seven. The client industries that are most represented in the logistics providers' portfolios are automotive and retail/FMCG (fast moving consumer goods). Electronics/High-tech and

computer/telecommunications are also common client industries. This reveals that most of the logistics providers have similar client focus. For competitors in an industry to have a similar client focus may be a problem. For the logistics providers this could become a problem and cause a harder competitive climate.

But why do the providers focus on the same client groups? The answer is that these client groups are positively inclined towards outsourcing and the two most frequently stated reasons for chosen growth/development direction for a logistics provider, are according to Berglund's survey from 1997, "market or client demand" and growing emerging markets".

Berglund warns and states that; if this tendency is compared to how logistics providers try to acquire new business, we can see that the problem gets even bigger. Logistics providers want to go on doing the things that they know for clients that are similar to the existing portfolio. The two most important reasons for determining market segments are "Type of activity or need that fit with assets, capability or experience" and "Currently outsourcing or business reengineering activity in segment".

From this description of the client industries, it is easy to draw the conclusion that Wilson should, not "also", focus on the "similar client focus as the competitors do, in the logistics providers industry. This does not means that Wilson shall leave the customers they have today in automotive and retail, just that when identifying new groups, this should not also be in the same market place as the rest of the industry. But instead actively identify untouched client groups, which are from new or from other industries and particularly put strain on being the active part to make the first contact. Thus these groups don't look for a logistics provider to outsource its logistics to. These client groups might not even recognise its costs for logistics. The fact that these client groups are unaware of the advantages, co-operation will put extra demand on Wilson sales personnel, in explaining for these new client groups, the need for streamlining the logistics functions.

The rise of e-business is also most likely to change the drivers of the logistics provider industry and form a new group. Two obvious effects have been

observed that affect the demands of services in different ways. First e-business is growing into an important market channel and procurement mode for existing trading and manufacturing companies who then need to restructure their logistics in accordance with this new channel. Furthermore e-business has generated a new set of potential logistics clients, who do not have an existing logistics solution or any particular logistics knowledge (Berglund, 1997 p. 161).

This characteristic property of the logistics industry called attention to, by Berglund, led this report to design the following differentiating guidelines:

- *Educate sales personnel in logistics.*

- *Divide the customers into client groups, select target groups among these, that are untouched by the logistics providers industry competitors.*

- *Go for the e-business companies.*

5.1.4 Parts of clients' supply chains

Berglund (1997) has identified and discerned four different parts in a generic supply chain, which, one and each, place different requirements on logistics systems. Through this view these four parts represent:

1. Inbound logistics,
2. Outbound logistics,
3. Spare and service parts, and
4. Reverse flow

Outbound logistics (or distribution-like) is currently the most served part of the generic supply chain in general, and several of Berglund's respondents are heavily focusing on that part. Inbound logistics is the second most served part. The reasons for focusing on a special part of the clients' supply chains have not been investigated, but it may be the same reasons mentioned above, "market or client demand" and "type of activity or need that fit with assets and capability

or experience". Perhaps clients want to outsource distribution because distribution is more complicated, since the distributions receivers, normally are many more than the inbound suppliers, resulting in multiple occasional relations.

Another reason may be that the value of the product is higher when it is processed and ready for distribution and then the logistics create more value through accelerating the time to market and decreasing the capital bounded in the supply chain. This means that it is possible to charge a higher price for logistics in a distribution chain, than in inbound thus the shipped products in distribution tie up more capital over time.

Returning to the apparent risk for an unnecessary harsh competitive climate, focus could be shifted to the less served parts of the generic supply chains where opportunities for strong positions exist from lack of competitors. "Spare & service parts" and reverse flow are the two less served parts. The inbound flows are larger and thus according to the above discussion is easier to consolidate and make efficient. On the other hand its obvious that there is more money to make in distribution. The standpoint should be that Wilson must prepare to be able to serve and provide the clients with all parts of the supply chain; outbound, inbound, "spare & service parts" and reverse logistics, but for different reasons. A modern logistics provider must be able to handle all parts of the supply chain. This, in order to fully utilise supply chain management, which demands a holistic view.

- *Go for all parts of the supply chain, outbound, inbound, "spare & service parts" and reverse logistics.*

5.1.5 Range of included activities

When measuring the logistics providers' major range of activities, or amount of different service offerings, the respondents have stated their *major* service offerings, which means that the respondents might offer services not stated. On average the providers mention four different services as major. The

respondents' main types of logistics services ordered by frequency are warehousing, distribution, transport, and IT or some kind of value-adding service. Six of the nineteen respondents state different kinds of full logistics offerings as major, such as supply chain management (Berglund, 1997). But Berglund (1999), mentions that even though the providers say they provide full logistics services, it is obvious that the service production is not a fully integrated process. In other words, logistics providers are functionally organised in a set of major processes based on different activities.

The guideline this report concludes and gives here is connected to the first guideline, that Wilson Logistics should become a solution provider. One of the leverage mechanisms solution providers use is range of services. If the first guideline is pursued, Wilson Logistics must be able to offer a broad range of services. If it is not pursued, they have to specialise in a few services.

- *Wilson Logistics must be able to offer a broad range of services.*

5.1.6 In the customers' perspective, how to be unique

From the external perspective, i.e. from the shipper's perspective Wilson has to be unique. The natural question to raise is, what do the customers evaluate as important. Not much information has been collected from a shipper perspective with the aim of finding different positioned logistics providers. But the reasons to outsource logistics processes have been well studied and from those studies it is possible to deduce a shipper perspective on important differentiation variables. Andersson (1997) mentions "corporate initiative to focus on core business" and "restructuring of the supply chain" as the two most important driving forces for a shipper to outsource.

Another survey from 1993 done by Laarhoven et al (2000), shows that cost reduction (or reduce amount of capital invested), service improvement, strategic flexibility and focus on core as the four most important driving forces, see figure below.

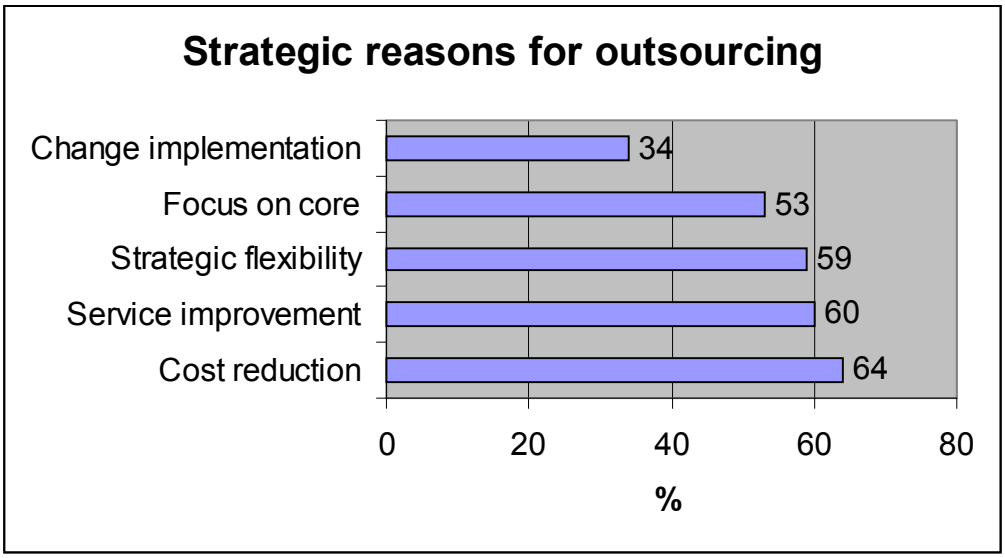

Figure 5.1 Strategic reasons for outsourcing, Laarhoven et al, (2000), survey done 1993.

Not surprisingly, Berglund (2000, p88) has then come to the conclusion that relative cost/performance (Cost reduction) and relative service/cost (Service improvements) are the best differentiation variables for describing the logistics providers. However, Berglund does not investigate how the shippers really view the logistics providers, i.e. how the logistics providers differentiate from each other. But this does not hinder this report from giving guidelines for the logistics strategy, which makes it more appetising for customers to outsource their logistics to Wilson.

Earlier, under heading *"5.What strategic position should Wilson strive for?"* above, it is declared that, Wilson in most markets can't conquer the role of providing the lowest prices, thus Wilson in many markets will have problems reaping economies of scale. Then Wilson will have to help the customers in other ways and improve the Wilson characteristics in other areas, so that Wilson could become unique. These other areas, if you study the Laarhoven survey above, could be:

- *Help customers to reduce amount of capital invested in logistics.*
- *Provide higher service than competitors, if you can't be low price leader.*
- *Create strategic flexibility, so that the customers don't have to be tied up in logistical systems.*
- *Help customers to focus on core instead of logistical problems.*

5.1.7 Vertical integration

The final variable discerned is the vertical integration. In this case vertical integration means the activities or production processes that a logistics provider subcontracts to lower tier suppliers. Transportation is the sub-process that the largest numbers of provider subcontract. If they subcontract all transport or just certain parts of the total transport activities is not evident. The other activities are subcontracted to a much lower extent than transport. Warehousing and storage is the second most frequently mentioned production process that is subcontracted. The reasons for the fact that transportation is subcontracted to such a degree is that scale determines cost and transport services are generally accessible at a low cost and thus generate low value compared to other processes. Many logistics providers also originate from forwarding, which traditionally subcontract transportation (Berglund, 1997).

The single most frequently mentioned part of the production process the providers would not consider subcontracting is information systems development. Other activities the logistics providers don't want to outsource are development or management in general, logistics design and engineering, and warehousing. Warehousing is a little bit special, because of the question, which production process the respondents can envision subcontracting, warehousing is most frequently mentioned. Perhaps this indicates some form of segmentation. The major reason for not subcontracting a specific production process is that it is considered as the core of the company (Berglund, 1997 p. 115-118).

This guideline, that this report is to give regarding vertical integration, is also connected to the first guideline, that Wilson Logistics should become a solution provider. A solution provider must, as written above, offer a broad range of

services. Strategic core theory states that providers with a wide range of activities will be ineffective unless certain ones are subcontracted. Thus, the guideline we give here is to:

- *Outsource the logistics activities, which are not considered as the core of the company and the logistics activities, which generate low value.*

5.2 Review of two leading edge logistics providers

To develop and get a more valid background for the guidelines a review of two leading edge logistics providers, Panalpina and Expeditors International of Washington, INC will be done in this section.

5.2.1 Panalpina

Panalpina is one of the world's leading forwarding and logistics groups. The Panalpina Group has 312 branches in 65 countries and employs over 11,000 people worldwide. The main focus of its business is on intercontinental airfreight and seafreight. In addition to handling traditional freight consignments, the Group specialises in meeting the logistics needs of multinational companies. The essence of Panalpina's business is integrated forwarding. Instead of offering isolated, standardised services, Panalpina provides integrated, customised solutions. With integrated forwarding, Panalpina is positioning itself between the providers of standardised transport solutions (integrators) and the conventional haulage firms (forwarders/consolidators). By taking this position, they believe that the advantages of both types of service are combined in an optimal manner: the reliability and service guarantees associated with integrators and the forwarder's flexibility in responding to market needs. Without becoming a carrier itself, Panalpina is thus able on its own to regulate the flow of goods right down the transport chain (Panalpina, 2000).

Panalpina is a solution provider and their logistics concepts are focused on warehousing and distribution. Panalpina's offers one-stop logistics concepts and tries to meet a single business partners' all logistics requirements (Panalpina, 2000).

The geographic scope of Panalpina is global. They have 312 branches in 65 countries and employ over 11,000 people in North America, Latin America, Europe, Africa/Middle east, Asia and Australia/New Zealand, in other words in all six continents.

Panalpina specialises in meeting the logistics needs of multinational companies, especially those in the automotive, electronics, telecommunications, oil & energy and chemical sectors. Other client industries are department stores/fashion and construction/engineering.

The part of clients' supply chain that Panalpina focus on is the downstream part. Panalpina specialise on their clients' distribution and has developed concepts for distribution logistics and created new distribution systems geared to current market needs.

The main focus of Panalpina's business is on intercontinental airfreight and seafreight. At the beginning of this year, Panalpina acquired Avalog AG. Avalog's role in the Panalpina group will be to design and implement new logistics and supply chain management solutions. Within the logistics field, Panalpina provides a wide spectrum of logistics services including labelling, order picking, pricing, issuing delivery notes and consignment documents, invoicing and looking after quality control. Panalpina has a global network of warehouses with the facilities to store hazardous and chilled goods (Datamonitor, 2000 p. 110). In addition to offering its customers integrated supply chain management, Panalpina provides an added value service package. This includes in-house insurance services, customs brokerage and a comprehensive range of innovative Information Technology Services (Panalpina, 2000).

Differentiation is supposed to be measured from the shippers' perspective and with the time restraints we have, this has not been possible to examine.

Since Panalpina originate from the forwarding business, transportation is subcontracted. Warehousing is central in their concepts and is thus not

outsourced. Heavy investments in IT indicate that this will not be subcontracted.

