

A strategy for third-party logistics systems: A case analysis using the blue ocean strategy[☆]

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Abstract

One of today's most frequently discussed topics in the business world is how to escape from the intense Red Ocean and how to create an uncontested Blue Ocean. However, because there are few practical guidelines available on this topic, we will introduce a case study of a third-party logistics (3PL) provider, CJ-Global Logistics Service (CJ-GLS), to show how it aspires to be a leader in the newly introduced 3PL industry in South Korea. CJ-GLS is a latecomer in the logistics industry, and its resources, such as the number of trucks and warehouses, are relatively small in comparison to those of established companies. But, it has achieved a distinct competitive advantage through innovative information technology (i.e., RFID—radio frequency identification), which has enabled it to create an uncontested market space, electronic logistics business. One remarkable fact about CJ-GLS is that its swift growth comes not from attracting competitors' customers from the existing Red Ocean market but from creating a Blue Ocean market (3PL market), which previously existing incumbents ignored, and also from constructing a new business model founded on a RFID-based, ubiquitous-oriented 3PL system. Analyzed through a Four Actions Framework and characterized as Blue Ocean, this case study provides valuable information on how a company reinforces its competitive advantage from the Red Ocean while it transitions into a Blue Ocean by utilizing advanced information communication technologies.

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1. Introduction

Historically, a dominant business strategy has been competition among companies based on how to gain the largest share of market space. However, intense competition has caused industry to be oversupplied, and

increased market share does not always lead to increases in profit. Under the circumstances, a fast follower strategy is hardly effective, and a new growth engine is seldom found. The Blue Ocean strategy is “a consistent pattern of strategic thinking behind the creation of new markets and industries where demand is created rather than fought for and the rule of competition is irrelevant” [1]. Therefore, the Blue Ocean strategy provides companies with guidelines on how to escape from intense competition over the same market space—where there are limited customers with an increasing number of competitors—by creating a new market space where there is less competition if any.

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Systematic and efficient logistics service has become one of the core support services of e-businesses, and many innovative strategies have been proposed [2,3]. Globally expanding Internet and e-businesses have brought new business models with less distribution layers resulting in customer-based logistics, Internet-based logistics, logistics for small-batch production [4], and zero-inventory logistics [5]. Companies who operated their own logistics network began to outsource part or all of their logistics function to the 3PL companies who provided expertise in solutions of logistic systems, transportation, warehousing, freight consolidation, distribution, inventory management, and logistics information systems [6,7]. Although 3PL itself is a relatively new business model [8,9], several researchers have proposed newer business models for 3PL, such as the reverse logistics model [10] and grid computing technology services [11].

CJ-Global Logistics Service (CJ-GLS) is a latecomer in the Korean logistics industry, but it entered into the 3PL industry from the start and has the largest client bases in the market. The success of CJ-GLS comes from its market analysis capability, accurate customer requirement analysis, and the constructing capability of its logistics information systems (LIS). Ranked fourth in the Korean logistics industry, CJ-GLS successfully completed the development of ubiquitous LIS based on radio frequency identification (RFID) under the cooperation of ten systems development companies and research teams at three universities in South Korea.

By applying the Blue Ocean strategy to analyze CJ-GLS's business model, this paper provides valuable information on how a company reinforces its competitive advantage from the Red Ocean while it moves toward the Blue Ocean strategy by utilizing information technologies. For this case study, we interviewed the chief executive officer (CEO), chief information officer (CIO), CJ-GLS logistics strategy research manager, the team manager of the information strategy team, and several line workers in both July and September 2005.

The structure of this paper is as follows. In the following section, we describe the case company (CJ-GLS), including an explanation of CJ-GLS's information systems and its evolving path to e-business and m-business supporting LIS. In section three, CJ-GLS's ubiquitous-oriented 3PL LIS, with its fundamental technology, RFID, is explained. Furthermore, we project the forthcoming new business model based on the ubiquitous-oriented 3PL LIS. In the fourth section, we introduce the framework of the analysis, the Blue Ocean strategy, and analyze the case using this framework. Problems and success factors found throughout

the implementation of the ubiquitous-oriented 3PL LIS are stated. Finally, we summarize the CJ-GLS's strategic path and its capabilities in creating an uncontested Blue Ocean with its superb business processes and supporting technological capabilities.

2. The first mover: CJ-GLS

2.1. Introduction to CJ-GLS¹

Starting its business as a subsidiary of Samsung Corporation in 1988, CJ-GLS adopted a cross-docking system in South Korea for the first time in its industry in 1991, built LIS in 1994, and introduced coastal shipping logistics in 1996. In 1998, the logistics systems and technology subsidiary unit of Samsung Corp. renamed itself CJ-GLS and launched its separation with an initial public offering of stock issued in 1998.

The core business units of CJ-GLS are 3PL service and domestic and international small parcel services, which are all based on corporate clients. 3PL service, the largest portion of its business, executes the logistics support for client companies and includes freight consolidation, distribution, transportation, warehousing, product marking, labeling, packing, and order management.

Clients of CJ-GLS are twofold: the first group are companies who have their own logistic systems but utilize CJ-GLS's superb 3PL and international small parcel service capabilities, and the second group are startups without their own logistics systems who utilize 3PL service for B2B (Business to Business) logistics service and small parcel services for B2C (Business to Consumer) logistics. Clients are composed of 220 companies from a variety of industries, including pharmaceutical, food, chemical, and e-marketplaces. Some of the international clients of CJ-GLS include Sony, National Panasonic, Lego, Nestle, and Osram Sylvania. Table 1 shows the growth of CJ-GLS's revenue. It increased from \$138.6 million in 2000 to \$378 million in 2004, which placed CJ-GLS in the top rank in 3PL service and the fourth rank in small parcel service. Fig. 1 and Table 2 show Korea's market.²

¹ Professor C. Kim advised the members of the project informally from time to time. He was with the project from the beginning and will also continue in this role for the next stage of the project.

² In 2002, the total cost of Korean logistics was 85 million dollars. Of 66 million dollars of domestic logistics, 65.5% was self-owned and 34.5% were outsourced logistics operations.

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