FRAMING THE FUTURE: SME LOGISTICS SERVICE PROVIDERS AND SCENARIO PLANNING

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ABSTRACT

In recent years, the transport industry has encountered numerous challenges. It experienced strong growth, but also many uncertainties. In many cases, logistics service providers were forced to change their strategy. So, the question for logistics service providers arises "how to deal best with uncertainties?" We build a hypothesis on the question how SME logistics service providers had been dealing with the uncertainties and developments they had been faces with. In order to test this hypothesis, we questioned 13 SME logistics providers from the Dutch region of Nijmegen on their policies how to cope with the near future. Our initial impression was that they tackled these problems mainly on a day to day basis. That proved not to be true. But our research shows that they are aware of the changing environment and but do not translate this into targets which makes it difficult to be prepared for such occasions. Another finding is that SME logistics service providers want to give scenario planning an important role to determine their strategy.

INTRODUCTION

"The daily struggle for survival keeps me from looking ahead to see what might happen tomorrow". "As a SME transport company, we are completely depended on whatever happens with our shippers". These are just two quotes from SME logistics service providers participating in a research we conducted amongst the branch in 2011. We had heard these remarks before from SME logistics service providers, so we wanted to find out how they handled coping with their future. During the last decade the industry has seen a huge growth but a sharp decline during the last year. We wanted to understand if and how they prepared for these uncertainties. We especially wanted to find out if they used a systematic approach or just went from case to case and whether they used tools like scenario planning (Schwartz, 1996; Lindgren & Bandhold, 2003).

RESEARCH METHODOLOGY

As basis for our research we took the Balance Scorecard (BSC), which was developed by Kaplan and Northon (1992) to illustrate the translation of the company's vision into a strategy. BSC is a model based on financial measures for the success of a company, but supplemented with aspects from other perspectives – customer, internal process, and learning, these financial measures link strategic vision with operational activities. This model provides in a framework which we be believe is easily recognized by logistics service providers: create a vision based on your market but with profit as the most important outcome .

Our target group are SME logistics service providers. We took them because they:

1. Most likely do not have the man power to formulate alternative scenarios for the future;
2. Are often family owned; The bond between the owners and senior management is always very strong in these types of companies (Flören & Zwartendijk, 2004). This close bond can have an impact on the way how a company looks at its own future.
3. Could be depending on one or two major customers.

These aspects could have an impact on how SME logistics service providers take a different look on their own future as large logistics service providers. Based on these three aspect we have formulated a hypothesis:

SME logistics service providers do not prepare a strategy for eventual situations in the future.

To test our hypothesis we did a survey under SME logistics service providers in the area Nijmegen-Eindhoven. We set the maximum work force at 200 full time employed (FTE) employees. This number does not include potential hired capacity from third parties. We also set a limit to the minimum number to 25. This will exclude the large group of owner operator truck drivers. We believe that this group will have its own specific problems which should be the subject of a different study. We called 40 companies to ask for their cooperation and we found 13 who wanted to participate to an one hour unstructured interview. Before we conducted this interview we send them an email on what we would like to discuss to help them to be prepared. Table 1 lists the interviewees , the company size, market in which they operate and their respective activities.

Company	FTE	Market	Activities
1	101-150	Exceptional Transportation	National Transport, Warehousing
2	101-150	Physical Distribution	International Distribution, Warehousing, VAL
3*	51-100	Events	Setting Up Sites
4*	151-200	Transport Perishable Foodstuffs	National Distribution, Warehousing, VAL
5	151-200	Transport Perishable Foodstuffs	National Distribution, Warehousing, VAL
6*	25-50	Building Material	Transport, Warehousing
7*	51-100	Theatre/Entertainment	International Transport, Warehousing, VAL
8	151-200	Heavy Goods	International Transport, Warehousing
9*	51-100	Physical Distribution	National Distribution, O Warehousing
10*	51-100	Transport Perishable Foodstuffs	National Distribution, Warehousing, VAS
11	25-50	Courier Transport and Express Services	Courier Transport Services in 25 Km Radius
12*	51-100	Transport Perishable Foodstuffs	National Transport, Warehousing
13*	25-50	Transport Perishable Foodstuffs	National Transport, Warehousing

Table 3list of interviewed companies

* (the numbers 3, 4, 6, 7 , 9, 10, 12 and 13) indicates a family owned company.