5.2.2 Expeditors International of Washington, INC

Expeditors International of Washington, Inc is a global logistics company operating through a world-wide network of offices, international service centres and exclusive or non-exclusive agents. Expeditors operates a total of 155 offices and 12 international service centres in 46 countries and employs 5 300 people. Approximately 500 of the company's employees are engaged principally in sales and marketing and customer service, 3 400 in operations and 1 400 in finance and administration. Expeditors' main business lies in the Far East and USA airfreight shipments but the company has been progressively developing its global service proposition. The company has grown organically rather than through acquisitions. Expeditors is among the charter members of the Business Partnership Program launched by Lufthansa Cargo. Expeditors co-operates with Lufthansa globally, especially on electronic data interfaces, training, quality initiative and product development (Datamonitor, 1999 p. 103)

Expeditors is a solution provider and offers total global logistics solutions. Combined with air, ocean, brokerage, and consolidation services. Expeditors distribution capabilities provide, according to their own home site, global seamless logistics solutions for complete supply chain management.

Expeditors' geographic scope is global and has offices in Europe, North America, Latin America, Middle East, Asia, Africa and South Pacific.

The client industries that Expeditors focus on are automotive, medical/pharmaceutical, hi-tech/electronic, consumer goods and retail. Their key global clients are Ford, Phillips, Compaq, Scapa Filtration Europe, Qualcomm and Toyota.

The part of clients' supply chains that Expeditors focus heavy on is distribution. They offer a broad range of distribution activities described below

and have also developed a Distribution Management System, that is said to give the customer real time information about inventory levels, etcetera.

The services or activities Expeditors offer to their customers include air and ocean freight forwarding, vendor consolidation, customs clearance, marine insurance, distribution and other value added global logistics services. Distribution services include finished foods distribution, raw materials kitting, light assembly, cross dock, pick and pack, remote spare parts distribution, localisation, merge in transit, product postponement, product rework, in-transit assembly, retail distribution, domestic transportation and vendor managed inventory. Other more holistic services they offer are global seamless logistics solutions for supply chain management.

As part of the service offering provided to their global clients, Expeditors has developed global track and trace systems, EDI link with customs, international documentation, multi-modal management systems and a warehouse and inventory management system. Their warehouse and management system is called “Expeditors' Distribution Management System” and is deployed globally to provide real-time inventory information and reporting. This system can provide the customer with information about inbound receipts, products allocated for shipment, sales order / outbound shipment, product holds status, real-time inventory stock levels via the Internet and real-time activity reporting via the Internet (Expeditors, 2000).

Expeditors is non-asset based and has subcontracted parts of their transportation, but have some own vehicles.

5.2.3 Does this review affect the guidelines?

Panalpina and Expeditors have several similarities. They are both solution providers, have global geographic coverage and focus on clients’ distribution. Furthermore, their origin is forwarding, which has led to that transportation is subcontracted and they offer a broad range of activities. Finally, they share their focus on three client industries, automotive, electronic and retail/consumer goods. Compared to the whole industry described in section 5.1, there are not many differences. This may proof that the logistics industry is not yet mature

and doesn't have any clear strategic positions. Thus, the findings here don't give us any reasons to revise the guidelines we have suggested above.

5.3 Logistics strategy guidelines formed by the logistics industry positioning

These are the rundown of the guidelines that this chapter has worked out; they will finally become part of the design of the strategy for the business unit logistics and direct how the Wilson Logistics subsidiaries should strive to act. In this chapter we have design below guidelines. These are either differentiation strategic, according the positions of the market, or just strategic from what could be called common sense. In 5.1, in this chapter, different position variables where evaluated, one by one, lead to each a strategic guideline, directing preferably how to act to lead the logistics development in the right direction. Secondly to further develop and get a more valid background for the guidelines, a closer look at two leading edge logistics providers, Panalpina and Expeditors was done in section 5.2.

The guidelines formed by the logistics industry positioning are:

- Wilson Logistics should strive to become a solution provider.
- *Keep the direction towards becoming a global logistics provider.*
- *Educate sales personnel in logistics.*
- *Divide the customers into client groups, select target groups among these, that are untouched by the logistics providers' industry competitors.*
- *Go for the e-business companies.*
- *Go for all parts of the supply chain, outbound, inbound, "spare & service parts" and reverse logistics.*
- *Help customers to reduce amount of capital invested in logistics.*
- *Provide higher service than competitors, if You cant be price leader.*
- *Create strategic flexibility, so that the customers don't have to be tied up in logistical systems.*
- *Help customers to focus on core instead of logistical problems.*
- *Outsource the logistics activities, which are not considered as the core of the company and the logistics activities, which generate low value.*
- *Wilson Logistics must be able to offer a broad range of services.*

If the strategy design were to only lean on information and knowledge of the competitors in the logistics industry, then these guidelines would have been the only ones to come out of this report.

But Wilson must be prepared to look even beyond its competitors. The complete strategy that will be designed in this report must help them stay one step ahead of the competitors and give more, than above guidelines, that directs the business unit of logistics at Wilson to become a much more important part of Wilson Logistics. This is why this report in the next chapter describes how to create high customer value.

6. How to create high customer value with low costs

In this chapter we will formulate guidelines for Wilson Logistics, on how to create as high customer value as possible, meanwhile causing minimum costs, by using four value creation modes. This is done with the desired strategic position in mind, since different strategic positions can be reached by different value creation modes.

6.1 How choice of value creation modes give strategic position

Higher profits can be reached if the customer value is increased and or the costs involved in the operations at Wilson are lowered. To further enhance the logistics strategy and reach above the competitors Wilson Logistics must look one step ahead and focus harder than the competitors on how to create value to the customers. Berglund (1997, p60ff) explains the corner pillars, of value creation for logistics provider, in a simple understandable manner, "the framework for value creation". This report designing the logistics strategy for Wilson will use these corner pillars to develop Wilson specific guidelines. The model of framework for value creation enables and motivates innovative development of activities, so that these activities can be made to create maximum value to the customers. Below Berglunds reminder of value creation is exposed.

Description:	Operational Efficiency	Integration of client operations	Vertical or Horizontal integration	Developing of clients operations efficiency
Driver of advantage:	Effects from focus	Economies of scale	Asset reduction & better offer	Developing of clients business
Drivers:	Economies of scale by: Specialisation Techniques or Organisation and Learning	Economies of Scale by: Indivisible Costs, Increased dimension and Massed resources & Economies of Scope	Factor Costs as Asset Reduction & Economies of scale by Vertical and Horizontal integration	Development of customers business processes & Economies of scope
Skills:	Operations & IT	Operations & IT	Operations & IT	Operations & IT
Example:	Run warehouse efficiently	Shippers share warehouse	Outsourcing warehousing to others	Cross-docking or new concepts

Table 6.1 Framework for value creation (Berglund, 2000, p118 & 1997, p65)

Again, please, don't forget that this value, created to the market, gives Wilson possibilities of raising gross profits through higher prices and lower costs.

In the previous chapter, we have given Wilson Logistics several guidelines that, if they are followed, will lead to a certain strategic position. The guideline about becoming a solution provider will have most effect on the strategic position, since it is more on an aggregate level. A strategic position can be reached by different value creation modes (figure 6.1). The value creation modes are operational efficiency, integration of client operations, vertical or horizontal integration and supply chain management & integration. The four value creation modes are based on how different activities and resources, especially the core competencies are employed.

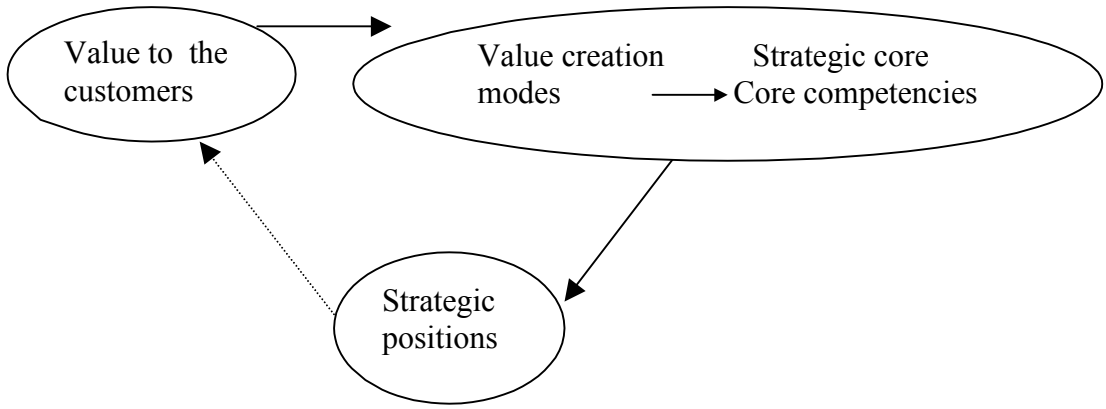

Figure 6.1: Value creation based strategic positioning (Berglund, 2000 p... 46).

6.2 Logistics made out of operational efficiency

This is the first of the four different modes for value creation and is the simplest one, but it is certainly not neglectable. Berglund (2000) explains that the basic mode for a logistics provider to add value is, to achieve operational efficiency at a higher level than competitors do, and particularly more efficient than the customers do. This means that the logistics provider, Wilson Logistics in this case, must, or at least should, provide a better service-cost ratio. Most logistics providers do extremely well in this particular way of adding value, because logistics operations are at the core of their business. These efficient

logistics providers have the advantage of directing all resources and attention towards their logistics operations.

This value creation mode only applies to the activities performed in- house, in Wilson Logistics' organisation. Obviously, if Wilson Logistics prefers to and do find it more economical to outsource these operations, the logistics suppliers will achieve the operational efficiency and will thus be able to make Wilson Logistics a tempting offer, providing a reasonable service-cost ratio, with a better performance per cost for the service.

To further debate and explain operational efficiency in order to design logistics strategy guidelines from the value creation mode of operational efficiency and to see how this mode can provide Wilson Logistics with higher profitability, the internal operational costs and the customer benefits from operational efficiency are evaluated. This discussion is then completed with a debate on the drivers and skills needed to create operational efficiency. All these discussions end up in a set of guidelines that are strategically important to adapt for supporting operational efficiency.

6.2.1 Efficiency decreases internal operational costs

Operational efficiency decreases the operational costs and as such it increase the profits. Naturally the more efficient the logistics operations are performed, the lower costs caused. Keeping logistics operations costs down, through operational efficiency, is thus important to increase the logistics profits and in the end this is value created to the customer and to Wilson Logistics.

6.2.2 Customer benefit from operational efficiency

Customer benefits give room for the customer's ability and willingness to pay the price. Not only can the customers benefit from that Wilson Logistics could provide the logistics operations in-door, at lower costs than if performed at the customers, but also the customer can enjoy a higher grade of service. These customer benefits are value from higher achieved service levels that provide Wilson Logistics with the opportunities of reaping higher revenues.

The sum of higher revenues and lower costs is simply profitability. Less simple though is the work to identify the drivers for operational efficiency and the skills required to support these.

6.2.3 The drivers for operational efficiency

The driver for value creation of operational efficiency is primarily factor costs, which are typically lower for logistics providers than for industry clients. For example if you look at labour cost as a representative for these costs, salaries for operational transportation and warehouse workers are generally lower than in manufacturing industries. Economy of scale is also a value driver for efficiency, when activities are performed more often the overhead cost is divided into a lower cost per item, this occurs in different manners for the value creation mode of operational efficiency:

- "Economies of scale by specialisation" appear when a company focuses on some few activities, which are done more often.
- "Economies of scale by learning" can be explained from the fact that the learning curve for people is long and the more often an activity is done, the easier it becomes and the better quality is performed, Berglund, 2000, p117.

The specialisation and learning is reached through, focus on some special logistics activities. In chapter 7, "What global activities do the customers ask for", below, are special logistics activities presented to primarily focus on. This focusing on some few activities is core-theory, saying that it is easier to specialise on some few activities, than to be a specialist on producing all internally. Strategic core theory states that the number of different processes that a company can internally organise is limited and providers with a too wide range of activities will find problems to be effective (Stiglitz, 1993).

6.2.4 Which skills are needed to fertilise the drivers of operational efficiency?

Adequate physical facilities, equipment and excellent operational skills are required to reach operational efficiency (Berglund, 2000, p117). All these skills are though dependent on capital investments and investing in such skills, demand bold decisions, especially if investments occur before the logistics services actually are sold. The skill needed here must be the ability to

subcontract to the right warehousing, or to another logistics provider, or to get hold of venture capital for setting up the operations in the direction of Wilson Logistics. The main point is that Wilson must be able to provide the market with these skills.

More advanced skills required are needed for co-ordinating a number of logistics activities. Co-ordinating skills will probably become needed in the situation that Wilson will storm into, when Wilson offices must co-ordinate the activities, which will be recommended in chapter 7. To handle these activities, information technology would be required, since co-ordination is generally achieved through information technology tools and thus skills in information techniques, as to say information technology, is vital to have, when the ambition is to reach operational efficiency.

These IT-skills can either be conquered by, employing new staff, or consulting experts. Before starting the process of getting access to resources like, staff, facilities or technique, a strategic choice has to be made, in every situation, weather to let this, core value creating skill, be subcontracted outside Wilson Logistics doors, or not. Please study chapter 6.3 “Vertical or horizontal integration”, first before acting on this point.

