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# Research on the Dynamic Alliance of the Third Party Logistics Enterprises in China

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### Abstract

In allusion to the actuality of Chinese third party logistics enterprise dynamic allinace, The article suggests some practical measures with the latest research results and the principles of management. It analyzes systematically how to form alliance for such enterprises and makes an overall and profound study on formation and management of logistics enterprise dynamic allinace. By applying theory to practice, it hopes to provide logistics enterprise with something valubale for their reference.

## 1. Introduction

With the quick globalization and health economic development, Chinese third party logistics enterprises are like bamboo shoots after a spring rain. After the open of the logistics market, the entrance of many foreign logistics firms makes our third party logistics enterprises which are lack in the competence advantage in China face the challenge to survive. Therefore Chinese third party logistics enterprises have put forward the way to strengthen completing ability by way of enterprise dynamic allinace. However, not every logistics enterprise dynamic allinace which is a new form of organization succeeds, how third party logistics enterprise adopt it to meet the customers' increasingly diversified service requirements become a pressing problem.

## 2. China's Third - Party Logistics Development Status Quo

### 2.1. The Concept of Third Party Logistics

International logistics terminology of the definition of logistics is: the so-called logistics refers to the goods from the supply to the receiving entity of the physical flow process, it is the actual needs of the report, the transport, storage, loading and unloading, shipping, packaging, circulation processing, distribution, information processing and other basic functions of the organic combination. The National Council of Physical Distribution Management defines logistics as follows: Moving consumer goods from the end of the production line to a wide range of activities related to consumers, including activities that move raw materials from the supply source to the activities of the production line starting point. Third Party Logistics (Third Party Logistics, referred to as TPL) was proposed in the 1988 US Logistics Management Committee in a customer service survey for the first time. There are many interpretations of the third party logistics currently, and foreign countries have not yet a unified definition. In the international "logistics terminology"

published in China in 2001, the third party logistics is defined as "Logistics enterprises to provide logistics services outside of the seller and the buyer's business model", also known as the business logistics, which is relative to the first party consignor and the second party consignee, the third party by the professional business to undertake corporate logistics activities of a logistics form, through cooperation with the first and second parties to provide its specialized logistics services, it does not have the goods, do not participate in the sale of goods, but to provide customers with contract constraints, alliance-based series, personalized, information-based logistics agency services [1].

## **2.2. Competition Among Domestic Third - Party Logistics Enterprises**

Third party logistics is a promising industry in the third party logistics industry has a variety of competitors. In order to facilitate the analysis, these articles divide China's third-party logistics competitors into three categories: foreign third-party logistics enterprises, large domestic integrated logistics companies and domestic small and medium-sized third-party logistics enterprises [2].

### **2.2.1. Analysis of Foreign Third Party Logistics Enterprises**

Foreign large-scale third-party logistics enterprises, large-scale, operating well, good at capital operation and logistics management, and they have the obvious advantages. International trend is gradually to the scale, network, and the use of information technology to provide consumers with low service direction. From December 11, 2005, China's logistics services industry began to fully liberalize foreign investment, foreign logistics enterprises from China can set up wholly-owned branch [3]. Foreign large-scale third-party logistics enterprises will be more to enter the Chinese market, which will further intensify the domestic logistics field of competition, the industry generally agreed that the overall release will bring greater pressure to just some of the domestic small and medium-sized logistics enterprises.

### **2.2.2. Analysis of Large - Scale Integrated Logistics Enterprises in China**

Domestic large-scale integrated logistics enterprises refers to the comprehensive performance of logistics, high integration, a wide range of logistics services, with strong assets of the domestic logistics enterprises. Such as COSCO, China Shipping, Sinotrans & CSC and other companies are such typical examples. In the end of 2008, Sinotrans & CSC has 100.4 billion assets, 18 million dwt of ocean-going vessels, 101.7 million cubic meters of warehouses, 13,000 trucks, special lines of 84, supervisors and bonded warehouses and self-dock of 20. It is characterized by the provision of integrated logistics services, logistics, one-stop service, to meet the complex needs of enterprises and diverse logistics. From the current point of view, in the logistics competition, the domestic giants rely the network and physical construction heavily on their own business for many years, the current

focus of competition focused on the size of the service coverage of the vast area and the number of services. In short, it is a broad-based growth mode of competition and makes the imitation between competitors is relatively easy.

