

Operation Path and Strategy of Logistics Enterprise Supply Chain Logistics Management under Horizontal Integration

Yue Zhang*

Shanxi Youth Vocational College, Taiyuan, 030032, China

Received x.xx 2014, www.cmnt.lv

Abstract

This paper put forward the significance of horizontal integration service provided for society by logistics enterprise, and discussed in detail about how to realize horizontal integration service and what kind of operation model can be adopted by relevant sub-service. Researches on these contents not only have certain effect on correlated theoretical research, but also can provide certain guidance for logistics enterprise. This research aimed to promote the compound integrated service ability and international competitiveness through horizontal integration management mode.

Keywords: Logistics, horizontal integration, operation and management mode.

1 Introduction

Logistics is an integrated service industry which involves numerous sub logistics business. With the increasing of market competition and refining of social division of labor, an increasing number of clients well preparing core business for concentrating superior resources, outsourcing logistics business to professional logistics enterprises and wishing to obtain the “integration”, “one-stop” or “point contact” comprehensive logistics service. However, most of logistics enterprises in China still rest on low side logistics market and provide single and low profit subsection logistics service, which lack of logistics resource integration competence. Logistics enterprises are obviously insufficient in aspect of providing horizontal integration service competence, for they center on providing subsection logistics service with single function. It will severely impede logistics enterprise to become bigger and stronger, and constantly widen its gap with international logistics tycoon. Therefore, the current logistics enterprise is badly in need of constantly promoting logistics comprehensive service competence through acquisition and reorganization and resource integration.

2 Overview of Logistics Enterprise Horizontal Integration Operation

Logistics enterprise horizontal integration strategy generally refers to the expansion aiming at same market or relevant market. In logistics industry, horizontal integration refers to that in order to realize providing comprehensive service for clients, logistics enterprise conduct joint operation on correlated business area of logistics business. The advantages of horizontal integration lie in that it can

obtain faster enterprise development with lesser cost, decrease competitor in market, rapidly enhance market share and improve scale economy. Its main disadvantages are that enterprises will undertake risk of operation from larger scale, and the coordination difficulty within enterprises increase. The implementation of horizontal integration strategy mainly is “strong-weak” alliance. Large-scale enterprise is matrix of combined enterprises, and professional enterprises or middle and small-sized enterprises are joint enterprises. With the increasing of market competition and refining of social division of labor, an increasing number of clients well preparing core business for concentrating superior resources, outsourcing logistics business to professional logistics enterprises and wishing to obtain the “integration”, “one-stop-shopping” or “point contact” comprehensive logistics service. Customer’s requirements are increasing, thus the third party logistics enterprise should change development conception, especially large-scale logistics enterprise, change the relatively single logistics business operation mode, increase logistics business type, expand network coverage and increase value-added services so as to provide comprehensive one-stop service for clients. Therefore, when providing logistics service for clients, logistics enterprises should not only provide basic transport service, warehouse service for clients, but also provide multimodal transport service, customs declaration and commodity inspection service, distribution processing service, distribution service, express service, changing or refunding service and order decision service for clients. Efficient and comprehensive one-stop logistics service models like logistics project formulation, supply chain fund settlement, etc are logistics enterprise horizontal integration operation service model. As shown in Figure 1.