6.2.5 Guidelines to higher operational efficiency

In order to increase the skills that feeds the drivers of logistics operational efficiency, the following guidelines are suggested:

- *Direct resources and attention towards logistics operations.*
- *Focus on special logistics activities.*
- *Make staff responsible for logistics operations.*
- *Get access to adequate physical facilities.*
- *Get access to adequate equipment*
- *Get access to adequate excellent operational skills, educate or consult*
- *Get access to adequate information techniques and IT-skills.*
- *Standardise operations for qualitative learning and minimum variance.*

- *Start continuous improvement programs for all logistics operations, consult experts if needed to change organisation.*

6.3 Integration of client operations

The next cornerstone in the value creation framework builds on the simple idea that sharing resources gives lower costs. Lowering costs could be done by integration of clients or, in other words by sharing resources among different customers. An example of integration can be explained as, multiple client warehousing or transport-networks in which several clients operate jointly.

6.3.1 How does resource sharing affect the cost structure

Some costs are indivisible, as facilities, trucks and so forth. These costs could be utilised better and thus the cost per service performed by the unit is decreased.

6.3.2 Customer benefits

The customer benefit is lower costs, but here Wilson Logistics will find problems competing on the market. This value-creating mode is the only mode, which never alone would be enough for Wilson Logistics to compete on the market with. This is due to the fact that larger competitors integrate a greater amount of clients and thus reap greater economies of scale. This in fact does not mean that economies of scale from customer integration is more or less neglectable, on the contrary Wilson Logistics has to fight hard to increase its drivers for customer integration, by accessing the right skills.

6.3.3 Drivers for customer integration

Berglund, 2000, p117, is very precise on this point, when he states that: "The driver for value creation is predominantly economies of scale, and more specifically by indivisible costs, by increased dimensions and of massed resources. Economies of scope act in this mode when different clients operations are pooled, and thus input is shared as well as production resources"

The question to answer is then how to reach economies of scale and scope. This could naturally be done by identifying customer groups, (segmentation), choose which segment to serve, (targeting) and go for the customer groups, that could

be served by the same resources. The cost per service unit will then naturally become lower and make Wilson the most price efficient provider for the targeted customer segment.

Hopefully this cost reducing strategy, of sharing resources, will be kept in mind for every logistics activity processed in the Wilson Logistics network. Even if there is no sharing between customers from the beginning, when shaping logistical activities, there should, already from the beginning be ideas on how to achieve this.

6.3.4 Which skills are needed when integrating customers?

Again operational skills are required. This means that responsible Wilson co-workers must be cunning to find out how to create economies of scale. Seeking such opportunities must be done constantly and strategically. Perhaps Wilson Logistics should give courses in and teach logistics co-workers, employees and involved personnel how economy of scale works.

Co-ordination of activities is important, and corresponding IT-skills are a necessity to handle the large amounts of information that will emerge when working with economies of scale. Yet another reason is posted for increased IT–skills.

6.3.5 Guidelines on how to reach economies of scale and scope

This is an area where precise guidelines are very hard to give. Every subsidiary must work to find strategies that fit to their own prerequisites. The guidelines on how to reach economies of scale and scope are:

- *Teach logistics co-workers, employees and involved personnel how economy of scale works.*
- *Target customer groups that could be served by the same resources.*
- *When shaping logistical activities, there should be ideas on how to integrate other customers, in order to enjoy economies of scale and scope.*
- *Get access to adequate information techniques and IT-skills.*

6.4 Vertical or horizontal network development

The two previously treated value creation modes operational efficiency and integration of customer operations are focused on getting as much as possible out of internal resources. But for a logistics provider to be effective it can not perform all activities in-house, some activities must be subcontracted or outsourced. This third mode of value-creation focuses on utilising Wilson out door actors, such as industry suppliers or providers and "similar, but probably not competing companies" to get access of services to provide the market with. In vertical terms, the provider, in this case, Wilson should focus on producing the services that are of core competence character, or by buying services where cost and performance benefits are possible. This mode of creating value is the same way a shipper creates value by outsourcing their logistics activities to service providers. Integration could also be used horizontally (Berglund, 1999, p. 118), this means that the logistics provider can join forces with similar, but probably not competing companies.

6.4.1 Driving forces to subcontract

The driving forces for a logistics provider to subcontract/outsource is almost the same logic that drives their clients to outsource logistics. Generic driving forces are cost and service effects. A lower tier supplier may have better operational efficiency thanks to lower factor costs and specialisation in a certain activity, for instance transportation and can therefore produce the activity cheaper. Then there are several aspects linked to the cost and service aspects. Desire to reduce investments or asset reductions, to help financially just owning and paying for what you need and use. Transforming fixed costs to variable costs helps financially to just pay for what you need and what you use. Concentration on core business helps to focus, for operational efficiency. These are all linked to the cost and service aspects (Andersson, 1997 p. 128).

Outsource considerations from a more theoretical perspective are discussed by Bowersox (1996, 625ff). He discusses the classic make-versus-buy decision that involves trade-off analysis among economic and strategic factors. The economic factors are transaction cost analysis, opportunity cost of capital and obsolescence.

The transaction cost analysis suggests that, if transaction costs are low, it suggest that the service should be purchased in the market. When the transaction costs are high, the service would be internalised. Transaction costs can be divided into three main categories:

- *Information costs*, i.e. the costs related to seeking information on the potential partner.
- *Bargaining costs*, i.e. the costs related to negotiating and drawing up of contracts where all possible situations in future transactions are considered.
- *Enforcement costs*, i.e. costs to enforce performance, resolve conflicts and renegotiating contracts.

Opportunity cost of capital is the alternative use of the capital that can be invested somewhere else in the organisation, if the company outsource instead of using their own finances. The enterprise must determine which types of investments offer the best long-term advantage.

Obsolescence means that if the activities are performed in-house, investments in technologies may be obsolete, get out of date, before they have paid off. Outsourcing these activities means that the supplier is responsible for the investments instead and take the risk of obsolesce.

The key strategic factor to consider during the make-versus-buy decision is performance capability. The decision to outsource involves evaluating which supplier is the most capable of performing the service at best practice level. This requires an evaluation of potential outsource services in terms of their contribution to a firm's core and non-core activities. But a problem in many companies is to identify which activities are critical core capabilities. The outsourcing decision should not be limited to asset investment. Instead, it must centre on capabilities provided or achieved *through* the asset investment (Bowersox, 1996 p.652ff).

The driving force for horizontal network development is increasing geographic coverage.

6.4.2 How does the customer benefit from Wilson subcontracting?

The customers benefit from this value creation mode, because some of the value, which is created when logistics providers outsource or join with complementary providers, is transferred to them. For the customer this means better and cheaper logistics services.

6.4.3 Skills needed for network development

Necessary skills for creating this kind of value are, like the two value creation modes above, IT and operational skills. The operational skills are probably more of a managerial and relationships focused nature, due to the challenge to co-ordinate and develop the operational skill and resources of other providers. IT should also be used to facilitate co-ordination and communication to lower tier suppliers (Berglund, 1997 p.64).

6.4.4 Strategic Guidelines when utilising subcontracting

- *When considering outsourcing, analyse transaction-cost, opportunity-cost of capital, obsolescence and performance capability.*
- *Develop IT to co-ordinate and communicate with lower tier suppliers.*

6.5 Supply Chain Management and Demand Chain Integration for development of clients' operations

The final way and the most exclusive one to create value to the customer is to capitalise on the economic strength of the logistics service provider. The economic strength of the logistics provider allows him to possess or access high level skills in logistics, Information technology and other logistics performance important resources. High level skills in logistics are needed for designing and analysing of customers logistics systems in order to understand the customers' overall business objectives, (Berglund, 2000, p118). Information technology can be utilised to co-ordinate the customers flow and finally, "logistics performance important resources", can be warehouses and or inbound and distributions systems and so forth.

The view of development of clients' operations is the final way to create value to the customer, and is done by managing, the flow of the customer's

shipments, called, the supply chain. Supply chain management, S.C.M., eliminates suboptimisations and opens possibilities to create great customer value. The aim of this way of creating value is not to provide value through internal Wilson indoor development, but by developing the client's logistics organisation.

Utilising supply chain management, S.C.M., promotes and moves the logistics provider, Wilson Logistics, close to that value core, from which the traditional logistics consultants industry earns profits. The consultant industry is the last wave into the logistics providers industry, not surprisingly as they probably cut great margins to the value they create.

It is also important to remember that the customer need is the real value and thus integrating the customer's demand in the supply chain must be a very important objective. Putting the customer's demand into the supply chain is called Demand Chain Integration. The global logistics activities in chapter 7 are chosen to improve the Demand Chain Integration D.M.I.

Wilson Logistics already perform activities that concern parts of the customers supply chains and Wilson, already, uses high level skills in the company to create these, (Proof of Delivery, 2000). Developing clients' operations is a way of creating higher value in the supply chain at the client's side and thus making it spill over to Wilson. The customer's success is Wilson's success. To further enlighten how this value-creating mode works, the customers' benefits, skills needed and the costs involved are debated.

6.5.1 How a customer benefits from S.C.M. and D.M.I

The value creation mode supply chain management & demand chain integration is primarily about increasing performance at the customer, hence flexibility and service effects and secondly about cost aspects. Flexibility is more of a strategic nature and can mean flexibility in terms of expanding customer's geographic coverage (entry and withdrawal) and helping customer's adaptation to changing conditions. The improvement in the level of service can appear in almost any shape, for example as; reduced order cycle-time, reduced

delivery time, time window or increased on-time delivery (Berglund, 1999 p.123).

Services are expected to cost money, but a client can though, through adoption of intelligent logistics, experience win-win effects, with lower costs, besides the level of service being improved.

6.5.2 Skills needed to develop the logistics chains

Management of the logistics flow and chains requires several skills. The most important skill is what can be called conceptual skills. Conceptual skills are the ability to analyse each client's situation, to understand the client's business and to develop a suitable logistics solution. Examples of conceptual skills are supply chain analysis, operations research techniques and knowledge of innovative logistics concepts such as cross-docking or merge-in-transit and so forth. In addition to conceptual skills, this value creation mode requires operational and IT skills (Berglund, 1999 p.119).

If Wilson expects to be able to further develop this value creation mode and seriously wants to become a Logistics provider to count on in the logistics providers business. If Wilson want to enclose itself to the value core, from which traditional logistics consultants earn their profits, Wilson, must strategically, at this point of time, start finding ways of accessing conceptual skills. Wilson can either consult these skills, and or educate the staff and or employ new personnel with the knowledge, but these considerations must carefully consider these kinds of decisions according to the recommendations, which are given in chapter 6.3. "Vertical or horizontal network development".

6.5.3 Internal costs caused from serving customers

Large resources are needed to acquire, develop and retain conceptual logistics skills (Berglund, 1999 p.158). We can see two options for Wilson Logistics. The first option is to develop a department that focuses on consultative assignments. There are other companies that utilise this way of accessing these skills. For example two of Europe's largest logistics providers, Schenker and Maersk, have subsidiaries directed to this business called "Schenker consulting" and "Maersk Logistics". If Wilson Logistics chooses that option, it

must hire competent people with analytical skills and knowledge in logistics. Hiring new staff with high skills in logistics and starting up an new organisation, supporting conceptual skills in logistics, is of course very costly, but can be seen as an investment. Perhaps this kind of investment is a very clever move, but to answer that further investigations have to be made and this report doesn't dig that deeply into that subject.

The second option is to use consultants that develop the clients' business processes. Which option is the best, is hard to say, but perhaps the first guideline in section 6.3.2 can be used to decide whether to outsource or not. Investments in IT are also necessary if this value creation mode is utilised. IT can of course also be outsourced, but many logistics provider do not consider this as an option (chapter 5), for the same reason as they don't outsource their core logistics skills.

6.5.4 Guidelines to success with Supply Chain Management

There is only one guideline in this area that is relevant to give at this stage for Wilson Logistics. Nevertheless it is an extremely important guideline, perhaps, the devotion and willingness to follow this guideline, will be conclusive weather or not Wilson logistics are successful in their ambitions in becoming a true logistics provider. The guideline to take seriously is then:

- *Start now, with devotion, strategically to get access of conceptual skills in logistics.*

6.6 Standard or solution, different value creation modes

A logistics provider must be able to add more value to their customers business than the customers would be able to achieve by themselves, otherwise the customers don't need to outsource at all. Standard service providers and solution providers have generically different ways of adding value to their customers. A standard service provider tries to create a few standardised logistics processes and make these efficient (Berglund, 2000 pp.115). By focusing on some few processes, costs for producing them can be decreased thanks to economies of scale and learning. The advantage of standardisation is

that the consistency in service delivered to the customer is more uniform, which most logistical managers place great emphasis on (Bowesox, 1996 p. 71). The standardised services must be built around some specific service requirements, normally based on specific assets or specific client characteristics. The customer value propositions are then specific competitive services at low cost or high performance based on specific service requirements.

