When a Western 3PL Meets an Asian 3PL, Something Magical Happens

Shong-lee Ivan Su, Soochow University

PEARSON CASES IN SUPPLY CHAIN MANAGEMENT AND ANALYTICS

The case is reprinted from The Supply Chain Management Casebook by Chuck Munson

When a Western 3PL Meets an Asian 3PL, Something Magical Happens

Chuck Munson
with Shong-Iee Ivan Su

Vice President, Publisher: Tim Moore
Associate Publisher and Director of Marketing: Amy Neidlinger
Executive Editor: Jeanne Glasser Levine
Operations Specialist: Jodi Kemper
Managing Editor: Kristy Hart
Senior Project Editor: Betsy Gratner
Compositor: Nonie Ratcliff
Manufacturing Buyer: Dan Uhrig

Published by Pearson Education, Inc.
Publishing as FT Press
Upper Saddle River, New Jersey 07458

FT Press offers excellent discounts on this book when ordered in quantity for bulk purchases or special sales. For more information, please contact U.S. Corporate and Government Sales, 1-800-382-3419, corpsales@pearsontechgroup.com. For sales outside the U.S., please contact International Sales at international@pearsoned.com.

ISBN-10: 0-13-358548-4
ISBN-13: 978-0-13-358548-3

Pearson Education LTD.
Pearson Education Australia PTY, Limited.
Pearson Education Singapore, Pte. Ltd.
Pearson Education Asia, Ltd.
Pearson Education Canada, Ltd.
Pearson Educación de Mexico, S.A. de C.V.
Pearson Education—Japan
Pearson Education Malaysia, Pte. Ltd.

Reprinted from *The Supply Chain Management Casebook* (ISBN: 9780133367232) by Chuck Munson.

When a Western 3PL Meets an Asian 3PL, Something Magical Happens

Shong-Iee Ivan Su[†]

Industry Background

In the logistics industry, traditional logistics companies usually have a functional service focus, such as transportation, warehousing, etc., and they gradually extend to more functional service areas due to the needs of customers or market forces. Those firms that have successfully met their customers' and markets' constantly changing needs have developed much better customization and innovation capabilities than their counterparts who could not make the transition. Traditional logistics firms are often called third-party logistics service providers, or *3PLs*. The logistics firms who make the successful transformation to multiple functional service providers usually perform operationally and financially much better than those who cannot switch gears. These firms can be called *advanced 3PLs* (Hertz and Alfredsson, 2003; Su 2011).

In the 1990s and 2000s, manufacturing and service outsourcing has been growing dramatically for western industrial firms and has caused landscape changes in many product supply chains, moving from a regional scope to a global scale. Many U.S. corporations need to face the problem of managing a much longer and more complex global supply chain. This is an area that many firms are not familiar with but now have to deal with on a daily basis.

[†] SC*Lab*, Department of Business Administration, Soochow University, Taipei, Taiwan; sisu@scu.edu.tw

However, many companies do not even handle logistics themselves domestically, not to mention handling much more complex international logistics operations. They constantly ask their current logistics service firms for helps or for solutions. Therefore, more and more US 3PL firms are developing international logistics capability to meet the highly demanding new market needs. They cannot fully expand at once; rather, they need to develop gradually either by setting up their own foreign subsidiaries, or through local acquisitions, or partnering with carefully selected foreign logistics firms.

The logic for developing their own subsidiaries is to seek greater control and a long-term stance in foreign markets. However, this strategy requires higher investment and organizational engagement. If a business does not develop to certain economic scale or as expected, there is a high risk of business failure. On the other hand, the reason for partnering with a foreign logistics firm is to reduce business failure risk to a minimum while still serving the foreign markets without initial heavy capital and organizational investments. However, the key success factor for this strategy is finding a capable and trustworthy foreign partner in the local market.

Several highly recognized US 3PLs have replaced their CEOs with veterans having international logistics expertise and experiences in other regions, such as Asia. It is obvious that these firms are eager to make the right organizational changes with the best top talents on board to lead the transition. Jacobson Companies, for example, is a large US 3PL with a long-term warehousing focus. The board sensed the market needs and in March 2009, hired a new President and CEO with broad-based international logistics experience (Jacobson 2009). More recently, in June 2011, Weber Logistics, also a large warehousing and distribution-focused 3PL, named a new President and CEO who used to work for many years at a large European global logistics firm (AS 2011).

In the following, a 3PL in North America (based in the US) and a 3PL in Asia (based in Taiwan) have been working with each other to better serve the needs of North American customers regarding the logistics and shipping needs between North America and other parts of the world in their supply chains.

Introduction of the Case Companies

Johanson Transportation Service (Justified Timely Solutions)

Founded in 1971 by Richard Johanson, JTS (Johanson Transportation Service) has grown from a local transportation brokerage company to an advanced family-owned third-party logistics service provider helping client companies manage supply chains with "Justified Timely Solutions" that exceed their unique business challenges. Providing unmatched service at a fair price, JTS offers customized freight solutions, including dry and temperature-controlled truckload, less-than-truckload, ocean freight and air; rail/intermodal; and comprehensive importing/exporting solutions with one point of contact. JTS adds value with logistics management, consulting and state-of-the-art technology systems with real-time online tools to facilitate seamless supply-chain communications for its customers. JTS is headquartered in Fresno, CA, and has six regional offices in North America: Sacramento, CA; Tigard, OR; Salem, OR; Madison, WI; Denville, NJ; and, Orange Park, FL (Johanson 2011).