* *Corresponding author’s* e-mail: zyyuez@163.com

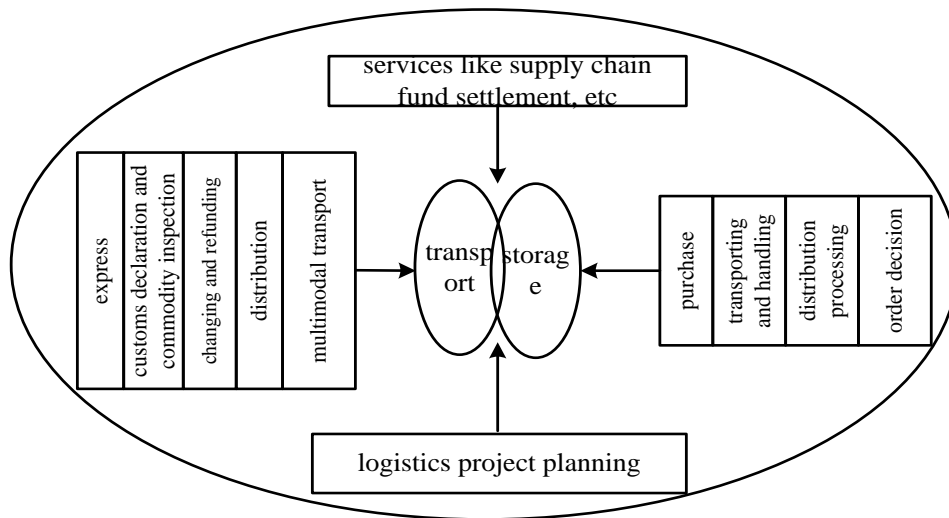


FIGURE 1: Operation model of logistics enterprise horizontal integration

3 Operation Path of Logistics Enterprise Horizontal Integration: Progressive Merger and Acquisition

When providing integration comprehensive service, as for how to obtain relevant resources that enterprise itself does not possess is the primary problem enterprise will confront, which also relate to the important decision of enterprise service quality. Besides the currently common merger and acquisition, investigation and reconstruction and outsourcing, paths of obtaining resources also include

the newly emerged model-strategies alliance in recent years. Starting from bounded rationality and opportunism, the contemporary western economist Williamson [1] used the three properties (assets specificity, uncertainty and transaction frequency) that influence trade level and feature under incomplete contract to conduct further study on the nature of enterprise. He believed that there was a kind of governance structure in intermediate state based on transaction model between market and enterprise-alliance. Organization model of transaction is shown in Figure 2.

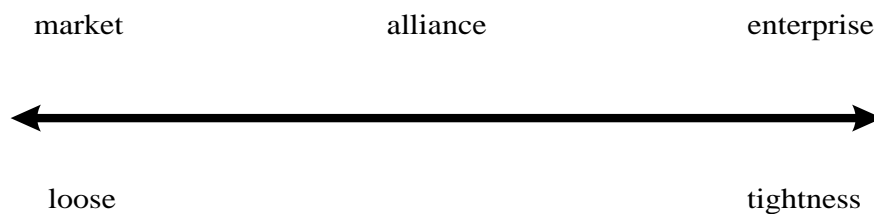


FIGURE 2: Williamson's alliance transaction organizational model

Alliance structure has both advantages of market and enterprise, is a kind of innovation and transition of transaction institution. This institutional arrangement can promote the mutual condition of market and enterprise under the limitation of protocol or property right, thus to play a role together. It also can overcome the malpractices of market and enterprise institution (information asymmetry in bureaucracy and enormous cost of one-time transaction in market) [2]. Based on Williamson's theory, enterprise integration operation can adopt market mode, enterprise mode and alliance mode. These three organizational modes have their own advantages and disadvantages in the operation process of enterprise integration.

"Progressive" is a kind of process gradually and slowly approach to objectives, which represent a kind of thought of quantitative change. Yi Chunguang [3] (2007)

thought one of basic mode of expanding integrated logistics service is "break through", another is "progressive". He initially proposed to adopt progressive resources access path when providing integrated logistics service for clients. Progressive merger and acquisition on sub-business which logistics enterprise does not possess is an effective path for logistics enterprise to realize horizontal integration operation. Progressive merger and acquisition is divided in detail into six operation models, that is market-based outsourcing, customized service outsourcing, internal insourcing, contact type strategic alliances, share strategies alliances and merger and acquisition self-governance model. As shown in Figure 3, the advantages of applying progressive merger and acquisition are analyzed from two perspectives: small and medium-sized logistics enterprises and large-scale logistics enterprise.

