SWOT Research on Domestic Third-Party Logistics Providers (3PLPs) in Korea

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Abstract: With the rapid growth of logistics, it is important to gain further insight into the strategic benefits of logistics services. The study examines the current situation of Korean domestic 3PLPs. Based on the discussed background, the study analyses Korean domestic 3PLPs from four aspects (strengths, weakness, opportunity, threat) with SWOT method. Finally, the study recommends specific strategies to strengthen competitive power of global 3PLPs in Korea. This study provides a theoretical foundation for academics and also practical guidelines for logistics services industry

1. Introduction

With expanding of global logistics market markedly and increasing of customer requirements, Korean 3PLs have to improve service and quality for providing value-added logistics and integrated logistics services to meet customers' demands. Korean 3PLs has becoming competitive logistics providers in the North-eastern area of Asia and has creating a foundation for growth to a global scale. In Korean logistics industry, domestic logistics companies offer third party logistics services which include international express delivery, domestic courier service, SCM and IT, such as Korea Express, Hanjin Transportation, Hyundai Logistics, CJ GLS. Domestic logistics companies are focused on function based logistics service.

2. SWOT Analysis on Domestic 3PLPs

Based on above, an overall SWOT analysis summarizes the strengths, weakness, opportunities, and threats of the 3PLPs, which provides an overall picture and a summary of how the companies understand their competitive situations.

2.1 Strengths

2.1.1 3PLPs are in a booming growth stage

Korea makes full use of its advantages such as small land size, higher degree of logistics distribution socialization, make Korean Third Party Logistics in a booming growth stage. In terms of components of Third Party Logistics, in advanced countries the industry covers everything from order form handling to logistics information management and it enjoys a large service scope, such as price negotiation, circulation processing and so on. By contrast, in South Korea, it is concentrated on the transportation service market. This also implies that there is a huge potentiality for the development of logistics in Korea.

2.1.2 Services provided are more competent

Affiliates of the domestic third party logistics providers are in cooperation with their partners for promoting strategic development. The affiliate and partner of CJ Korea Express is Kumho Aisana; that of Hanjin is Korean Air and Hanjin Shipping; that of Hyundai Logistics is Hyundai Merchant Marine; and that of CJ GLS is Accord Logistics. This is the potential for future development by establishing partnership with affiliates. Therefore, they have the potential to offer diverse and swift services.

Also, according to the national policies to promote logistics businesses, a client firm and a logistics company can enter together into overseas market, which means the logistics company is given an opportunity of building up overseas bases. The company can provide logistics service from the established overseas bases to domestic client firms, which makes logistics companies more competitive.

2.1.3 3PLPs are reaching for a global market

3PLPs have realized the importance of investing in global logistics. Korea is seeking to become a “logistics hub in Northeast Asia in the 21stcentury.” The nation’s logistics industry is showing phenomenal growth, while companies’ logistics service rationalization activities are proceeding at a fast rate. Korea’s international standing in the logistics sector is relatively high, as evidenced by such phrases as “a world’s leading marine power,” “a country with companies leading the world’s air cargo markets,” “an international logistics hub with worldclass container terminals,” and “a country with the world’s top-tier IT technology.”

2.2 Weakness

2.2.1 The market share of 3PL is relatively reduced.

Various kinds of factors are still there in Korea market hindering competition. To some degree, these factors are in the way of logistics service development. For example, first party logistics that forms about 60% of the total logistics activities of the domestic manufacturing and distribution businesses can be regarded as a factor that interferes with the growth of third party logistics providers. This brings about the fact that some manufacturing enterprises are directly involved in logistics activities. Consequently the market share of 3PL is relatively reduced.

Also, Logistics companies in Korea are relatively small in terms of business size and significantly lag behind in terms of competitiveness, compared with global logistics companies. The data shows s logistics companies in the country lag behind global logistics companies in terms of revenues and profitability (as of 2009, Glovis-2.8 billion USD, Korea Express-1.3 billion USD, DHL-68 billion USD, UPS SCS-48.3 billion USD). Through the fact, the structure of Korean logistics industry was poorly-equipped. This leads that their capabilities which generate add value are weaker than those of leading companies.

Korean Third Party Logistics is in a booming growth stage，but compared with the advanced western countries,　Korea is still lagged behind. For example, in 2008, the market share of Third Party Logistics was 46.3%, far lower than the corresponding portions of 75% to 90% in the United States and Europe.