A solution provider focuses on developing solutions for specific clients' requirements. The customer value proposition in this case is customised comprehensive offering at competitive cost based on specific client's specific needs and the value primarily comes from complexity and the ability to tailor solutions. For a solution provider to be competitive compared to a standard service providers, the client's process must be rather complex or specific and will because of this probably be hard to standardise (Berglund, 2000 p. 137).

In principle, both the standard service providers and the solution providers can and to some extent do, use all modes for adding value to their customers. However, the value creation mode operational efficiency is considered as a prerequisite in order to be on the market. The dominating value creation modes for the standard service providers are operational efficiency and integration of customer operations. Whereas the solution providers use vertical or horizontal network development and supply chain management & demand chain integration (Berglund, 2000 p. 138). Since we have earlier recommended Wilson Logistics to develop into a solution provider, the guideline is:

- *Focus on vertical or horizontal network development and supply chain management & demand chain integration, but do not neglect the other two modes*.

6.7 Guidelines to create high value for customers at low costs

If these guidelines are followed, even though they might seem too self evident, Wilson will have the skills and tools and knowledge of how to use logistics to increase its profits.

- *Direct resources and attention towards logistics operations.*
- *Focus on the special logistics activities.*
- *Make staff responsible for logistics operations.*
- *Get access to adequate physical facilities.*
- *Get access to adequate equipment*
- *Get accesses to adequate excellent operational skills, educate or consult.*
- *Get access to adequate information techniques and IT-skills.*
- *Standardise operations for qualitative learning and minimum variance.*
- *Start continuous improvement programs for all logistics operations, consult experts if needing to change organisation.*
- *Teach logistics co-workers, employees and involved personnel how economy of scale works.*
- *Target customer groups that could be served by the same resources.*
- *When shaping logistics activities, there should be ideas on how to integrate other customers, in order to enjoy economies of scale and scope.*
- *Get access to adequate information techniques and IT-skills.*
- *When considering outsourcing, analyse transaction-cost, opportunity-cost of capital, obsolescence and performance capability.*
- *Develop IT to co-ordinate and communicate with lower tier suppliers.*
- *Start now, with devotion, strategically to get access of conceptual skills in logistics.*
- *Focus on vertical or horizontal network development and supply chain management & demand chain integration, but do not neglect the other two modes*.

7. What global logistics activities do the customers ask for?

This chapter will answer the heading question through some other questions like; what is meant by providing an activity, why just a limited number of activities are recommended, and why exactly these activities and not others. And then finally the Global Logistics Activities are presented. First it is in its place to describe exactly what is meant directing that an activity has to be provided.

7.1 What does "providing an activity", mean?

What does it take for a fellow subsidiary to define that it can provide an activity? "Can" provide, shall in this sentence be interpreted as, in the future if requested by a customer or another fellow subsidiary, the asked "can" provide the activity. The word "Provide" the activity means that the subsidiary must have access to the production of the activity, not necessarily producing it in-doors at a Wilson Logistics owned resource. Providing an activity can just as well be done through having access to the service through a contract to a lower tier provider called subcontracting.

7.1.1 The time problem

The first problem, here, is the fact, that services are intangible and has to be produced at the moment when the customers enjoy them. This could be understood as "the time problem". There is no time between the production and the consumption.

This has the implication that a subsidiary can not put up the production of the logistics service before it is actually sold. And thus a subsidiary couldn't say that it could provide an activity before it was actually sold. This problem is solved through a subsidiary stating that it can provide an activity just through having access to its production of it and that the subsidiary can solve the second problem, that it can sell the activity.

7.1.2 The geographical problem

The second problem is about selling a service, which has to be produced somewhere else. This problem could be understood as the geographical problem. The service will not be produced next door. Selling does not necessarily mean that the logistics service has to be produced in that country, but rather in another subsidiary's control. This fact carries two bags filled with implications. One bag is over filled with questions concerning; if the other subsidiary can provide the activity, or even worse, recognise it and if so, the word for the logistics activity it is right, then if it actually means the same thing and so forth. The other bag is filed with implications such as, how should one put this up, what will this cost, how long will it take before the activity can be produced and so forth. The list of implications can be made very long. The geographical problem is, just as the time problem, easier to overcome with a standardised equal set of logistics activities around the Wilson Logistics world.

If we now instead try to focus on the advantages of having a set of logistics services that are standardised in Wilson, on a global scale. Then Wilson Logistics actually could enjoy lots of cost-reductions, while customers recognise higher quality.

7.2 Why a limited number of logistics activities?

Strategic core theory states that the number of different processes that a company can internally organise is limited, thus providers with a wide range of activities can be ineffective. This inefficiency is suspected to be at work at Wilson Logistics too. In order to increase the basic conditions for efficiency, quality and to reach for a preferable cost structure, while increasing the possibilities to learn from each other meanwhile found the conditions for a sales tool. This report suggests a somewhat limited number of activities to be learned as a minimum at the subsidiaries.

If a set of equal activities is provided or in access at all Wilson subsidiaries, around the globe, there is a ground to decrease many costs from co-ordination of resources in use. Such resources could be the sales tools, and means of quality promoting.

If the Wilson Logistics' subsidiaries, unstrategically should, choose to provide the market with an infinite range of non co-ordinated logistics services, then there would be no utilisation of economies of scale as to say no utilisation of co-ordination of costs.

Standardisation should mean that the same name is used for services, providing equal activities.

7.2.1 A tremendous sales tool

Having a set of common logistics services in all Wilson subsidiaries, support and render the use of the same base knowledge and promotion materials. This sales material could promote a set of Global Logistics Services, if all subsidiaries provide and access a common standardised set of Global Logistics Activities. Having the same and a somewhat limited minimum number of activities found the minimum conditions to provide the sellers with a widespread knowledge on which logistics services Wilson Logistics actually can provide the market with. It would probably be a tremendous sales opportunity, for Wilson Logistics sales personal, to be able of showing the clients, let us call them, "the Wilson Global Logistics Services", which would be the logistics services, that Wilson Logistics can provide the clients with, all over the world.

7.2.2 Quality supporting

Other cost-reductions, from co-ordinations of resources, will come from teaching, from utilising the benefits of standard operation procedures, from sharing capital investments and from sharing knowledge. All these work together in strengthening the quality work.

Any activity can be performed in an endless number of ways. This means that there will always be room for continuous improvements and continuous learning. By utilising the opportunity that a common set of activities promotes, there is room for Wilson Logistics subsidiaries to prosper on each other. Wilson Logistics subsidiaries could be helping each other and serving each other, with learning, learning material and continuous improvements in how to perform the activities in the most efficient and customer friendly ways.

Standard operation procedures developed for certain minimum activities, could easily be passed around between the subsidiaries, fast spreading the abilities of providing the markets with the set of logistics services, providing Wilson subsidiaries with the right tools to quickly implement these logistical activities.

Now how where the activities picked out?

7.3 Why just these logistics activities?

The starting-point of the discussion about which activities must be provided by Wilson Logistics derives from basic marketing. Marketing is about satisfying customer needs and doing this more effectively and efficiently than the competitors do, (Kotler, 1996 p. 15).

In order to find what activities the customers' demand, the report has chosen to study the competitor's range of services. Reliable information could have been collected by sending a questionnaire to a sample of all customers, but from lack of resources and most certainty, lack of time, this report chooses another, shrewd way off finding what activities the customers demand.

7.3.1 The procedure that led to these logistics activities

The first step in deciding the right activities was to collect information of what kind of activities the customers' demand. Instead of using a questionnaire, we suggested a hypothesis that states: "all the services that competitors provide the market with, are from the kind of services that the customers have been asking for, thus the activities the customers demand".

A time demanding investigation was made, gathering the competitors' logistics service offerings on the Internet. The competitors we have examined are the competitors Wilson Logistics believes are their main competitors, see the references on Internet sites. Altogether, the logistics services that were collected from the competitors' home pages make out a list of 244 buzzwords, non-of them explained, see appendix 2. Together these buzzwords can be said to make out the nomenclature of the logistics language of today. The huge amount of words collected was soon understood to be much too large to allow

it to represent the activities that Wilson Logistics should be able to provide in a near future, but perhaps more as a visionary goal.

In order to first pick out the most important buzzwords as logistics service activities and secondly, in order, to slim out and minimise the list, to make it a limited number of activities, expert help were found to be needed. Best expert available was Dag Ericsson professor of logistics. Professor Ericsson was assigned to pick out the most important activities from the list of 244 buzzwords. The activities he elected are activities that support demand chain integration philosophy. Demand chain integration is important to reach, to reap high customer value, as pointed out in chapter 6.4 "Demand Chain Integration and Supply Chain Management for development of clients operations".

In the following chapter there will be an explanation of every one of the 28 activities that the professor elected.

7.4 These are the Global Logistics Activities

The logistics concept covers functions and activities along the whole flow from raw materials supplier, to the end user, in the supply chain. In order to understand and achieve effective and efficient operations, logistics can be approached from a strategic and a tactical level as well as from an operational level.

On the strategic level, relationships with and between partners in the supply chain are planned and developed. Action plans are designed in order to ensure future competitive strength.

The tactical level includes processes for resource allocation and continuous improvement in the whole chain. The tactical level has a process-focus for internal efficiency improvement of processes. These processes of continuous improvement and resource allocation are vital when fine-tuning the process, to achieve a predetermined level of service at the lowest possible cost.

In the operational processes, the daily results are achieved by planning, co-ordination and control of activities in the whole chain (Dag Ericsson, 001015). The activities, that the Wilson subsidiaries are to be directed to provide or access, are of the tactical and operational level, but nevertheless, the strategic level has to be understood and the strategic level operations, both at Wilson headquarters and at the subsidiaries, have to continue to be developed.

7.4.1 The strategic level of the Global Logistics Activities

To the logistics activities at the strategic level you can sort partly technology that supports information and communication, and partly logistics services of a more entire and total overview business-strategic character. This total overview of the strategic level prevents suboptimations and guides the total supply chain.

To support the total overview inter-business linkages, information and communication technology is sufficient and covers areas, such as EDI, Intranet, Extranet and Internet. Examples of these kinds of systems and services are warehouse management systems and proactive tracking and tracing.

Information and communication technology is a required skill in every value creation mode discussed in previous chapter and is a prerequisite for effective and efficient logistics. Strategic logistics services covers the whole supply and demand chain from a holistic perspective. Examples of strategic logistics services are things such as order cycle management and total logistics costs and financial input analysis. Through a hierarchical perspective on the logistics activities, the next level below the strategic level, is the tactical level.

7.4.2 The Global Logistics Activities at a tactical level

Through the tactical level perspective, logistics activities can be divided into two major subparts of activities, inbound and outbound logistics. Inbound activities are those that handle and manage the inflow to a warehouse and the key concepts are such as procurement, sourcing, purchasing and materials management. The inbound logistics activities that Dag Ericsson found most important for Wilson Logistics to be able to deliver to their customers are described below.

These global inbound logistics activities at a tactical level, are pointed out by this logistics business unit strategy, that Wilson subsidiaries have to access and serve the market with:

- ***"Supplier interface management**: Means co-ordination and collaboration in a supply chain, e.g. in terms of inter-enterprise process integration and/or information systems integration.*

- ***Supplier hubs**: are points for co-ordination of inbound logistics flows.*

- ***Demand-pull:** is when the end user requirements are strategically and deliberately treated as the triggering cue for activities in the demand chain.*

- ***Management of partners, subcontractors and regular suppliers**: Differentiation of logistics flows depending on suppliers' different importance for creation of unique competitive advantage for the whole chain. Partners are integrated in a demand chain approach, while subcontractors and regular suppliers may be treated as parts in a traditional supply chain.*

- ***Vendor managed inventory systems**: occurs when vendors are responsible for continuous just in time supply of materials and products.*

- ***Inbound merge in transit**: is merging flows of components being assembled into finished products.*

- ***Consolidation and customer loading:** Different customers' goods are put together in order to increase utilisation of capacity and loading is customised after customers request, this could be that the goods are stowed in sequence to facilitate cross docking.*

- ***Inspection service:** replaces the customer's quality control. Inspection service could be control of right amount, colour, quality, function etc on the goods and it can take place at the factory, at shipment and or at the arrival, anywhere in the supply chain. In order to utilise time. (Ericsson, 2000)*

The second major subpart is outbound logistics activities, and covers the outflow from a warehouse. Outbound logistics activities consist of key concepts such as physical distribution management, Efficient Customer Response (ECR), Quick Response (QR.) etc. The activities described below are important outbound logistics services, according to Dag Ericsson, 2000.

These global outbound logistics activities, on a tactical level, are pointed out by this logistics strategy for Wilson and prescribe all Wilson subsidiaries to have access to and to be able to serve the market with:

- "***Distribution facility systems****: A system that in real-time, suggests how to best utilise the right resources. For example, what kind of transportation mode, distributions centre or point to use for distribution of a certain shipment.*

- ***Out bound merge in transit:*** *Means merging flows of components being assembled into finished products.*

- ***Remote spare parts distribution:*** *Delivery of spare parts from a strategic distribution centre located as close to the customer as possible. This is done in order to fit a pre-defined minimum delivery time, say at a certain hour's distance. The distribution is initiated after an electronic purchase order, direct from the customer.*

- ***Repairs and returns:*** *Means, an well-organised logistics system that handles repairs in the supply chain, for customers or their returns of goods back to the supplier.*

- ***Reverse logistics:*** *Means the requirement to plan the flow of surplus or unwanted material or equipment back through the supply chain after meeting customer demand*".

