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DEVELOPMENT OF LOGISTICS SERVICE PROVIDERS FROM THE PERSPECTIVE OF THE VALUE-BUILDING GROWTH MODEL

Abstract

The primary objective of any logistics service provider is to develop. Although it appears natural, the challenges that it poses are bigger than we think. The concept of development – generally seen as a process of changes – is ambiguous and can mean something else for each service provider. The aim of this article is to attempt to verify, based on the value-building growth model (VBG), whether the financial results achieved by logistics service providers translate into their success, which is equated with development.

Keywords: logistics service providers, development of logistics service providers, value-building growth model

Introduction

Times are changing, but for companies one thing remains constant – development. Attempts to define the concept of development made in literature point to its ambiguity. Development is generally perceived as a process of changes occurring in stages. As the main objective of any company, it constitutes a necessary condition of its activity and can refer to one or all areas of its functioning (goals, technology, etc.). Moreover, development can be seen as an attempt to reduce (eliminate) the development gap or as a process of improving the company's competitive position (Machaczka, 1998, p. 14). This means that development is a change which takes place according to the established principles and leads to certain consequences for the company. It therefore occurs as a result of gradual, purposeful, and long-term changes.

1. Development and growth of logistics service providers

The development of logistics service providers (LSPs) requires a successful integration of all areas of their activity: the whole value chain, the provider and customer market, strategy, and operational activities (Deans, Kroeger, 2006, p. 33). For each logistics service provider, development can mean something different – extending the scope of activities, achieving operational excellence by increasing the quality of services, improving structures, reducing costs, etc. That being said, most often development attests to the company's pursuit of profit.

In recent years a new way of thinking about development emerged. It was pointed out that productivity, cost-effectiveness, or operational excellence cannot be treated as the only development criteria. We should focus more on revenue increase, so as to exploit the potential to generate value in the long-run (especially for owners or shareholders). In this context, development means a constant, long-term organic growth of revenue and profit. We should also work toward creating a growth mechanism which will ensure that companies enjoy a lasting competitive advantage, have a higher market value, and are perceived as innovative entities that satisfy the requirements of corporate social responsibility.

Company growth is a positive, measurable change of its size. It is an internal process, which occurs naturally as the company continues its operations. In order to achieve growth, LSPs take numerous steps by extending the scope of their activities.

Although the concepts of development and growth are inextricably linked, there is an essential difference between them. Development is a combination of many factors that encompasses all changes (positive and negative, measurable and immeasurable) and thus gives shape to the hierarchy of the company's goals in terms of both internal and external relations. Growth, on the other hand, usually occurs as a result of changes introduced in the company's value system (Pierścionek, 2003, pp. 53–55).

2. Development possibilities of logistics service providers

The primary objective of any logistics service provider is to develop. It is not, however, that simple. The challenges that it poses are bigger than we think. Development, although it seems natural, is most often illusory or unprofitable.

On their way towards a steady growth, most LSPs (especially the smaller ones, e.g. 2PL) have to overcome numerous serious internal and external barriers. The most important external barriers include unstable geopolitical situation (armed conflicts, embargos, legislative changes) and the unstoppable market force: industry consolidation. Internal barriers refer mainly to:

– geographic expansion: increasing the number of geographic markets in which the company can sell its services,
– portfolio expansion: introducing new services, including value-added services,

– technology: offering higher-quality service based on new technologies and IT systems,
– improvement of competitiveness in terms of costs (as a result of more economies of scale) and possibility of offering more higher-quality services for a lower price.

It can be observed that most LSPs do not fully exploit their development potential. Success – understood as a stable and organic development – can be achieved by:
– organizing operational activities in the area of process management, service quality improvement, development and implementation of new services consistent with customer expectations, innovation, customer service improvement, sales effectiveness, price strategy, or customer management,
– building an effective organizational structure which promotes loyalty, creativity, and entrepreneurship of employees, with a clear communication and decision-making process (who is responsible for what), with higher and middle management located closer to the rest of the employees,
– embracing and realizing a holistic strategy based on a strategic *status quo*, which means focusing on those areas of activity that allow to secure a strong competitive position.