2.2.2 Swift and various logistics services are relatively weak.

Functional service is more expanding, but the level of internationalization for domestic logistics companies is not sufficiently matured. In logistic services, it is important to respond to various and complex demands of customers as well as to reduce costs. Domestic companies that are not equipped with a global infrastructure and competitive edge (SCM, IT) have difficulty satisfying the needs of client firms, The trend of the market that puts top priority on cost reduction is the major obstacle that keeps domestic third party logistics providers from growing. In addition, the domestic 3PL providers are weak to apply SCM to transport, delivery and some of the others in the domestic part, and only to courier service and special delivery in the international section. They have not adopted SCM in every division (estimate, packaging, invoice, pickup, tariff, tracking, customs clearance, transport and delivery, and automatic settlement of charges)

2.2.3 Skilled human resources are still inadequate.

Graduate school of logistics is opened by government fund for cultivating logistics specialists and creating employment in logistics industry. But supply of logistics workforce is not sufficient in terms of logistics specialists and field operators. Domestic 3PL providers have no desire for self-development (entering to graduate schools, registration to private schools, overseas training, etc) Because of the costs involved. Therefore, it became difficult to secure people competent to do specialized logistics works.

2.3 Opportunity

2.3.1 Overseas Logistics Market is emerging.

As the center of the world economy has moved to Pacific Rim and Northeast Asian countries, demands for third party logistics will continue increasing. At this point in time, domestic companies, based on careful examination and analysis on overseas markets, should make efforts to occupy the markets in advance and to take a superior position in competing with global third party logistics providers.

China is emerging as the center of the world logistics industry. Domestic logistics businesses can take a favorable position in dominating the Chinese market and securing a logistics infrastructure across the country, based on the fact Korea has a geographical advantage as a neighboring country and can take advantage of Korean manufacturers that have done business there since long time ago.

2.3.2“hardware” and “Software” infrastructure are becoming more competitive

For the “hardware” infrastructure, Competitiveness of hub ports (Busan Port, Gwangyang Port, Ulsan Port) would be enhanced through selection and concentration, while port functions would be specialized by regions to boost export/import competitiveness. For exmple , Busan Port would expand container terminals in a timely manner and build clusters through its hinterland complex to secure competitiveness in securing transshipment freight over competing ports, while improving infrastructure such as dredging for easy port calls by 10,000 TEU-level ships.

On the other hand, the market will continue to call for quick response of logistics networks with advanced IT and reduction of logistics costs and innovation in logistics service by efficient SCM. Developed technologies in Korea, as a strong IT country, will be a great advantage to domestic companies in securing a competitive edge.

2.3.3 Government Logistics Policies are being enhanced.

Korea has made their well-thought development plan on the basis of the advanced experiences of USA and European countries and the particular situation of the domestic market. Firstly, South Korea enhanced the governmental support and give support to the Third Party Logistics enterprises on the basis of priority and preference policy, in order to creating first class South Korean logistics enterprises in the world. Secondly, South Korea made laws and regulations to regulate the development of logistics. Besides, the government has also made other preferential policies such as preferential charge for the use of public facilities by the logistics enterprises, tax reduction for enterprises engaged in human resources development.

2.4 Threats

2.4.1 Bases and Infrastructure are still insufficient

Korean government is continuously expanding global logistics infra such as Incheon international airport and its hinterland Busan New Port and other specialized international ports. But some facilities are not activated currently. In example Gwangyang Port and Chungju/Muan Airport are not sufficiently activated as we anticipate.

Another problem is that most of int'l logistics facilities are operating as export/import gateways, because they partially failed to attract global logistics company or manufacturing company. Increasing rate and value-added of freight are decreased in Busan Port, Incheon Airport and their hinterlands. In additional , bad relationship with North Korea caused to delaying construction of continent-connected logistics network. Therefore, global network is not efficient for global shippers and not valuable for logistics companies, which leads Korean logistics companies often failed in global business.

Although Public logistics facilities such as IFT and logistics center are continuously expanded, Hub & spoke function of national logistics network is not activated and each facility is not connected. National logistics cost for import and export is increasing. Moreover, Road-oriented transportation system is continuously expanding to above 70%, which leads to overinvestment. The coverage of International transportation facilities is duplicated with each other.

Also, during recent 10 years most public IT projects in logistics division didn't make a good performance. In terms of information and standardization, domestic logistics process is still behind international logistics such as customs freight forwarding marine and air transportation.

2.4.2 Market competition is more intensive.

Global companies are becoming ever larger through strategic alliances and M&A and are exercising their influence in pricing of logistics market. The situation will be an obstacle to relatively small-scaled domestic logistics companies in entering overseas markets. Meanwhile, Global logistics corporations have expanded their businesses to include third party logistics in order to satisfy customers' needs and to generate new profits, which will not only hinder domestic logistics businesses from pursuing globalization but also will seize the domestic logistics Markey share. Also, Global corporations such as FedEx, DHL, Schenker and Panalpina are already providing service in Asian countries and doing their best to extend logistics bases and infrastructure there. Domestic third party logistics providers, which fall behind those global ones in many aspects, need to put their energy on entering new markets in advance, but they are still very slow in making forays into such markets.