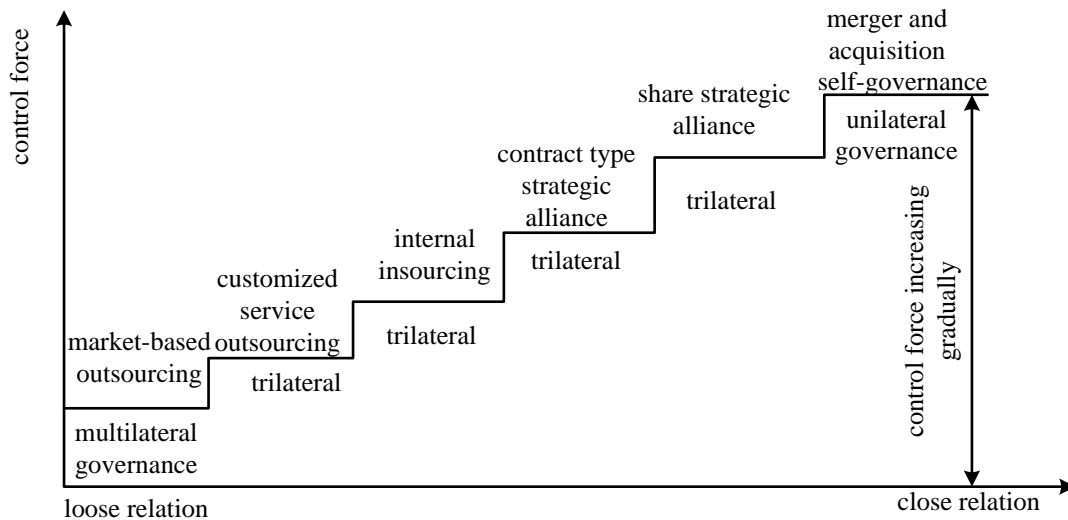


FIGURE 3: Six development stages of progressive horizontal merger and acquisition

Logistics enterprises can accumulate experience in process of constant try of integration operation by progressive horizontal merger and acquisition, for they adopt path of progressive resource access. As for current logistics development stage and developmental level, the accumulation is a kind of suitable development strategy for both small and medium-sized logistics enterprises and large-scale logistics enterprises. As for small and medium-sized logistics enterprises with limited capital capacity and in smaller scale, the adaptation of progressive merger and acquisition model is good for promoting the attempt of small and medium-sized enterprise providing comprehensive logistics service. Logistics industry is in developing phase with many features of “many, small, loose and weak”. As for small and medium-sized logistics enterprises with limited resources, they start from outsourcing integration, and gradually grope the experience of integrated service, which avoid the overcrowding of many small and medium-sized enterprises in low-end market. It also guide middle and small-sized enterprises to attempt medium and high-end logistics market, thus to make them bigger and stronger until they have the strength to conduct horizontal mergers and acquisition. As for some large-scale enterprises with relatively abundant capital, progressive mergers and acquisition is good for avoiding enterprises make offensive mistakes. If not taking the practice of their self-development into consideration, and blindly study behaviors of international logistics tycoon and constantly conduct plenty of merger and acquisition, some enterprises especially those lack of integrated service experiences will have poor digestion. Moreover, they will suffer a lot because of lacking related sub-business operation experiences and merger and acquisition experiences [4-5]. As for logistics sub-business that has not yet involved in that, they should set down from low-end whether they are large or not. After they possess operation experiences, they can take the opportunity and implement merger and acquisition with self-support [6].

4 Logistics Enterprise Problems under Horizontal Integrated Operation Model and the Coping Strategy

There are three misunderstandings of logistics enterprises in the process of integrated operation, that is lack of horizontal integrated service awareness, excessively rely on outsourcing, blindly merger and acquisition and over expand.