### **2.2.3. Analysis on Domestic Small and Medium - Sized Third Party Logistics Enterprises**

Analysis of small and medium-sized third-party logistics enterprises in the third-party logistics industry's position found because they can not provide independent one-stop logistics services, small and medium-sized third-party logistics enterprises in the quality of logistics services there is a lack, Logistics services, the credibility of the lack of credibility, in the logistics service competition. At the same time due to the small size of the assets, the service area is not wide to small and medium-sized logistics enterprises in China's logistics industry at a disadvantage in this round of expansion at a disadvantage. At present, the industrial status of small and medium-sized logistics enterprises should be: in a logistics industry full of development prospects, in the face of foreign strong competitors and domestic logistics expansion, small and medium-sized third-party logistics enterprises in a weak position, but China is still in the growth period of Third-party logistics industry, which provides a good opportunity and development direction for the small and medium-sized third enterprises [4].

## **3. Problems in the Third Party Logistics Enterprises in China**

### **3.1. Logistics Concept Fall Behind Others**

Due to the logistics as a "third profit source" there is a misunderstanding and by the "big and" "small and full" concept. Many manufacturers self-built logistics system do not want to seek logistics service.

### **3.2. Segmentation Is Serious and the Enterprise Scale Is too Small**

Due to historical reasons and the impact of planned economy, China's logistics enterprises to form a diversified logistics pattern, the scale is too small, serious segmentation, lack of integration of enterprises, supply and demand between the deviation, do not have the advantages of intensive management, economies of scale is difficult to achieve.

### **3.3. Vicious Competition Is Frequent**

Enterprises compete for a limited market price war, so that third-party logistics enterprises suffered heavy losses.

### **3.4. Domestic Third-Party Logistics Enterprises Due to Their Own Capacity Constraints**

On the one hand the management network is irrational, a

little no network of the phenomenon of common, third-party logistics enterprises, between enterprises and customers lack of cooperation. On the other hand, information technology is backward and can not use high-tech, high-quality logistics services to participate in the international market competition.

### **3.5. Service Function Is Incomplete**

Most logistics enterprises can only provide individual or sub-section of the logistics services, logistics functions are mainly reflected in the storage, transportation and urban distribution, the relevant packaging, processing and other value-added services. Service costs are high, but the service level is low [5].

### **3.6. Logistics Talent Is Shortage**

China's third-party logistics enterprises generally have a low level of management. It is difficult to meet the modern logistics services required by the business standards, especially with advanced technology, management philosophy and rich experience, senior personnel quite plaque lack.

## **4. A Study on the Necessity and Feasibility of Forming Dynamic Alliance in China's Third Party Logistics Enterprises**

### **4.1. Analysis of the Necessity of the Strategic Alliance of the Third Party Logistics Enterprises in China**

Since the nineties of the twentieth century, some of our logistics enterprises such as P. G. Logistics, COSCO Logistics has been a greater development, but on the whole, the true sense of the third party logistics is still in the early stages of development. The development of the third party logistics to promote the logistics of its development path for many aspects of the necessary discussion, the implementation of dynamic alliance within the logistics enterprises is not only necessary and feasible.

#### **4.1.1. Market Dispersion and Large-Scale Logistics Operation of the Contradiction, Requires the Active Integration of External Resources**

In China's third-party logistics market demand, there are obvious geographical characteristics and industry distribution characteristics. From the geographical point of view, the demand for logistics services mainly from the Pearl River Delta, Yangtze River Delta and cities and other economically developed areas, geographical distribution is more concentrated, the majority of the western region, remote provinces and counties of the true sense of the logistics has not yet started [6]. Distribution from the industry point of view, the demand from the market development of several more mature industry, and different industries have personalized

needs, the logistics needs of the market is quite scattered. Logistics enterprises to provide services to customers, not only need to integrate internal resources, but also to effectively integrate external resources. Only strong cooperation, playing their respective advantages, then they can provide better service.