(Ericsson, 2000).

7.4.3 Global Logistics Activities at an operational level

On the last level, the operational level, Dag Ericsson, 2000, mentions four groups of activities. Two major groups, transportation and warehousing and two minor groups, order handling services and additional services. Transportation services cover key concepts such as transportation management, traffic management, carrier management, global sea and air management etc. Order handling services are the collection and co-ordination of order information from the end user to suppliers and middlemen, in order to secure complete delivery. Examples of order handling services are order fulfilment and order processing. Additional services can for instance be financial services.

The logistics activities at the operational level, which this strategy demands, are warehousing activities. These global operational warehousing logistics activities are pointed out by this logistics strategy for Wilson and prescribe all Wilson subsidiaries to have access to and to be able to serve the market with.

- ***"Inspection services**: replace the customer's quality control. Inspection service of right amount, colour, quality etc can take place at factory, at shipment and or at arrival.*

- ***Stocktaking and managing:** is inventory controls process that reviews inventory status to determine replenishment needs.*

- ***Assembly**: Components are brought together to finished products in order to postpone the producer's production process.*

- ***Pick and pack services:** Picking orders from different locations in the warehouse and packaging into customer fulfilment of orders.*

- ***Consolidation**: Consolidation of shipments from several suppliers to create at system for deliveries just in time e.g. into production and creating cost efficiency.*

- ***Labelling**: Put customised labels on goods or consignments etc.*

- ***Bar coding****: Put customised bar codes on consignments etc*

- ***Packing****: Preparing goods for protection against damage and theft, easing material handling and unitisation, and for promotion and marketing.*

- ***On demand printing****: Manuals, instructions, handbooks and printings on cardboard boxes, ready to be printed on customer demand.*

- ***Different types of storage facilities****: This could be bonded-, security-, or climate-controlled warehouse storing.*

- ***Direct and consolidated consignments****: Means to be able to handle consignments that are to be sent direct and those consignments that are to be consolidated first before they are sent.*

- ***Component testing and repacking****: Testing of advanced components, for example machines are programmed to a specific language before they are delivered or functions are tested before delivery.*

- ***Cross docking***: *A product flow merging at one point but instantly dispersed to one or several end users without stop in movement. Cross docking is quite often used for effective and efficient merge in transit. Cross docking includes inbound logistics, repacking, labelling, outbound logistics, handling of returns and claims, tracking and tracing, invoicing and payments, insurance services, statistics. It may also include merchandising, supplier management, factoring, call centre service, physical security and quality control.*

- ***Physical security****: To prevent from pilferage and theft by either physical obstacles that make stealth impossible or security arrangements that reveal stealth.*

- ***Quality control****: Control of the shipment's level of quality experienced by a customer"*

(Ericsson, 2000)

Demanding all Wilson 33 subsidiaries to provide these Global Logistics activities lay the ground for Wilson to provide the market with a set of Global Logistics Services. These Global Logistics Services should be on all three levels, Strategic, Tactical and Operational. The next question to answer is how extensive will this change be for the 33 subsidiaries

8. How extensive is the change into using specific activities?

In order to create some foundation and basis for decisions on further developing the logistics strategy at Wilson. This chapter will present how extensive the change is that the logistics activities, brought up in the previous chapter, impose.

In order to give some hints on how extensive the change is. This chapter presents the results of a questionnaire send out to the Wilson Logistics' subsidiaries. The purpose of the questionnaire was to examine which logistics activities the subsidiaries are capable of providing today. The logistics activities that were presented in the previous chapter are the activities that, according to Professor Dag Ericsson and Peter Jönsson, Logistics Director at Wilson, are the minimum requirement of what must be attained by Wilson Logistics' subsidiaries. The capabilities of today are then compared to this minimum requirement and the result of this is, how extensive the change will be for all subsidiaries to become providers of 100 percent of the mentioned activities. First before the results are presented there must be an examination of how creditable the results are.

8.1 How credible are the results?

People tend to have different perceptions of the same thing. Some of the logistics activities in the questionnaire were therefore explained to avoid misinterpretations. The activities that were explained were those we thought were the most difficult to understand. The risk of any misinterpretations of the meanings of the logistics activities is thus small.

8.1.1 The loss of answers to the questionnaire

Of the 31 subsidiaries the questionnaire was sent to, 21 have answered. There are often reasons to suspect that those who haven't answered differ from those that have answered. The problem is that it is often not a coincidence that some people don't answer the questionnaire, it is more or less caused by factors

connected to the examined peoples' characteristics. If the subsidiaries that haven't answered differ from the actually examined subsidiaries, the survey will show a biased result.

When trying to estimate the effects of the loss of answers, it is of course useful to know how the loss of answers looks. In the questionnaire we used, we know that the subsidiaries that haven't answered are Argentina, Bahamas, Bangladesh, China, France, Germany, India, South Korea, Russia, and United Arab Emirates. All the subsidiaries, except for France and Germany, come from the group of emerging nations and they have in general lower skills in logistics. If Wilson Logistics' subsidiaries do not make any exceptions, they too have low skills in logistics. Peter Jönsson, Logistics Manager at Wilson, confirmed that the skills are not especially high in these subsidiaries. Wilson Logistics' subsidiaries in Argentina, India and the United Arab Emirates do not belong to the group of subsidiaries with low logistical skills.

If these subsidiaries are excluded from affecting the result of the survey, the result will be biased. Assumptions must be made when the loss of answers is added to the actual result. The assumptions in this report are that the 5 subsidiaries from the emerging nations (except for Argentina, India and United Arab Emirates) that answered have lower capability than the average. The other 5 subsidiaries that haven't have higher logistics capability and can be compared to subsidiaries in countries such as UK and Sweden.

A returned questionnaire is sometimes not complete; some questions have not been answered for various reasons. If a questionnaire has too many unanswered questions, it should not participate in the survey. 2 of the 21 subsidiaries that have answered the questionnaire, Mexico and Taiwan had from the beginning missed filling in some of the questions. After reminding them, they sent back a complete answer.

8.2 "Within 6 months"

In the questionnaire it was possible for the respondents to choose between three different alternative answers, "today", "within 6 months on request" and "not

within 6 months" to the question "can you provide the activity?". The time 6 months was decided by Peter Jönsson, logistics director at Wilson. Roughly 50 percent of the subsidiaries answered that they can provide the activity today. Adding the "within 6 months on request" answers the number rises to about 90 percent. This is quite a high percentage, but is not unexpected because the subsidiaries can choose to perform the activity in-house or outsource it and the time they have to do this is rather long too. Thus, it is not very difficult to provide an activity within 6 months when it is possible to outsource it. One of the respondents commented on this as:

> *"Please note that for services that we indicate "within 6months on request", we would do within our capacity in terms of capital investment and revenue return to provide the kind of services requested by the customer by ourselves, of course upon the signing of an agreement with the customer to engage our logistics services. However, if there are services listed which are really outside our capacity like requires too much capital investment, we would look for outside sourcing".*

8.3 Wilson's logistics capability

The result, as debated above, represents the respondent's appreciation whether the subsidiary can or cannot provide the activities today, within 6 months, or not within 6 months.

8.3.1 Average providing abilities on inbound, outbound and warehousing logistics

It could also be of great interest to take a view over the total picture between the activities divided up on inbound, outbound and warehousing activities. Approximately half of the activities can be provided today. Approximately half of the activities can be provided today and about one third can be provided within 6 months on a customer's request, and finally roughly one tenth is not even accessible within 6 months.

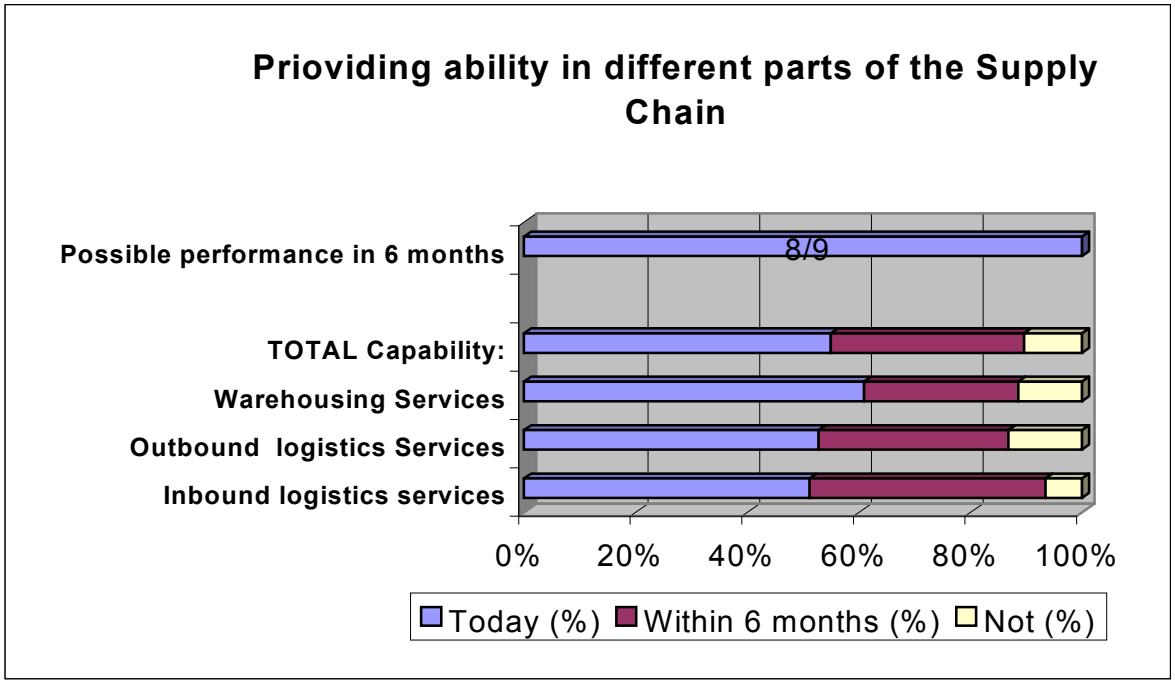

Figure 8.1: Providing ability on different parts of the supply chains as an average over all Wilson subsidiaries.

What is important to realise is that the low accuracy of the investigation must be accounted for. When interpreting the table above the different types of service activities should be considered as somewhat equal between the warehousing-, inbound- and outbound-services.

8.3.2 Providing ability country by country

The total picture is presented below, country, by country, with the total average as the Wilson Total capability.

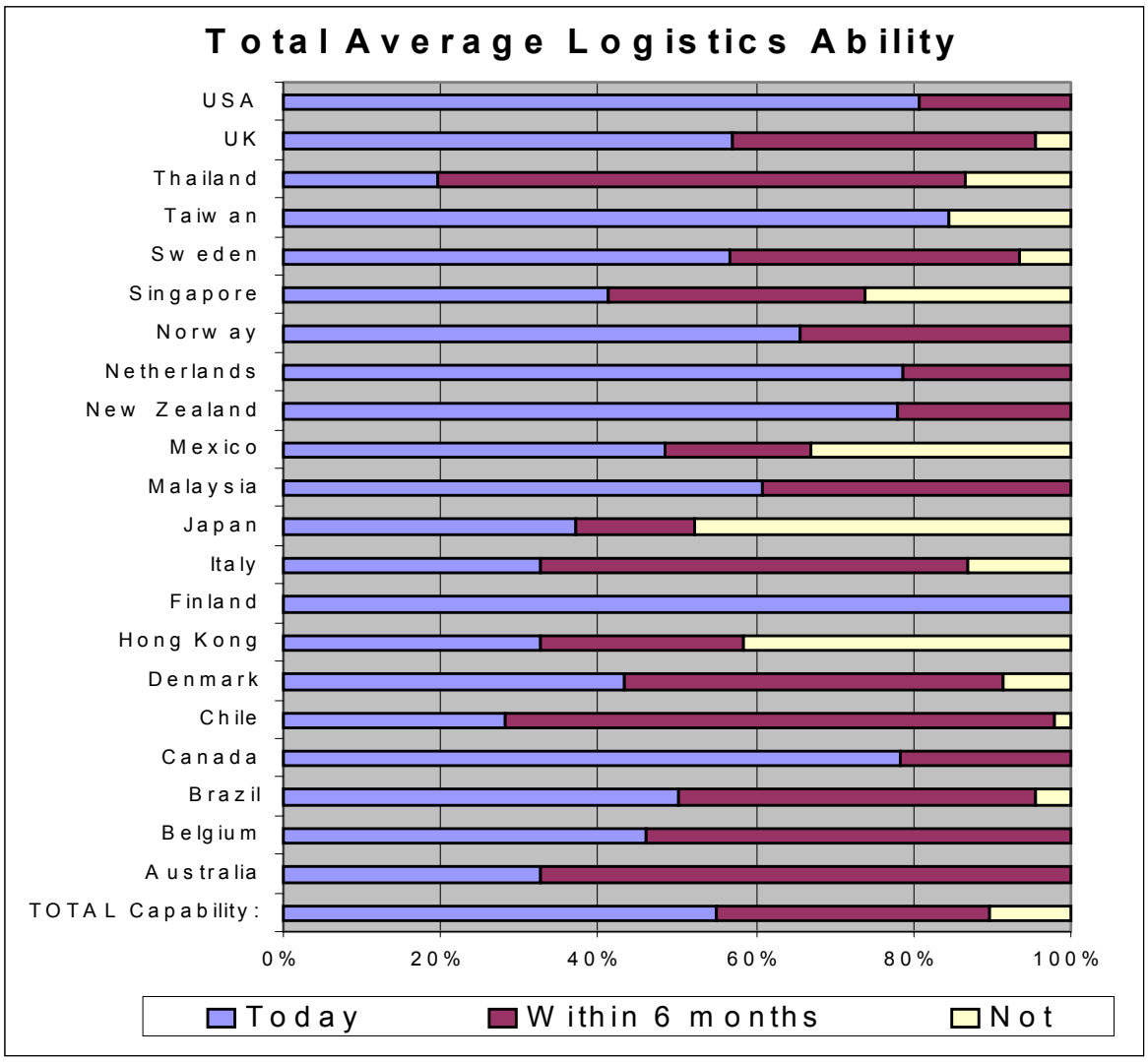

Figure 8.2: Providing ability, country by country added up to the total Wilson average capability.