Dimerco Express Group

Established in 1971, DEG (Dimerco Express Group) has been a proactive player in the evolving world of international transportation and logistics. Over the course of 40 years, DEG has progressively expanded its service network on a global scale, especially in Greater China. DEG is publicly listed in the Taiwan Stock market and positions itself as "Your China Logistics Specialist." It is continually expanding marketing and service outlets in strategic locations. DEG's intimate understanding of the ever-changing Chinese logistics market enables its service system to respond expeditiously to clients' requests for effective supply chain management solutions. More recently, the East Asian and Southeast Asian markets are undergoing a major consolidation due to the integration of major free trade agreements and new free trade initiatives in the regions. DEG is expanding aggressively into the Southeast Asian market to provide comprehensive support to customers' growth strategies in Asia.

At the same time, DEG continues to invest and upgrade its e-commerce platform, Dimerco Value Plus System, to meet the needs of global customers. The new system can help customers bolster their competitiveness by providing external data integration and real-time information visibility for effective supply chain management. A better consolidation of the internal data and information also helps to enhance DEG's worldwide management performance (Dimerco 2011).

Search for an International Partner

Since 2000, more and more customers have inquired about international logistics service at JTS. Its management knew that it was the time to seriously consider the development of its international business.

Under the urging of a third-generation family member, a feasibility study on JTS international logistics services was conducted in early 2006 with the support of the Craig Business School of California State University at Fresno. The feasibility study had given a strong recommendation to develop an international logistics capability through an overseas partnership. JTS has since established an international division for international business development and acquired a freight forwarder and NVOCC licenses. Through an extensive search, DEG, an advanced Asian-based 3PL, emerged and was sought after in mid-2006 as an international partner to develop the business cooperation that can complement the strengths of both firms (Negueloua 2011).

Joint Business Development and Complementary Service Offering

Since late 2006, DEG has played the silent role as JTS's international logistics partner to support the ocean and air shipments with the United States as the origin or destination; that is, businesses secured by the JTS International Division. JTS and DEG (SFO branch) often make business calls together and assist each other in bids for both domestic and international logistics demands (Negueloua 2011).

Because JTS and DEG are all advanced 3PL firms, when joined together, they can complement each other and integrate their service networks and service offerings in their focused regions, providing the clients a more comprehensive international logistics service options such as the following (Negueloua 2011):

- Ocean Freight Import: FCL (full container load) & LCL (less than container load)
- Ocean Freight Export: FCL & LCL including Reefer, D.G. Cargo & Project Cargo
- Air Freight Export including D.G. Cargo (dangerous cargo)
- Air Freight Import

Joint Project Illustrations

JTS Client 1—Serving over Four Years

Client 1 needed to deal with growing overseas operations. However, this client had encountered communication challenges in its global supply chain pipeline. JTS has worked with DEG's overseas offices to help the client solve its communication and visibility problems and build a stronger relationship with the customer. The business has been stabilized since then with one to two ocean containers shipping monthly from China to the U.S.

JTS Client 2—New Client

Client 2 needed to use ocean shipping to import oversized/expensive machinery from Europe to the U.S. This client was worried about whether the shipment would arrive on time due to its difficulty in international transportation. JTS communicated closely with the client's requirements on the one hand and used the DEG international logistics network and knowledge to accomplish this project on the other hand. The client had complete visibility of the shipment throughout the whole process, and the shipment even arrived at destination in advance. DEG handled the shipping from the start to the end on behalf of JTS. After the equipment had arrived at the U.S. East coast, it was transferred to a warehouse. DEG contracted a

trucking firm using a flatbed trailer to ship the equipment directly to the destination in only two days, rather than the traditional rail shipping arrangement that costs less but has a less controllable time to destination and a higher handling damage risk. The superior service performance gained high recognition along with gift bags and a thank-you letter from the client.

JTS Client 3—Lost and Resecured

Client 3 is a wholesale firm in a low price/low margin market. It used to be a JTS customer but was lost to a large competitor due to lower bidding price. However, due to the service issue on international shipments, JTS was able to resecure the customer several years later through the joint network and services with DEG. The business represents a regular monthly volume of 15 ocean containers from China to the US.

Mutual Benefits from International Logistics Partnership

Without substantial mutual benefits, it is hard to make two 3PLs geographically distant from each other dance together harmoniously in an alliance setup. In the JTS and DEG partnership case, strong mutual benefits are observed and summarized here:

- More customers' needs are satisfied.
- Customer and market coverage are expanded through a virtually integrated international logistics network.
- Business philosophies and best practices of the partners can be exchanged and learned from each other in a constructive way.
- Revenues and profits are increased for both partners.

Discussion Questions

1. From the industry development history and the case story, what motivates an advanced 3PL to transform from a functional-focused service firm to a multiple-service firm, and furthermore expand its service network to other regions in the world?

2. How did JTS and DEG develop their partnership relationships? What are the key success factors that can be drawn from this case story?
3. What lessons can be learned from this case? Discuss from JTS's perspective, DEG's perspective, and your own perspective.

References

AS (2011), http://www.americanshipper.com/news/news_intl_story.asp?news=195011.

Dimerco (2011) http://www.dimerco.com/dimerco/en/value&vision.asp.

Hertz S. and Alfredsson M. (2003), "Strategic development of third party logistics providers" *Industrial Marketing Management* 32 (2003) 139–149.

Jacobson (2009), http://www.jacobsonco.com/AboutJacobson/PDFs/CEOPressRelease312.pdf.

Johanson (2011) http://www.johansontrans.com/aboutUs.shtml.

Negueloua, D. (2011), a PPT presentation file on Johanson Transportation Service's Partnership with Dimerco Express Group, 2011 Dimerco Annual Alliance Forum.

Su, S.I. (2011) "An Overview of Third-Party Logistics Industry in a U.S. Context," Working Paper, SC*Lab*, Department of Business Administration, Soochow University.