Looking at it from a perspective of a few years, it is much easier to notice the changes which took place in the logistics market. Despite the 2008–2009 global crisis and the growing conflicts (the EU embargo on Russia, minimum wage for drivers in the EU), which greatly hinder the development of LSPs, we observe a stable increase of revenue in the TSL industry.

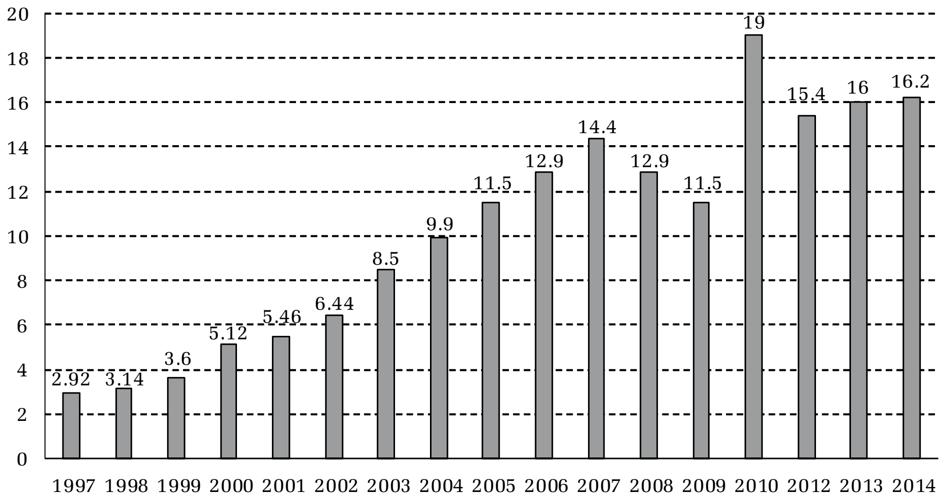

Figure 1. Sales revenue in the Polish TSL market (PLN bn)
Source: (own elaboration based on: Płaczek, 2012; Brdulak, 2014)

3. Value-building growth matrix of logistics service providers

Taking a closer look at the above data, an attempt was made to answer the question of whether the financial results achieved by LSPs translate into their success, which is equated with development. One of the many tools to evaluate the development of a logistics service provider is A.T. Kearney's development matrix, called the VBG (value-building growth) matrix. Two main attributes used to build the VBG matrix are revenue growth and value growth (Deans, Kroeger, 2006, p. 16). Four categories of LSPs can be distinguished depending on their average results: value growers (Q1), profit seekers (Q2), simple growers (Q3), and underperformers (Q4).

Referring to the results of the last study[1] and assuming that the structure of the sample reflects the current diversification of LSPs, an analysis of the present state of the VBG matrix has been conducted. In order to do so, the following questions have been asked: how are LSPs currently located in the VBG matrix? Did they follow in the footsteps of value growers in improving their activities? Did they change or retained their previous position in the VBG matrix?

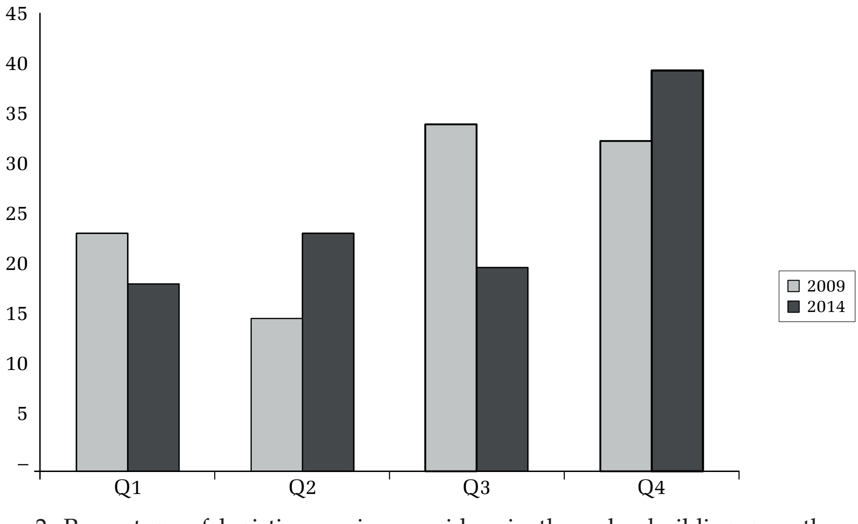

Figure 2. Percentage of logistics service providers in the value-building growth matrix (using average revenue and value index)
Source: (own elaboration)