#### **4.1.2. The Third-Party Logistics Enterprises will Inevitably Lead to Logistics Companies Together**

Production enterprises and businesses in the search and selection of new logistics providers, they are most valued is the logistics enterprises to meet customer demand and logistics operations quality. But the problem is that most of the existing third-party logistics business logistics facilities is difficult to adapt to the needs of customers. In addition, according to the China Federation of Logistics and Purchasing statistics, less than 40% of the logistics enterprises have information systems, indicating that the logistics enterprise information is low, it is difficult to achieve high efficiency, low cost and so on. And through the Union can have different core competencies of third-party logistics enterprises in the logistics equipment, technology, information, management, capital and other aspects of interoperability, complementary advantages, and better for the industrial and commercial enterprises to provide personalized logistics services [7].

#### **4.1.3. The Competitive Pressure of Multinational Logistics Companies must Be Dynamic Alliance to Deal with International Large-Scale Logistics Enterprises to Seize the Competitive Situation in China's Market**

Since China's accession to the WTO, foreign large-scale entry, Maersk, Singapore Port Authority and other logistics predators in Shanghai take turns debut. Faced with such a strong competitor, China's logistics enterprises only formed a coalition, through various industries, as well as engaged in all aspects of business between the joint business, the formation of a powerful force to jointly resist the invasion of foreign large-scale logistics enterprises May be invincible.

### **4.2. The Feasibility Analysis of Dynamic Alliance Strategy of Third Party Logistics Enterprises in China**

#### **4.2.1. The Pursuit of the Common Interests of the Third Party Logistics Enterprise Dynamic Alliance Possible, the Shared Interests Between Logistics Enterprises Are the Foundation of the Alliance**

In the logistics market, the profit space of the enterprise is huge, however, the efficiency of logistics enterprises in China is relatively low, which is in sharp contrast. Through the alliance, logistics enterprises can improve the logistics efficiency and maximize the benefits of logistics. After the establishment of dynamic alliance, the third party logistics

enterprise, the logistics operations from the internal expansion to the outside, the interactive use of various resources, access to higher profit margins [8].

#### **4.2.2. With the Wide Application of Internet Technology, It Is Possible for Trans Regional Third Party Logistics Enterprises**

Since 21 century, logistics enterprises are facing more intense competition, more factors of uncertainty of the market: shortened product life cycle and various user requirements and provide more quality services, which are increasingly accepted by people, and has become the common goal of logistics enterprises. The application and establishment of market information and communication system of the personal computer and the Internet technology growth closer to the enterprise space distance, remote logistics enterprises using the Internet channel body can realize information resource sharing, provides favorable conditions for the closed, take a step to expand the space in their market.

Analysis shows that the existence of soil and real market environment, therefore, the third party logistics enterprises in China should focus on the current with the giant and complex situation, to grow their own development at the same time, they can take a good opportunity, the dynamic alliance, the integration of existing resources, to further promote their own the development, and foreign logistics giants compete, unfavorable situation in order to get rid of the weak, has got great development in the fierce competitive environment [9].

### **5. The Key Element Analysis of Our Country Third Party Logistics Enterprise Dynamic Union Building**

The third party logistics enterprise dynamic alliance forming process is a complicated system engineering which involves the various conditions

Restrictions and factors influence. This chapter for our country third party logistics enterprise dynamic alliance forming process, mainly analyzing the partner selection of dynamic alliance, dynamic alliance information technology creation, and dynamic alliance profit distribution.

#### **5.1. Our Country Third Party Logistics Enterprise Dynamic Alliance Partner Selection**

The choice of alliance partners and their relationship management is to ensure that the alliance smoothly and reduce alliance failure probability. By the third party logistics enterprise the analysis of the dynamic alliance partner relationship management and its application, to improve operation efficiency and the overall benefits of the alliance, the alliance become stable and sustainable development. General speaking, in the process of partner selection, according to different formation and specific tasks of the dynamic alliance enterprises, to select different principles and

standards, but there are still some basic principles, the specific analysis are as follows:

##### **5.1.1. The Principle of Core Competence**

One of the purposes of forming dynamic alliance enterprises is to obtain complementary advantages, and this advantage is the core competitive force of each member. From this point, the core competitiveness is the ability to participate in the basic conditions of dynamic alliance enterprises. Xiaofei Xu and others also think "The core competitiveness is basis to build a AVE (Agile Virtual Enterprise) and choice of the coalition partners ". So the first step of our country third party logistics enterprise partner selection is to identify the core competence of potential partners, to see whether the core competence of potential partners can make up for their own part or all of the core competence deficiency.