If a subsidiary states that it can provide the activity "Today", the reader should draw the conclusion that the subsidiary already has got a contract with a provider, or reasonably can arrange such instantly, or that the subsidiary already serves a customer with the logistics service.

If the boxes representing "Within 6 months" are marked then the subsidiary, expect being able to make such arrangements that gives the subsidiary access to the activity and will be able to provide the market within 6 months. If a large

customer submits a tender and wants to put up a global logistics flow, this is usually done with enough time planned in advance, so that 6 months could be enough. Six months are enough to say that you can provide the activity. Then the total picture points to that Wilson can do the logistics activities for a customer that is in no more hurry than six months at 19 subsidiaries out of the 21 answering the questionnaire, which is more or less at “all” facilities. But if the subsidiary appreciates it to be more or less impossible to access the activity, then it will take more than six months to provide the activity and the answer is that it can not provide the activity.

8.3.3 Inbound logistics ability

The inbound logistics activities are important for exporting countries as these subsidiaries help their customers collecting goods at home for consolidation and shipment to other countries. This pattern cannot be seen throughout this survey.

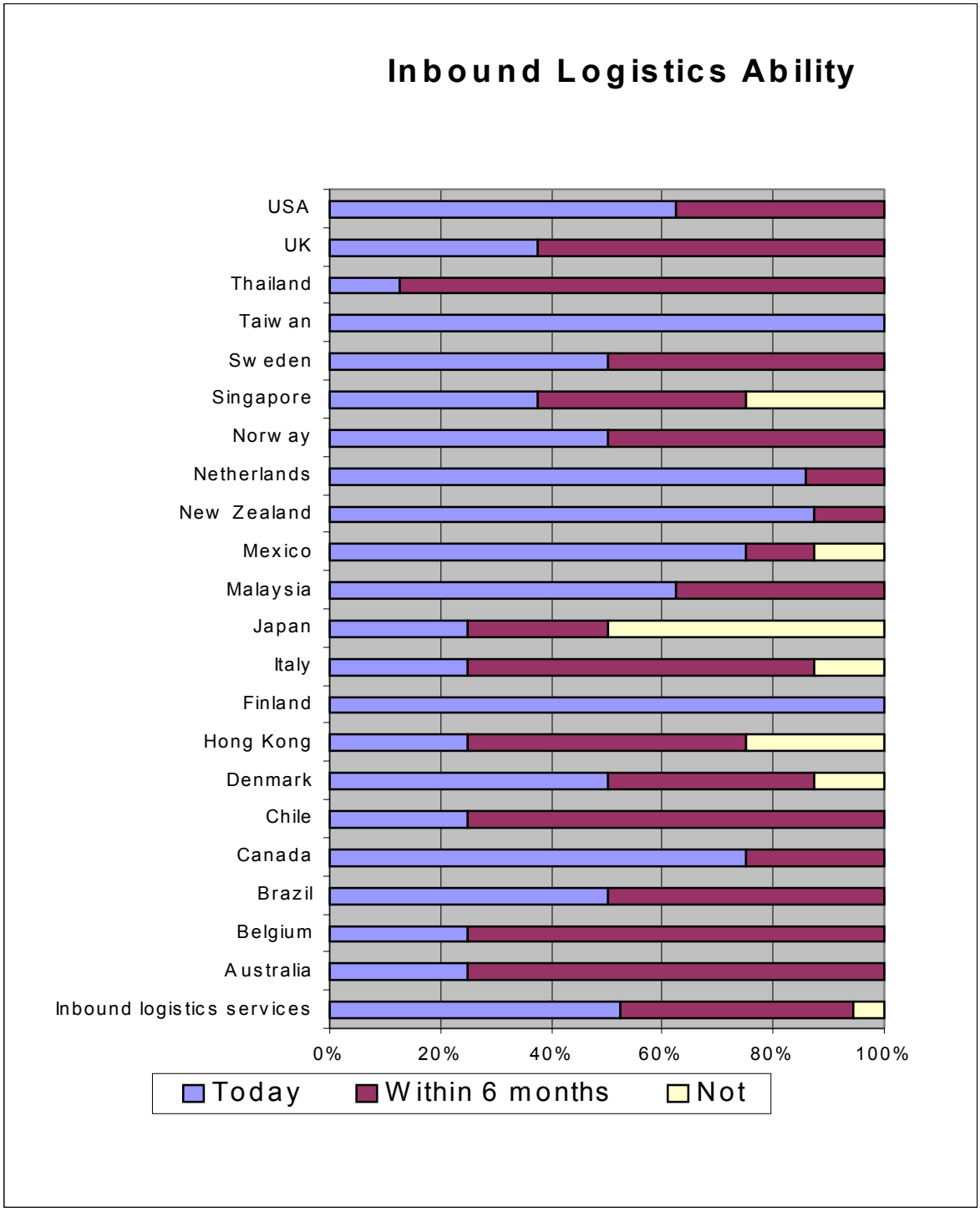

Figure 8.3: Inbound providing ability, country by country added up to the inbound total Wilson average capability.

Thailand, Japan, Italy, Hong Kong, Chile, Belgium and Australia are weak in inbound logistics activities.

8.3.4 Outbound logistics ability

Outbound means, out of a warehouse and as distribution "out" to customers. Outbound logistics activities are thus more important to countries importing goods. These are countries with strong currencies as USA, UK, EU, Canada etc. This pattern is perhaps possible to discern below.

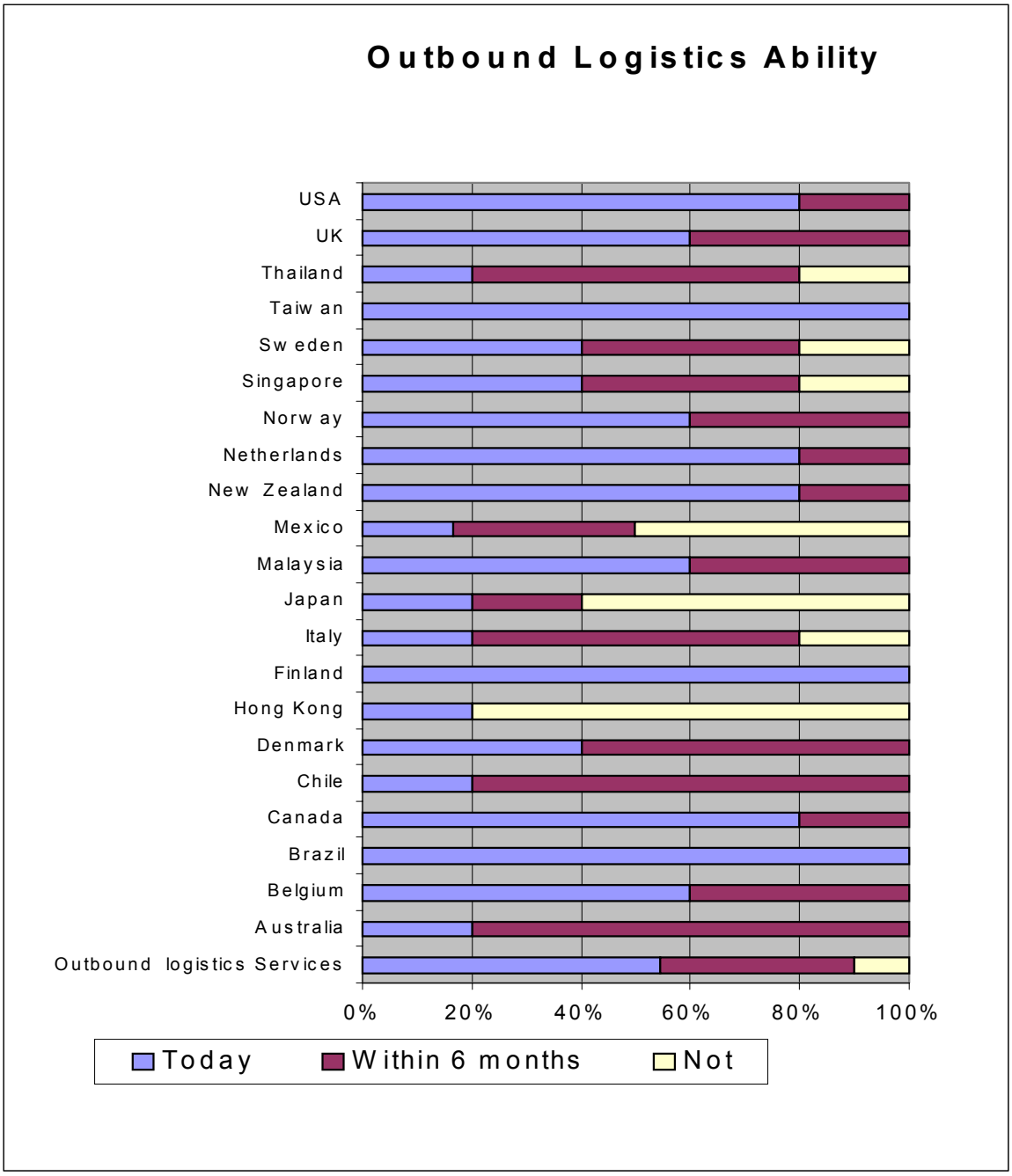

Figure 8.4: Outbound providing ability, country by country added up to the outbound total Wilson average capability.

Thailand, Mexico, Japan, Italy and Australia are weaker on outbound logistics activities.

8.3.5 Warehousing logistics ability

This is how, the warehousing abilities were distributed over the world.

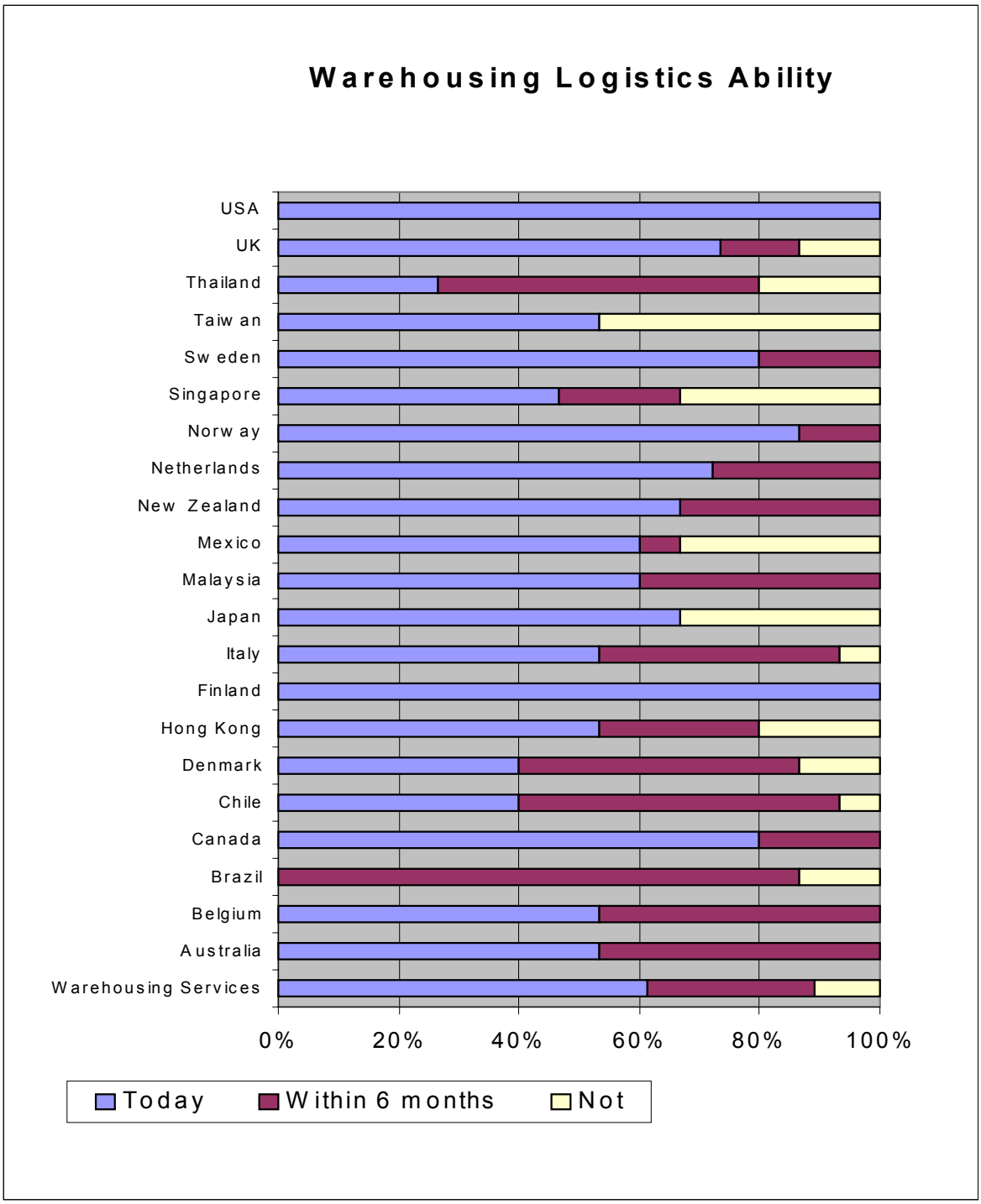

Figure 8.5: Warehousing Providing ability, country by country added up to the Warehousing total Wilson average capability.