4.1 LACK OF HORIZONTAL INTEGRATED SERVICE AWARENESS

Facing increasing number of market logistics comprehensive service needs, some logistics enterprises lack courage of enlarging range of logistics business, content with the status quo, fear to encounter risks and only provide simplified and segmented logistics service in low-end logistics market. They cannot meet customers needs, thus they lose middle and high-end market. The lack of horizontal integrated service awareness is one of vital reasons for logistics enterprise causing the fall behind of logistics horizontal integrated operation.

4.2 EXCESSIVELY RELY ON OUTSOURCING

Logistics enterprise horizontal operation model is to outsource sub-business. Although outsourcing can rapidly access resources, it has limitations. After logistics enterprises outsource sub-business, there exist not only transaction cost, but the control on outsourcing business is also reduced, which lead to the decrease of client's satisfaction. Therefore, logistics enterprises should select the operation model of logistics sub-business according to the three-dimensional model established in this paper. Sub-business dose not suit for outsourcing can not outsource. Only in this way can logistics enterprises constantly enhance service quality in the process of integrated service, thus to realize the bigger and stronger of enterprises.

4.3 BLIND MERGER AND ACQUISITION AND EXPANSION

Some logistics enterprises adopt integrated operation model of over risk of expansion. In order to become bigger and stronger and reach to effect of horizontal integrated operation in short time, some logistics enterprises blindly implement merger and acquisition, of which the first bad

results is rapture of capital chain and worse of financial condition. The second bad results are poor effect of merger and acquisition, and a series of troubles in the launce of business. Therefore, when implementing merger and acquisition, logistics enterprises should adopt progressive expansion style according to the enterprise strength and experience. As sown in Figure 4.

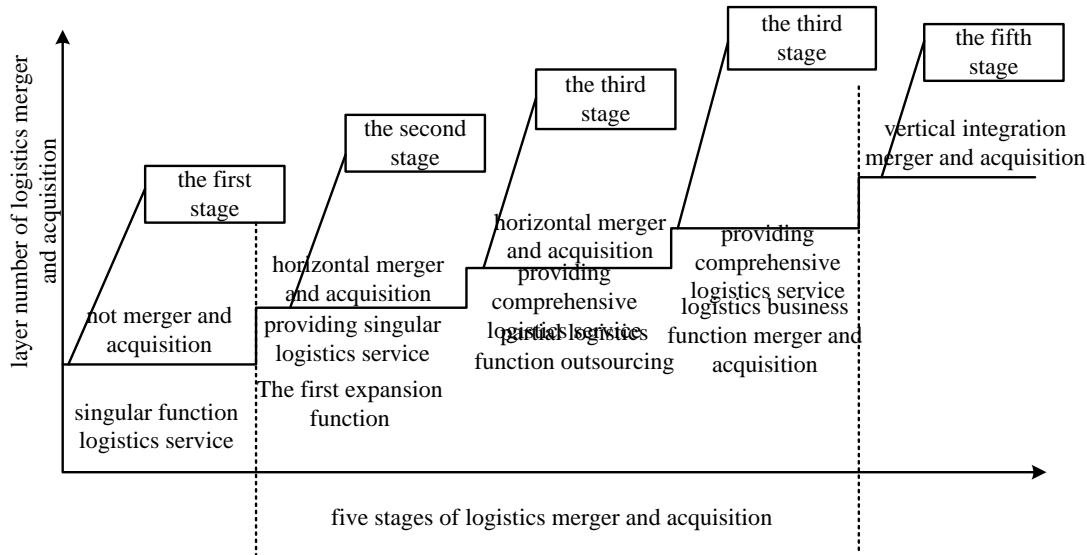


FIGURE 4: Progressive integrated merger and acquisition process of large-scale logistics enterprise

4. 4COPING STRATEGIES ON HORIZONTAL INTEGRATION OF VARIOUS LOGISTICS ENTERPRISES

Production enterprises' logistics department: the core business of production enterprises is not logistics business, thus it is difficult to realize large-scale. Logistics department also can meet the integration logistics service requirement of production enterprises thorough ways of outsourcing or alliance. Or they can cooperatively manage with the third part of logistics enterprise, and take advantages of each other so as to realize large-scale operation. It can both fully use the available resources and meet integration operation requirements [7].