##### **5.1.2. The Total Cost of Economical Principle**

The principle is not only refers to the total actual dynamic alliance enterprises operating costs (include the cost of connection) should be no greater than individual independently all internal costs, and by mutual cooperation of members, is the allied parties eventually be able to obtain the coordination effect of  $1 + 1 > 2$ . This requires good trust relationship between partners, and relatively close of geographic distance and little link cost.

##### **5.1.3. The Principle of Agility**

The characteristics of dynamic alliance enterprises is to cater and rapidly response to market opportunity, so it has high agility requirements for each partner enterprises, requiring them take quick reaction capability to external or dynamic alliance enterprise dynamic alliance partners of the service request.

##### **5.1.4. The Principle of Mutual Trust**

Due to the dynamic alliance members of the enterprise in such aspects as background, organization, culture differences, they often consciously or unconsciously create new obstacles and psychological defense in the cooperation, thus affecting the cooperation between members, causing loss of time and energy, reducing the organization efficiency. Therefore, building trust relationship, eliminating the hidden trouble of the crisis of confidence, is one of the principles and standards to choose a partner and the premise of improving the efficiency of the network organization.

##### **5.1.5. Risk Minimization Principle**

For enterprises to participate in dynamic alliance enterprises its fundamental purpose is to obtain economic benefits, for every member enterprise, income and risk are inseparable. One reason of building a virtual enterprise is to spread risk, but this does not mean that the market risk will reduce or not exist; it just got the redistribution between the individual partners. In addition, partner enterprise in dynamic alliance enterprises often face different organizational structure and technical standards, different enterprise culture and management idea, different hardware environment, etc.,

these factors will increase the risk of enterprise dynamic alliance cooperation and the leak of core competence, etc. Therefore, they must carefully consider the risks when choosing partners, choosing the right partners to maximum extent, to avoid or reduce the overall dynamic alliance enterprise operation risk.

These principles is the basic principles of partner selection of our country third party logistics enterprise dynamic alliance, in practice, due to the specific problems of different third party logistics enterprise, and the difference of third party logistics enterprises in our country on the specific target, when choosing a partner may not be limited to the above basic principles, such as to expand the market dynamic alliance enterprises may also need to consider the areas, goodwill and brand factors of partners etc..

## **5.2. The Building of Our Country Third Party Logistics Enterprise Dynamic Alliance Information System**

For nearly two years, our country third party logistics enterprise attaches great importance to the construction of logistics information system, most enterprises have gradually started to design independently, outsourcing or directly purchase logistics information system, building a good basis for the whole dynamic alliance information system. Because the demand of our country third party logistics dynamic alliance members across regions is higher, spatially separated is large, face-to-face communication and cooperation will limit the scope of the league to expand, the development of computer network with other various communication provides the necessary technical support of technologies for dynamic alliance provides remote communication conditions, the data exchange protocol between alliance enterprises, collaborative way of working, dynamic alliance workflow management and project management mode for dynamic alliance for the operation of dynamic alliance, enterprise has a close relationship with the implementation of the alliance, so the network communication technology is the key elements to make sure our country third party logistics enterprise dynamic alliance enterprise smooth connection.

For our country third party logistics enterprise dynamic alliance, dynamic alliance establishment and run need to rely on a variety of advanced technical support. Our country third party logistics enterprise dynamic union members to achieve goals must be invested to establish a standardized information exchange system, by sharing information resources platform to find market opportunities and performance agreement. If each member of the logistics enterprise as an isolated node, then connect the nodes of the line segment is information technology, through the connection of information technology, the logistics enterprises passed the logistics information between them, to make the operation of the virtual logistics enterprise dynamic alliance possible, to realize dynamic alliance internal integration of logistics links, reduce logistics costs, improve service quality, optimize the social resources. Within our country third party logistics dynamic alliance information platform planning must follow the following principles:

### **5.2.1. The Structure of the Network**

In the Internet increasingly developed today, although the information systems function nodes distributed in different location of members, the distribution points information subsystem with autonomous ability, the logistics node Punjab implement information management is the inevitable trend. the network of logistics information system logistics information in a timely manner and even early in the process of the logistics, realizing the transfer between the members of the dynamic alliance enterprises, thereby eliminating invalid and redundant logistics between the alliance.