A change of the position of LSPs in the VBG matrix can indeed be observed between 2009 and 2014: reduced share of value growers (by 7%) and simple growers (by 12%) and increased share of profit seekers (by 8%) and underperformers (by 11%).

As the assumption is that companies will move to Q1, theoretically this situation is unfavourable for LSPs, for, as we can see, most of them moved from their previous position to Q4. This means that either their revenue or value decreased. Practically

[1] The last study covered the years 2003–2007 and 2007–2009 and was presented in: (Płaczek, 2012). In the current study, the sample includes 57 logistics service providers.

speaking, however, it is difficult to unequivocally classify the changes as positive or negative. It should rather be assumed that the current situation is a passing one and constitutes a result of "temporary" difficulties (e.g. the EU embargo on Russia) which directly influence the demand for road transport logistics services.

In order to conduct a more in-depth analysis of the changes in the VBG matrix, a scatter plot was used showing the positions of LSPs relative to their competitors. The average revenue index was 0.155 (indicating average revenue growth by 15%, i.e., 29.55 million PLN), and the average value index was 0.84 (indicating average value growth by 84%, i.e., 83.9 million PLN).

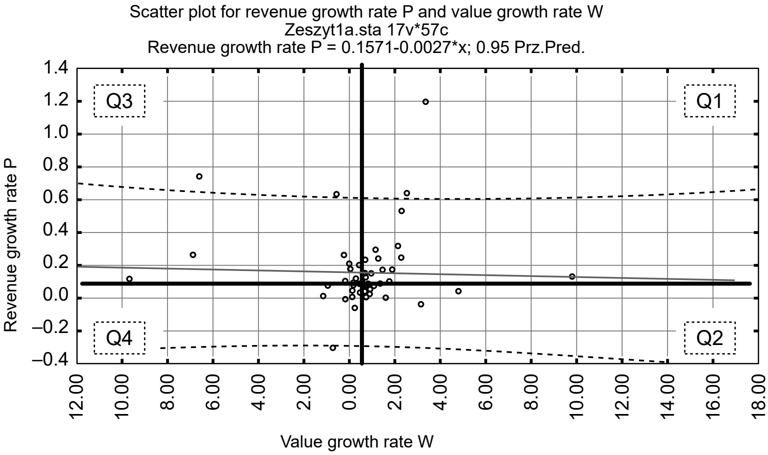

Figure 3. Scatter-plot value-building growth matrix, 2013–2014 (using average revenue and value index)
Source: (own elaboration)

Figure 3 shows a very high concentration of LSPs in Q2 and Q4 with respect to the average revenue and value index. This means that the range of the services offered became less diverse, which in turn led to a fierce product and price competition. In the case of Q1 and Q3 we can observe a larger dispersion.

From the point of view of LSPs, the changes of their positions in the VBG matrix are the consequence of the undertaken operational activities. For most companies this means not only the necessity to optimize their own costs, but also, most of all, to expand their product offer and to further adjust their activities to customer expectations and business needs. The products offered are expected to change along with the conditions in which the customers carry out their activities. Due to the availability of technology, it no longer serves as an indicator of competitive advantage, and those LSPs who pay more attention to the product and its excellence are able to achieve competitive advantage, profits, and value growth.

The VBG matrix built based on the average revenue and profitability index shows increased concentration in Q4, which indicates a situation unfavourable for most LSPs.