Middle and small-sized logistics enterprise: outsourcing and alliance is very suitable operation model for vast middle and small-sized logistics enterprises in process of horizontal integrated operation, since their scale and resources are limited. However, in order to not reduce the effect of integration service, they should strengthen the control and management on outsourcing and alliance segment. In addition, middle and small-sized logistics enterprises also can adopt market-nicher strategy and depth appreciation model.

Large-scale logistics enterprise: enhance comprehensive degree of logistics service; adopt merger and acquisition means in good time; set up unified information platform; adopt horizontal networked organization struc-

ture.

5 Conclusion

Aiming at development status of logistics, logistics enterprises especially large-scale logistics enterprise should adopt horizontal integration operation model, which provide "one-stop" and "one-point-contact" comprehensive logistics service for clients so as to enhance their competitiveness and shorten their gap with world logistics tycoon. The adoption of horizontal integrated operation model by logistics enterprises is good for improving the financial performance of logistics enterprises. Progressive merger and acquisition is an effective path to realize logistics enterprise horizontal integrated operation. Progressive merger and acquisition can be divided into six operation paths, that is market-based outsourcing, customized service, internal insourcing, contract type strategy alliance, share strategy alliance and merger and acquisition self governance model. According to the current situation of logistics enterprises in comprehensive integration service, there exist several misunderstanding of logistics enterprises in operation. The first is logistics enterprise lacks horizontal integration service awareness. The second is logistics enterprises are excessively rely on outsourcing operation model. The third is large-scale logistics enterprises are tending to blindly expand in process of horizontal integration. The participation or implementation of

logistics enterprise in supply chain logistics management is both serve for short-term objective and devote themselves to medium and long term objective. Logistics enterprise should orientate in customer value analysis and assessment, wholly enhance logistics management ability and service ability from supply chain level and height and timely and accurately find and recognize customer need and value point. At the same time, they should optimally configure the internal fine resources and external customer

resources of supply chain, gather them in the business activity that can culture enterprise core competitiveness and comprehensively optimize competitiveness of supply chain logistics management of logistics enterprise.

Acknowledgement

Science research project of Shanxi Province: A Study on the construction of e-commerce logistics system of Shanxi province. 2012041081-04.

References

- [1] Y.W.Guo 2010 The Review of Williamson's Theory of Economic Organization. *Reformation & Strategy*, (11) 1-2.
- [2] M.X.Wang 2011 Research on Knowledge Management of Supply Chain Alliance. *Southwest Jiaotong University*.
- [3] C.G.Yi, S.D.Ju 2007 Expand Comprehensive Logistics Service of Railway Freight Station. *Railway Freight Transport*, (3), 1.
- [4] Q.Guo 2011 Study on Post-acquisition Network Collaborative System of Multi-modal Logistics Enterprises. Doctoral Dissertation, *Beijing Jiaotong University*.
- [5] X.w.Lin 2011 The Research on Synergy for System of Logistics Enterprise Resource Based on Integrating of M & A. Doctoral Dissertation, *Jiangxi University of Finance and Economics*.
- [6] J.p.Zhou 2005 Study of Ipo and M & A of Chinese Logistics Enterprise. *Pioneering With Science & Technology Monthly*, (10) 9-11.
- [7] X.F.Shi 2008 Third Party Logistics Enterprise Implements Integration Logistics Service Strategy. *Transportation Enterprise Management*, (9) 55-56.

Author



Yue Zhang, born in 1973, Shanxi Province of China

Current position, grades: associate professor,

University studies: PHD's degree was earned in major of e-commerce, Xi'an Jiaotong University.

Scientific interest: e-commerce