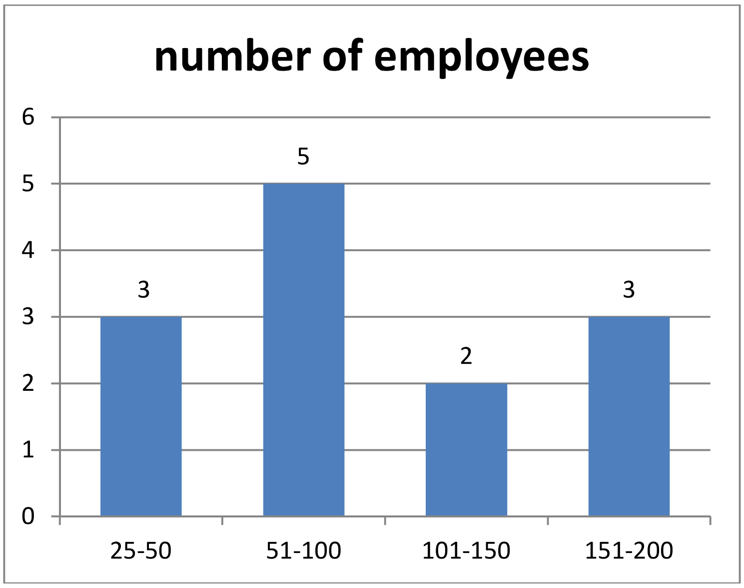

Figure 4 distribution of interviewees and company size

The interviews were held at the company's location and the interviewee was always (co) responsible for developing the company's strategy. Every interview was recorded, transcribed and send to the interviewee for correction and omissions.

INTERVIEW RESULTS

In the interview we asked the interviewee about their views on:

1. *The vision of the company*

   Four (1, 4, 9 and 13) of the thirteen companies (31%) have as an objective that they want to grow. For three (2, 6 and 12) respondents (23%) mere survival is at the moment the main objective. For the remaining six (46%) finding a specific niche should secure their business activities. All respondents report that there is a lot of competition in the transport sector and therefore they are also trying to drive at a lowest possible rate service striving for efficiency. Often the term "dog eats dog" is used. The vision of company 6 is their opinion on the whole industry, not a vision for the company itself.

2. *Horizon of policy formulation*

   It is remarkable that some companies indicate a planning horizon of one year (3,4 and 6) or less than 5 years (1, 2 and 7). The question may be whether strategic planning is a) a moment of reflection on the future or b) a tactical planning. The period of less than five years used by the companies above, would rather point to tactical planning as to strategic planning (Dess et.al, 2010, Thompson et.al., 2010; Horngren et al, 2012, p 206). What is striking is that 54% of companies do not meet at a fixed time to debate the strategy. For this group, policy decisions are an ongoing process which is done alternately with the other activities.

3. *Who formulates the strategy*

   For 22% (6, 7, 10) of the companies surveyed the strategy is formulated by just one person. In 14% (11, 13) of the cases, this is done by two persons and in remaining 64% the strategy is formulated by the whole management team.

4. *Scenario planning (Present use and Future use)*

   Of the companies surveyed 12 (92%) are familiar with the aspects of scenario planning. 15% (2, 5) uses scenario planning at present. These companies have invented different scenarios and worked these out to be prepared for the unexpected. Of the 11 companies that do not use scenario planning, the current economic crisis has surprised 5 (6,8,10,11,12). Company 13 suddenly discovered it was extremely depending on one major customer. They indicated that they might have seen this earlier if they had used scenario planning. Of the 11 (85%) companies that do not use scenario planning, eight (62%) companies (1, 3, 4, 8, 9, 10, 11,and 13) are considering using scenario planning in the near future. The main reason given is to map the growth potential of the company. The remaining 38% that do not plan to adopt scenario planning (6, 7, 11) indicated that they like the way how they are working at the moment and want to change nothing.

5. *information sources*

All companies surveyed are members of branch associations. Six companies (2, 5, 10, 12, 13, 14) regularly attend meetings of these associations to discuss various logistical issues. The eight other companies keep themselves informed through magazines.

6. *Dependence on customers*

Respondents 2 and 5 (15%) did not want to answer this question as they considered this information competition sensitive. Of the remaining 11 respondents, five (1,6,7,11,13) (45%) mentioned dependency on one major customer and four respondents (3,9,10,12) 36% mention large accounts but do not see this as a potential problem. Only two respondents (4, 8) (18%) indicated a broad customer base and saw no danger if any customer was to disappear.

7. *Greatest uncertainties in future*

When asked to name one specific uncertainty which would have a huge impact on the company the respondents gave the following answers as found in table 2:

Greatest Uncertainty In The Near Future	**Company**
Loss of a Major Customer	1, 2, 3
Crises, Economic Development	6, 8, 9
Obtaining of Personnel/Staffing Problems	5, 12
Having Just One Policymaker	7, 10
Fuel Prices	13
Company Growth	4

Table 4 main uncertainties

Only company 11 (8%) saw no uncertainties for the near future and expects to continue as usual.

ANALYSIS

The information obtained from the interviews was labeled and placed in the management system as developed by Kaplan and Norton (2008) as shown below in figure 2.