Some countries are much weaker, by just improving these countries much can be won from a total average view. Thailand and Brazil are much weaker on warehousing activities, then the other subsidiaries.

8.4 Bottlenecks and fast gains in implementation

Implementation affects how extensive the change will be. The time window in which the implementation will take place also affects the cost of the new strategy change. The subsidiaries can later, to simplify implementation and learning, be divided into different groups, depending on their respective importance, geographical commonalties, quick wins etc.

8.4.1 Weaknesses

Some countries and activities are much weaker in the answered questionnaire then other countries and activities and as such they pull the overall Wilson performance ability average down. If these countries and activities are improved separately, quick improvements on the average could be won.

The recommendation is then to:

- Help Thailand, Brazil and the weakest countries to access warehousing logistics activities.
- Help Thailand, Mexico, Japan, Italy, Australia and the weakest countries to access outbound logistics activities.
- Help Thailand, Japan, Italy, Hong Kong, Chile, Belgium, Australia and the weakest countries to access in inbound logistics activities.

8.4.2 Weak spots and bottlenecks

This questionnaire reveals some weak spots. By analysing these weak spots, quick gains can be won. It is also important to reanalyse an investigation like this before implementing to see how implementation is best and cheapest made. Activities like Component testing and repacking, Cross docking, Repairs and returns and Assembly are relatively weaker then the other activities. The recommendation is then to:

- Lift the ability and spread the knowledge on providing following activities among the subsidiaries:

- Component testing and repacking,
- Cross docking,
- Repairs and returns and
- Assembly,

8.4.3 "The sales responsibility" and "the providing responsibility"

Another issue is that the subsidiaries should not only provide the activities, they must also be able to sell them. Selling should be interpreted to mean that a salesperson actively is in the search of customers. This implies an understanding of the logistics activities. The questionnaire asked about which activities can be provided and not which they can sell. The providing responsibility will thus be global and affect all subsidiaries.

Let yourself just hypothetically, imagine the alternative that all subsidiary countries are divided into some different levels of customer responsibility, from the expected customer demands in each region, reflecting the reality. In the most demanding regions all "Global Logistics Services" must be recognised by the sales staff and in the less developed countries there could be less sales capability. Let us call this different "sales responsibilities"

This might seem paradoxical, as all countries must be able to provide or access the activities, while they don't need to handle the marketing and the selling of the same activities. The core thought causing this paradoxical problem is that there will be demand from some higher developed countries of all activities, but the demand is exported to the rest of the world, from where the shipments are coming. As to say an "A-country customer" can demand to have an activity done in a "C-country". The C-country sales staff are not required to be able to sell this service, but the C-country must access the activity to provide it for the A-country's customers' satisfaction and need.

- All Wilson subsidiaries must have the same providence and production responsibility.

Learn the difference between "the sales responsibility" of the logistics services and the "providence responsibility" of the logistics activities.

Add to this the complex fact, that less developed countries are exporting to more developed ones, just because the characteristic of being less developed and thus representing a lower cost structure for manufacturing. From above debate it is also easy to understand that Wilson must utilise the same opportunity of producing logistics activities where the costs are lowest as to say in the low cost country. This could in fact, or should, be the same countries that have less demanding customers.

- The final conclusion is that Wilson should rather produce logistics activities in the less developed countries, then in the developed countries where the services are sold when this is economically defendable.

9. Conclusions, recommendations and results

In this chapter all conclusions and recommendations are gathered from all of the report. The conclusions are presented one by one after each other in the same order as they are presented in the report. To each from conclusion, recommendation and result are discussions on their reliability, in order to clarify the validity of the answers. Finally suggestions for further investigations end the chapter, recommending Wilson Logistics Holding AB on their further work.

9.1 Reasons for changing into a logistics provider

The reasons why Wilson Logistics must change from a forwarder into a logistics provider can be found in the external environment. Several opportunities and threats are identified in the report. Declining margins and a tougher competitive environment in the forwarding business together with the positive attitude of shippers towards outsourcing must be regarded as the strongest reasons for Wilson Logistics to extend its logistics offers. Shippers positive attitude towards outsourcing makes the logistics market bigger. Outsourcing is growing thanks to globalisation, increasing customer demand, E-business, and increasing competitive pressure in the shippers' businesses. The reasons for Wilson Logistics to develop into a logistics provider are summarised below in opportunities and threats.

Opportunities

- Offering logistics is a possibility to reach higher up in the value chain, where the margins are higher
- The logistics provider market is growing thanks to increasing outsourcing.
- The same customers who ask for one-stop-shopping of transportation services is very much likely to ask for a complete logistics service box.
- New information technology investments will facilitate operations.
- Further reductions in sanctions between countries are to be expected around the globe and these will offer many new opportunities to reap.

Threats

- Competitors have already entered the attractive logistics provider industry, so there is a risk of falling behind.
- Decreasing margins and a harder competitive environment in the forwarding business.
- Carriers are attempting to bypass the forwarder and go directly to the shipper.

9.2 Guidelines forming the position

A survey and a positioning model by Berglund (1997) were used to describe the logistics provider industry to be able to identify, which directions Wilson Logistics' competitors are heading. The purpose was from the beginning to describe the competitors one by one, but since the logistics industry is not yet segmented, examining the whole industry altogether could save time and resources. The main part of the logistics providers is solution providers, who have a large geographic scope and focus on outbound logistics. Furthermore, the logistics providers have on average four different major services, transportation is the sub-process that the largest numbers of provider subcontract and the client industries that are most represented in the logistics providers' portfolios are automotive and retail/FMCG.

From these seven variables, guidelines were drawn. If these guidelines are followed, a preferred position is to be found. An examination of two leading edge logistics providers, Panalpina and Expeditors, was also done to get a more valid background for the guidelines, by using the same seven variables, to see if the two companies differed from the rest of the industry. The result showed that they didn't. This may be proof that the logistics industry is not yet mature and doesn't have any clear strategic positions The guidelines or recommendations formed by the logistics industry positioning are shown below.

Wilson Logistics should strive to become a solution provider.

- *Keep the direction towards becoming a global logistics provider.*
- *Wilson Logistics must be able to offer a broad range of services.*

- *Divide the customers into client groups, select target groups among these, that are untouched by the logistics providers industry competitors.*
- *Go for the e-business companies.*
- *Go for all parts of the supply chain, outbound, inbound, "spare & service parts" and reverse logistics*
- *Outsource the logistics activities, which are not considered as the core of the company and the logistics activities, which generate low value.*
- *Provide higher service than competitors, if you can't be price leader.*
- *Create strategic flexibility, so that the customers don't have to be tied up in logistical systems.*
- *Help customers to focus on core instead of logistical problems.*
- *Educate sale personnel in logistics.*
- *Help customers to reduce amount of capital invested in logistics.*

9.3 Guidelines for how to create high customer value at low costs

Wilson must be prepared to look beyond its competitors. This logistics strategy must help Wilson become one step ahead of the competitors and give more than guidelines from an industry perspective. This is why this report research how to create high customer value.

The guidelines, which are presented below, help Wilson to enclose and strengthen the skills, tools and knowledge on how to use logistics to increase its profits. These recommendations help Wilson to fit well in to the future development, stepping into the higher levels of Supply Chain Management, Third Party Logistics and Demand chain Management and so forth.

These guidelines might seem obvious, but must be enlightened and taken seriously, as they are important bricks for an organisation of experts on logistics serving as the right stable ground of tools to provide the clients with value through logistics.

9.3.1 Guidelines for strengthening the value creating capability

- *Direct resources and attention towards logistical operations.*
- *Focus on the special logistics activities.*
- *Make staff responsible for logistics operations.*
- *Get access to adequate physical facilities.*
- *Get access to adequate equipment*
- *Get access to adequate excellent operational skills, educate or consult.*
- *Get access to adequate information techniques and IT-skills.*
- *Standardise operations for qualitative learning and minimum variance.*
- *Start continuous improvement programs for all logistics operations, consult experts if needed to change organisation.*
- *Teach logistics co-workers, employees and involved personnel how economy of scale works.*
- *Target customer groups that could be served by equal resources.*
- *When shaping logistical activities, there should be ideas on how to integrate other customers, in order to enjoy economies of scale and scope.*
- *When considering outsourcing, analyse transaction-cost, opportunity-cost of capital, obsolescence and performance capability.*
- *Develop IT to co-ordinate and communicate with lower tier suppliers.*
- *Start now, with devotion, strategically to get access to conceptual skills in logistics.*
- *Focus on vertical or horizontal network development, supply chain management and demand chain integration, but do not neglect the other two modes*.

9.3.2 Validity of the value creating guidelines

Understanding the four modes for value creating in chapter 6 “How to create high customer value with low costs”, is important for realising the validity of “the guidelines for strengthening the value creating capability” that this thesis has worked out. One and each of the four modes, has led to some guidelines, which work together, helping Wilson to become a logistics provider more ready to provide the customers with value.

It is possible that there are many guidelines that this theory has missed or so to speak not led to, that are just as vital as the guidelines that are brought up.

Please do not hesitate to complete the list, if there should come up any more guidelines.

9.4 The Global Logistics Activities that the customers demand

In order to discover what activities the customers are demanding without using a time-consuming survey, an examination of the competitors' service offerings on the Internet was done. The result of the survey was a list of 244 buzzwords. A list of 244 buzzwords is not manageable so Professor Dag Ericsson was contacted to cut down the number of buzzwords and only present the most important activities. The result was a list of 28 activities that Wilson Logistics' subsidiaries must be able to provide to the market with. The word "provide" means that it can be performed in-house as well as by having access to the service through a contract to a lower tier of provider, called subcontracting. The 244 buzzwords and the 28 more important activities can be found in the appendices.

9.5 How extensive is the change, which the logistics activities will cause.

In order to present some foundation for decisions concerning the further engagement in the logistics activities and to give some hints on how extensive the change is, this chapter present the results of a questionnaire send out to the Wilson Logistics' subsidiaries. The purpose of the questionnaire was to examine which logistics activities the subsidiaries are capable of providing today. The logistics activities presented in chapter 7, "What global logistics activities do the customers ask for?" is the minimum requirement of what must be attained by Wilson Logistics' subsidiaries. The values presented shall be interpreted as how much can be provided out of the minimum level of the 28 activities.

Approximately half of the activities can be provided today. About one third can be provided within 6 months up on a customer's request, and roughly one tenth is not even accessible within 6 months.

Some countries and activities are much weaker in the answered questionnaire then other countries and activities and as such they pull the overall Wilson performance ability average down. If these countries and activities are improved separately, quick improvements on the average could be won. The recommendation is then to:
Help Thailand, Brazil and the weakest countries to access warehousing logistics activities.
Help Thailand, Mexico, Japan, Italy, Australia, and the weakest countries to access outbound logistics activities.
Help Thailand, Japan, Italy, Hong Kong, Chile, Belgium and Australia and the weakest countries to access in inbound logistics activities.

This questionnaire also reveals some weak spots. By analysing these weak spots quick gains can be won. It is important to reanalyse an investigation like this before implementing to se how implementation is best and cheapest made. Activities like Component testing and repacking, Cross docking, Repairs and returns and Assembly are relatively weaker then the other activities. The recommendation is then to:

- Lift the ability and spread the knowledge on providing following activities among the subsidiaries:
    - Component testing and repacking,
    - Cross docking,
    - Repairs and returns and
    - Assembly,
- All Wilson subsidiaries must have the same providence and production responsibility.
- The final conclusion is that Wilson should rather produce logistics activities in the less developed countries, then in the developed countries where the services are sold when this is economically defendable.