### **5.2.2. The Standardization of Information**

It is mainly manifested in the standardization of data format, file transfer, and information. Union must have a standard, general information exchange interface, benefit for the seamless connection of information and transmit, avoid union information distortion and waste of resources.

### **5.2.3 The Timeliness of Information**

Inside the dynamic alliance, logistics enterprise information system must provide feedback management quickly, which requires all members to update the system internal information, to narrow the information and the deviation of actual situation, improve the accuracy of the union logistics information and accuracy.

### **5.2.4. The System's Flexibility and Coordination**

Dynamic alliance is a complex system, the member enterprises, users and customers demand is universality and diversity, so its logistics information system planning requires a high degree of flexibility, according to the product the demand of the market changes to change the structure of the information system configuration quickly, and have the ability to meet the need of information, data, to meet the needs of the alliance partners, customers and clients. At the same time has a high ability to coordinate all members to play their respective advantages, support the alliance enterprise operation, to achieve common goals.

### **5.2.5. System Processes the Initiative of the Abnormal Situation**

Inside the dynamic alliance, due to the alliance's own reason or the interference of external factors, the information system will inevitably have to appear abnormal situation; coalition partner enterprise system should be able to pass information to the outstanding problems and opportunities to make corresponding decision. Through the above rules, to establish a information system to adapt the dynamic alliance, through the system to obtain useful information effectively, is the goal of the league members which participate in.

## **5.3. Our Country Third Party Logistics Enterprise Dynamic Alliance of Interest's Distribution Mechanism**

Dynamic alliance is essentially a form of contract

relationship in pursuit of economic interests, therefore, the profit distribution problem is a member of the dynamic alliance enterprise concerned about, is also a sensitive issue. It can make the individual enterprise willing to cooperate, and it also can make the cooperation of enterprises to terminate the partnership because of the uneven distribution of interests. And after the league relative profitability if it is below the relative profits, it will not reach a long-term alliance. In order to make the union run healthily, cooperative enterprise interests are allocated fairly and reasonably, the target is completed, must set up the correct guiding ideology of profit distribution and allocation principle. Cooperation is the reason of profit distribution, distribution is the result of cooperation, there is no cooperation of interest division belongs to the category of profit distribution. In any fields, when it comes to the profit distribution problem, first thing is to identify the elements of profit distribution problem. The interests of the so-called interest distribution elements should be able to produce the function of contribution factor. The third party logistics enterprise dynamic union interests allocation is dynamic alliance formed its implementation during the period of interest, according to certain proportion in the process of segmentation and distribution between partners. Dynamic alliance profit distribution should be not only the economic goods distribution, it should also be based on dynamic alliance during the project of other supplies: such as intangible assets, patents, marketing channels and the allocation of customer loyalty, etc. In the dynamic alliance, the following factors are mainly considered in the process of income distribution:

### 5.3.1. The Physical and Chemical Factors

Dynamic alliance members put into all kinds of raw materials, equipment, facilities, money and other tangible assets shall be at a discount, to participate in income distribution.

### 5.3.2. Information Technology

In today's highly developed information technology, technology plays an enormous role for the enterprise and the league's revenue. Therefore, for those enterprises which put into more technology should get more benefits in the distribution of benefits.

### 5.3.3. The Intangible Assets

Excellent products, services, and corporate image will create a good business reputation, have a famous brand and good reputation is important to modern marketing. Therefore the intangible assets in the income distribution should be considered [10].

### 5.3.4. The Risk of the Alliance Partner Enterprises

These including league goals to achieve risk, the wind face of the market and the risk of cooperation, technology risk and so on. The greater the risk, the more the corresponding benefits.

### 5.3.5. Total Revenue

The size of the total revenue is the basis of profit

distribution of the league. No gains, no profit distribution.

### 5.3.6. Work Results

Effectiveness and efficiency of this can be quantified for the member enterprises for league goals to achieve, valid time of payment. (Refers to the effective working hours that can affect the development or benefits of the alliance.)

## 6. Conclusion

In this paper, on the basis of the relevant economic theory, fully analyzing our country existing environment and current situation of the development of third party logistics enterprises that putting forward the idea of construction of the third party logistics enterprise dynamic alliance. Logistics enterprises are studied in the process of building dynamic union dynamic alliance partner selection and the construction of information platform, profit distribution, etc.

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