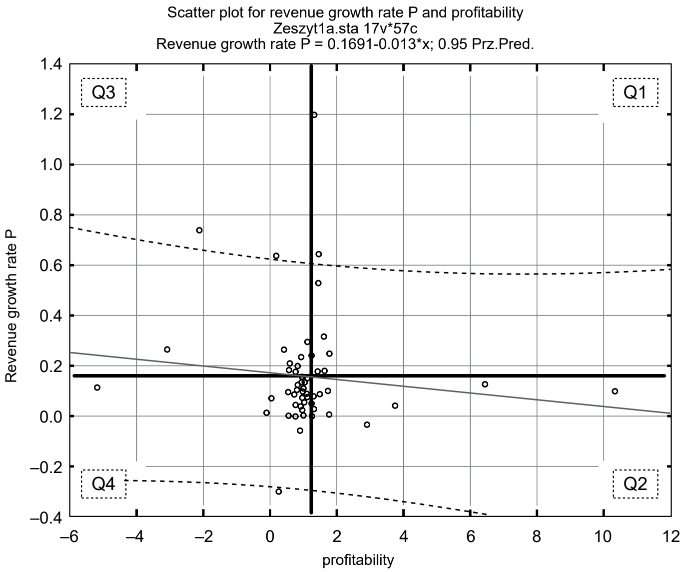

Figure 4. Scatter-plot value-building growth matrix, 2013–2014 (using average revenue and profitability index)
Source: Own elaboration.

A question arises whether this concentration is the result of changes in the profitability of LSPs. Studies indicate that, since 2009, average profitability remains constant at 3%. The concentration of LSPs therefore indicates that most of them achieve similar, relatively stable profitability levels. Profitability histograms from the years 2013 and 2014 exhibit a unimodal, right-skewed distribution. Half of the sample achieve average profitability of 2% (Me=0.02). At the same time, 25% of them achieve average profitability of 1%, and 75% – of 4% or above (top and bottom quadrant). The biggest changes are visible in the interquartile range (box-and-whisker plot). In 2014, the interquartile range decreased (the whiskers became shorter) and three outliers appeared which indicate deviations.

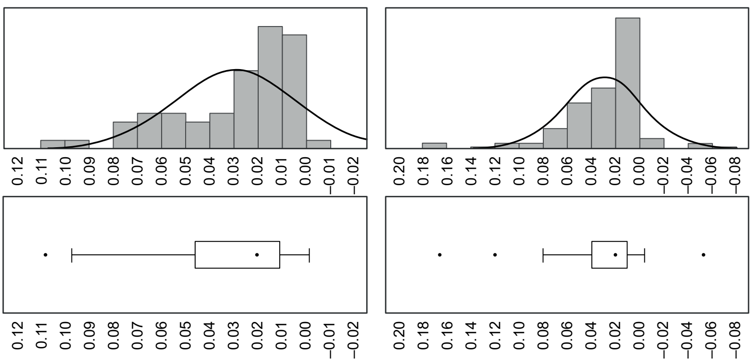

Figure 5. Profitability histogram, 2013–2014
Source: (own elaboration)

Based on the observation of the TSL market and the scatter plots we can definitely confirm that LSPs are still developing intensively, establishing lasting foundations for growth. There is no reason to expect turbulent changes in their positions in the VBG matrix. That being said, the position of a LSP in the given quadrant is not permanent, but depends on numerous internal and external factors. It may be assumed that further concentration of LSPs in the VBG matrix will be observed, and their position in the given quadrant (not necessarily favourable) will depend on the average results of the selected attributes. There is no guarantee of success; the occupied position and the level of development are not permanent, and to secure them LSPs have to constantly improve all areas of their activity – by raising customer satisfaction, reducing costs, increasing profitability, building teams of professional and effective employees – while achieving financial benefits.

Conclusions

The development need of logistics service providers stems from the present situation in the TSL market, which imposes constant change in the business activity. The operations undertaken in this regard are mainly meant to prevent elimination from the market, boost competitiveness, and, most of all, meet the needs of increasingly demanding customers. It is important for logistics service providers to realize their goals in the turbulent business environment. Fortunately, TSL service providers are aware that nowadays the ability to develop is the fundamental condition of success. Development should occur with accordance to established principles and achieve the intended results.

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