9.5.1 Validity of the result of the questionnaire

First it must be declared that not all but just 21 out of 31 subsidiaries answered the questionnaire. In the group of lost contesting subsidiaries, the smallest and least important countries are a majority. If the questionnaire had been answered by 100% of the subsidiaries, the average could have been expected to be lower,

but also somewhat misleading, as then, some few and small countries perhaps would have pulled the average down and the picture would have been somewhat darker than it is now. Nevertheless the total picture is not 100% fairly representing Wilson today. If a more correct answer is expected, the countries' influences on the questionnaire could be weighted and of course all countries could be gathered, there was just not time for them to be gathered in the report.

9.6 Suggestions for further development of the logistics strategy

A strategy must be continuously upgraded and improved as the industrial environment and the time affect the in-data for all guidelines. The business unit strategy must be redesigned at least once every year and preferably more often. This is important, as the consolidations and mergers in the industry, to a very large extent, affect the industrial environment and thus the differentiation grade can change and quickly make this strategy more a trap than a helping tool.

If a more correct answer is expected, regarding the extension of the change into using a minimal set of global logistics services, the countries' influences on the questionnaire could be weighted and of course all countries could be gathered, there was just not time for them to be gathered in the report.

Hiring new staff with high skills in logistics and starting up a new organisation, supporting conceptual skills in logistics, is of course very costly, but can be seen as an investment. Perhaps this kind of investment is a very clever move, but to answer that, further investigations have to be made and this report doesn't dig that deeply into that subject.

It is expected that there are many guidelines that this theory has missed or, so to say, not led to, that are just as vital as the guidelines that are brought up. Please do not hesitate to complete the list, if there should come up any more guidelines. And finally, implementation affects how extensive the change will be. The time window in which the implementation will take place also affects the cost of the new strategy change. The subsidiaries can later, to simplify

implementation and learning, be divided into different groups, depending on their respective importance, geographical commonalties, quick wins etc, to make the implementation less resource demanding.

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APPENDIX 1.-The Logistics Services Questionnaire

The Logistics Services Questionnaire

Please answer before the sixth of November, save and send back to: peter.jonsson@hq.wilsonlog.com

Please use the tab-key, to move between the boxes in the questionnaire.

Country: .....

Company name: .....

Your Name: .....

Job title: .....

Inbound logistics services

Please, mark the box representing your status, with the figure "1", like this = 1

If you're not familiar with an activity, try moving your mouse over the expression and you'll get an explanation.

And please, remember to only mark one box per row. If you fill out the form wrong, you will not reach 100% in cell J142.

Can you provide the activity?	Today	Within 6 months on request	Not within 6 months
1. Supplier interface management			
2. Supplier hubs			

3. Demand-pull	☐	☐	☐
4. Management of partners, subcontractors, and regular suppliers		☐	☐
5. Vendor managed inventory systems	☐	☐	☐
6. Inbound merge in transit	☐	☐	☐
7. Consolidation and customer loading	☐	☐	☐
8. Inspection service	☐	☐	☐

Outbound logistics Services

Can you provide the activity?	**Today**	**Within 6 months on request**	**Not within 6 months**
1. Distribution facility possibilities	☐	☐	☐
2. Out bound merge in transit	☐	☐	☐
3. Remote spare parts distribution	☐	☐	☐
4. Repairs and returns	☐	☐	☐
5. Reverse logistics	☐	☐	☐

Warehousing Services

Can you provide the activity?	**Today**	**Within 6 months on request**	**Not within 6 months**

1. Inspection services	☐	☐	☐
2. Stock taking and managing	☐	☐	☐
3. Pick and pack services	☐	☐	☐
4. Assembly	☐	☐	☐
5. Consolidation	☐	☐	☐
6. Labelling	☐	☐	☐
7. Bar coding	☐	☐	☐
8. On demand printing	☐	☐	☐
9. Different types of storage facilities	☐	☐	☐
10. Direct and consolidated consignments	☐	☐	☐
11. Component testing and recapping	☐	☐	☐
12. Packing	☐	☐	☐
13. Cross docking	☐	☐	☐
14. Physical security	☐	☐	☐
15. Quality control	☐	☐	☐

Your Office
Summary Compile

Can you provide the activity?	Today	Within 3 months	Not	
	(%)	(%)	(%)	Must be 100%
Inbound logistics services	0%	0%	0%	0%
Outbound logistics Services	0%	0%	0%	0%
Warehousing Services	0%	0%	0%	0%
TOTAL Capability:	**0%**	**0%**	**0%**	0%

Possible performance in 3 months	**0%**

APPENDIX 2. -Logistics BUZZ-WORDS-

1. Ability to offer 24-hour service
2. Analysing the physical flow of material through the supply chain under evaluation
3. Arranging inland transportation and local drayage to gateway airports.
4. Assembly
5. Assume management of inventory, consolidation of purchase orders and part fulfilment
6. Bar-coding
7. Bonded facilities*
8. Bonded warehousing/storage
9. Business planning, budgeting, forecasting, and actual cost reporting
10. Calculates and stores all of the transactions
11. Cargo insurance
12. Carrier / forwarder management
13. Carrier assignment
14. Carrier quality performance monitoring
15. Carrier selection and rate negotiation
16. Central test and repair facilities
17. Chilled storage
18. Claims handling
19. Combined transport
20. Combines your daily shipments into one manifest
21. Commercial document collection
22. Communication for shipment status throughout the transportation chain
23. Component testing and repackaging
24. Consignment documents
25. Consolidate material and/or parts distribution activity
26. Consolidation and customs loading
27. Consolidation,
28. Continuous process chains, extending from import to customer
29. Cost analysis
30. Crating
31. Creation of rate matrices
32. Cross docking
33. Customer site installation
34. Customised transportation services
35. Customs brokers,
36. Customs clearance,
37. Customs compliance
38. Customs researchers
39. Delivery appointment scheduling
40. Demand-pull
41. De-packaging,
42. Direct and consolidated consignments
43. Direct delivery
44. Direct to store
45. Dispatching and carrier communications
46. Distribution facility management
47. Distribution management
48. Distribution services
49. Domestic transportation
50. Drayage
51. Duty & tax minimisation strategies
52. Duty and inventory impact
53. Duty drawback
54. EDI-links
55. Efficient consumer response
56. Eliminate multiple material handling
57. European logistics
58. Exception reporting
59. Expologist
60. Export shipment consolidation
61. Express
62. Facilities or purpose-built operations specifically established to meet the client's inventory
63. Facility location
64. Fgi (finished goods inventory) distribution
65. Final assembly,
66. Financial analysts
67. Financial services
68. Finished gods distribution
69. Fiscal representation
70. Flowing the critical information elements moving through the supply chain;
71. Flow-through processing
72. Freight bill payment and audit
73. Freight claims management
74. Frozen storage
75. Full container load
76. Global air

77. Global system inventory information and reporting
78. Hazardous-goods
79. High-bay
80. Implementing and managing partial or full physical distribution networks and related management information systems necessary to optimise logistics costs.
81. Import logistics
82. Import/export documentation
83. Import/export processing
84. Inbound & consolidation services
85. Inbound receipt
86. Information processing
87. Information system interaction
88. Inspection services
89. Insurance
90. Integrated market response systems (imrs)
91. International documentation
92. International Ocean airfreight links
93. In-transit assembly
94. In-transit stocks
95. Inventory control
96. Inventory management
97. Inventory management/scheduling
98. Invoicing
99. Issuing delivery notes
100. It-services
101. Jit (just-in-time) & flexible manufacturing support
102. Jit hubs and distribution centres
103. Just in time inventory
104. Kitting,
105. Labelling,
106. Link customer information systems with systems for electronic management of supply chain processes
107. Load consolidation
108. Load tracking/tracing
109. Localisation of products,
110. Logistics management services
111. Looking after quality control
112. Management systems
113. Market research
114. Materials management
115. Materials positioning (in factory and office)
116. Merchandising
117. Merge-in-transit
118. Modal analysis
119. Mode analysis and selection
120. Mode selection and route optimisation
121. Multi-modal management systems
122. Multi-package shipment processing
123. Ocean carrier and booking & delivery
124. Online communications
125. Optimise air and ocean transportation budgets
126. Order cycle management
127. Order fulfilment
128. Order picking and selection
129. Order picking,
130. Order processing
131. Order processing and control
132. Order tracking,
133. Packaging, including reusable containers
134. Packing
135. Parts sequencing
136. Performing operational audits to identify potential performance improvements
137. Perishable storage
138. Perishables/food
139. Perishables/food transportation
140. Physical flow/ goods flow analysis
141. Physical security*
142. Pick & pack order processing
143. Pick and pack,
144. Pick-n-pack
145. Planning, analysis and optimisation
146. Plus block storage and
147. Po management
148. Post production services
149. Pre sorting
150. Pricing
151. Pricing/labelling
152. Prints all of your labels and airbills
153. Procurement process
154. Produce material
155. Product assembly/reconfiguration
156. Product collection tracking and booking
157. Product holds status
158. Product postponement
159. Product postponement and staging
160. Product repair
161. Product rework
162. Products allocated for shipment
163. Project cargo

164. Proper preparation of export documentation
165. Purchase
166. Purchase order management
167. Purchase order management systems
168. Purchase order monitoring
169. Quality assurance,
170. Quality control
171. Quick source
172. Quick response, same day consolidation, time-specific transportation to plant or retail sites
173. Quick source
174. Radio frequency scanning
175. Rate maintenance
176. Raw materials kitting
177. Real time inventory stock levels via the internet
178. Real-time data
179. Receiving report
180. Recommending alternate operating solutions to achieve identified cost savings and cycle time reductions;
181. Reduce inland transportation costs
182. Refrigerated warehousing,
183. Regional collection of customer returns to be forwarded to your designated repair centre
184. Relocations
185. Remote spare parts distribution
186. Repackaging
187. Repairs and returns
188. Replace customer-owned distribution centre, reduce capital needs
189. Requires entry of basic shipping information just one time, increasing productivity
190. Retail distribution
191. Returns management
192. Reverse logistics
193. Routing decisions
194. Sailing advice
195. Scanning
196. Sea/air
197. Secure storage
198. Service parts
199. Set building,
200. Shipment status report
201. Shrink-wrapping
202. Slip-sheeting,
203. Sorting
204. Sourcing
205. Speciality services
206. Speed to market"
207. Stock management
208. Stocktaking, = inventering
209. Storage
210. Supplier hubs
211. Supplier interface management
212. Supply chain benchmarking
213. Supply chain integration.
214. Supply chain management
215. Supply chain optimisation
216. Supply chain optimisation and analysis
217. Supply chain optimisation programs
218. Technical support for negotiating “letters of credit”
219. Testing and repair
220. These all include:
221. Total logistics cost and financial impact analysis
222. Trade & tariff consulting
223. Trade attorneys
224. Traditional stocking
225. Traffic management
226. Training
227. Transactions
228. Transportation administration
229. Transportation operations
230. Transportation planning
231. Transportation services
232. Using baseline information to compare supply chain performance against industry benchmarks
233. Value added services
234. Warehouse and inventory
235. Warehouse localisation
236. Warehouse management services
237. Warehousing // storage
238. Warehousing // warehouse mgmt system
239. Warehousing // value adding activities
240. Warehousing and inventory accounting
241. Warehousing services
242. Warranty exchange programs
243. Vendor compliance
244. Vendor management inventory

APPENDIX 3 -Sum of the questionnaire-

Inbound logistics services			
Can you provide the activity?	**Today**	**in 6 m**	**Not**
1. Supplier interface management	7	12	2
2. Supplier hubs	10	10	1
3. Demand-pull	9	12	0
4. Management of partners, subcontractors, and regular suppliers	9	9	3
5. Vendor managed inventory systems	8	10	3
6. Inbound merge in transit	8	11	2
7. Consolidation and customer loading	21	0	0
8. Inspection service	14	7	0

Outbound logistics Services			
Can you provide the activity?	**Today**	**in 6 m**	**Not**
1. Distribution facility possibilities	17	3	1
2. Outbound merge in transit	8	10	3
3. Remote spare parts distribution	13	6	2
4. Repairs and returns	9	7	5
5. Reverse logistics	9	10	3

Warehousing Services			
Can you provide the activity?	**Today**	**in 6 m**	**Not**
1. Inspection services	14	6	1
2. Stock taking and managing	14	6	1
3. Pick and pack services	14	7	0
4. Assembly	10	5	6
5. Consolidation	20	1	0
6. Labelling	17	4	0
7. Bar coding	9	10	2
8. On demand printing	8	9	4

9. Different types of storage facilities	15	5	1
10. Direct and consolidated consignments	20	1	0
11. Component testing and repacking	2	11	8
12. Packing	20	1	0
13. Cross docking	8	5	8
14. Physical security	15	5	1
15. Quality control	6	11	4

Summary of logistics capability at Wilson			
Can you provide the activity?	Today	in 6 m	Not
Inbound logistics services	11	9	1
Outbound logistics Services	11	7	3
Warehousing Services	13	6	2
TOTAL Capability:	12	7	2
Countries 100% performance in 6 months	19		