2.4.3 Policy support is still limited

The governmental policies that feature restriction and the inadequate understanding of logistics make it difficult for the logistics enterprises to carry out voluntary structural adjustment and improvement. As developing the national information depository was delayed, credibility of logistics policy is also decreased. Also, the policies are still lack for supporting SMEs in logistics industry.

On the other hand, through making a supporting group for activating logistics globalization regional committees of logistics policy and regional logistics master plan, Private-Public relationship in logistics is getting concrete .But some important national logistics projects are delayed because of a different view within logistics related ministries. In additional, although Korea continues to put more investment on logistics industry, it is an undeniable fact that manufacturing is given more priority.

In additional, rising prices led to an increase in investment risk and made domestic companies negative about investing, which will eventually make them uncompetitive in the market.

3. Strategies to Enhance Competitive Power of Domestic 3PLPs

Through SWOT analysis, it is not difficult to conclude that domestic 3PLPs have implemented similar strategy in development process. Korean 3PL industry aims to establish strategies for globalization. Globalization of logistics is not only one of national policies but also the responsibility of domestic third party logistics providers. Globalization will make the domestic companies more competitive in potential markets in the world. As for government, the supports for globalization should focus on control of second party logistics for invigorating third party logistics, improvement in the structure of poorly-equipped logistics businesses and establishment of the culture of logistics cooperation with client firms at home and overseas for restoring the reliability of domestic logistics businesses. As for domestic 3Pl providers, the strategies for globalization should focus on as follow:

3.1 Establishment of SCM for One-Stop Service

As said above, the service by global third party logistics providers accounts for 80% of the world market and they have made every effort to offer standardized logistics services anywhere in the world. And, their SCM is an integrated solution that covers and links lots of companies and industries, not a solution only for a single business.

With this current movement in the industry, domestic third party logistics providers also have to invest in and develop an integrated solution that can apply to every business so that a network of supply chains for logistics service can be established. Responding to client firms' effort to build up a supply chain, the domestic logistics providers should be able to offer one-stop service involving financial support, which is service, offered by global logistics corporations, and for that, should not set a limit on the types of possible services.

3.2 Utilization of Latest IT

Without IT, no business can be efficient and competitive in any of the world markets. It is the IT sector rather than core logistics works that decides whether a company is competitive. It is necessary to use various types of IT in constructing systems to realize e-SCM, such as utilization of various application packages and integration of communication networks between systems and between regions. Financial support is critical in building up such IT. Considering the poor conditions of domestic companies, they need to cooperate with the government, which pursues world-class logistics power, to solve their financial difficulties and make considerable investment, which will help them to take a superior position in the market. When utilizing IT, domestic third party logistics providers should bear in mind that IT should be used for customer-oriented service and at the same time should be able to contributing to reducing operation costs.

3.3 Extension of Logistics Infrastructure

The most urgent issue that domestic third party logistics providers have is ‘extension of a logistics infrastructure.’ It is a definite fact that the strongest point of the global corporations such as FedEx, UPS and DHL is the logistics hubs of their own positioned across the world. Although domestic third party logistics providers have made much effort to have such hubs, it is impossible to establish them in a short period. The government is, however, planning support measures for the establishment, so the domestic providers should organize a network of hubs, based on analysis and careful selection of top priority investment areas according to the trend of the world logistics industry, which will make them competitive in new markets in the world.

3.4 Tendency of Businesses for Large Scale

Considering the worldwide attempts of distribution and manufacturing businesses in globalization, domestic third party logistics providers are very slow in entering overseas markets. The domestic providers should extend strategically their businesses in the shortest time possible so that they could compete with global third party logistics providers continuing to grow through aggressive M&A and strategic alliances. But, such extension does not mean just a large size, but means a strategic process by which a company’s own network is established, centering on potential markets, and the company takes a favorable position through for example, mergers or alliances to dominate the markets.

4. Conclusion

Based on a substantial body of literature, the study has followed a typical pattern of development, beginning with relatively simple issues and adopting an essentially descriptive approach. The study reveals that the significance of Korean 3PL industry. To some extent, the study has provided the clearly understanding of the current situation and development strategies of the domestic 3PLPs. Korean 3PL industry which is in a state of flux. Internet, supply chain management and globalization have made sweeping changes in the existing business models of the 3PLs. It is timely to extend the issues to progress with more normative considerations.

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