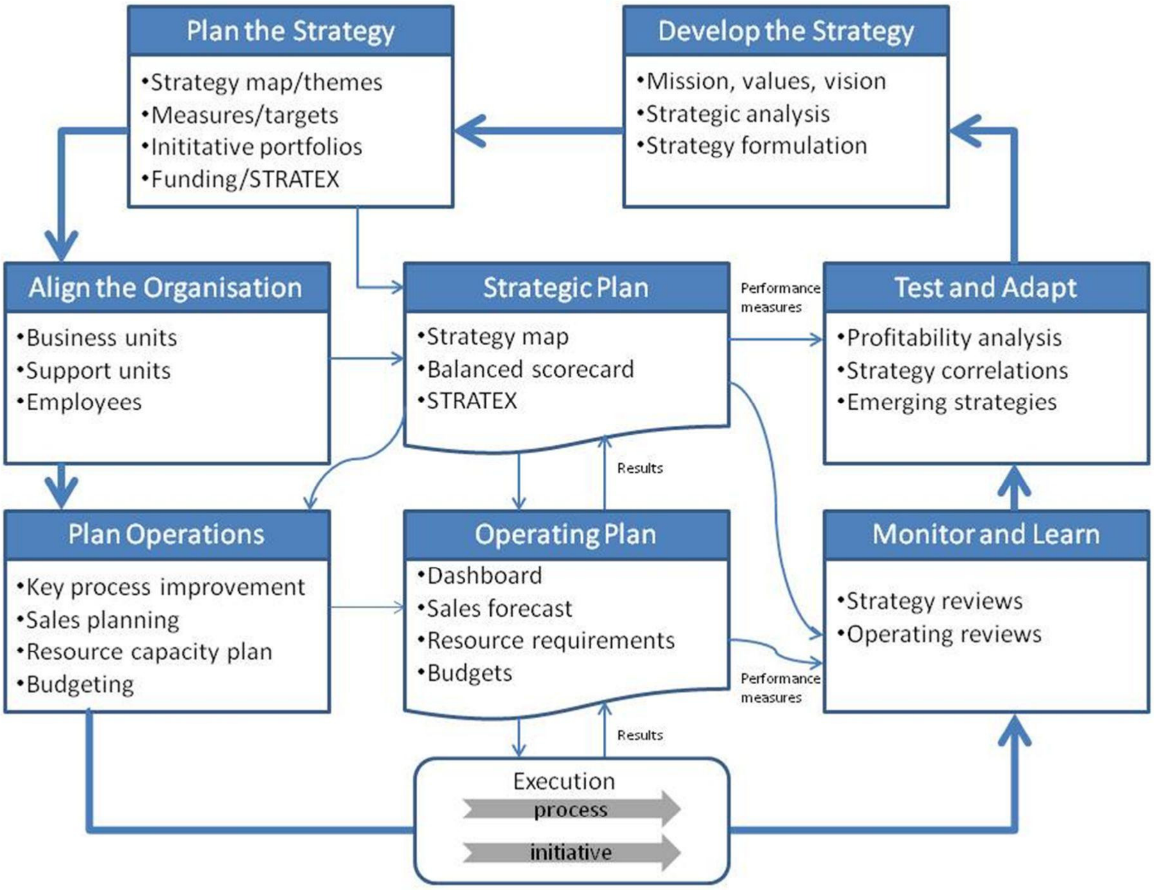

Figure 5 The management system: linking strategy to operations

If we fill the found labels in this ABC model we get the following view as found in table 3:

Aspect of Kaplan and Norton	Remarks
• Develop the Strategy	All respondents do have a mission and vision on what they want to do and what they aspect will happen in the future. However distant (or better close) this future may be. But these are sometimes wishful thinking (growth) or just survival.
• Plan the Strategy	Strategies are seldom written down! Also no one mentioned any measures or targets which should be met. This makes these plans difficult to serve as a focus point. They often change as the horizon is short and are perhaps more tactical or even operational plans instead of strategic plans.
• Align the Organisation	Most respondents mention that their main flexibility is to be found in their employees. They have taken on more staff with temporary contracts or with flexible working hours. No real changes were mentioned for business units and support units.
• Plan Operations	Not one respondent mentioned anything which could be placed under the labels "key process improvement", "sales planning" or "budgeting". If anything is mentioned, it is planning the availability of (human) capital.

• Monitor and Learn	With nothing set as targets for strategy and no measures mentioned, it is not surprising to find nothing on monitoring and learning on a strategic level. With so many respondents mentioning "survival" perhaps learning on a strategic level is a luxury at the present few can afford in this business.
• Test and Adapt	Again nothing set as a target, so how to test and eventually adapt?
• Strategic Plan	With so much handled on a day-to-day basis approach, a strategic plan might just be what this group is needed. But al present nothing was found which could be placed here
• Operating Plan	No dashboard for strategy is mentioned by anyone. All respondents focus on day-to-day problems and solve these as they come.

Table 5 ABC and the findings

CONCLUSION

Our sample is not meant to be representative, nor to draw any definite conclusions. But we still can say something in regards to our hypothesis. Based on our findings, SME logistics service providers seem not to link the future with present day handling. They seem more concerned with the ad hoc situations as with something which might perhaps occur. But they seem aware that the future is something which they should be prepared for, but are not 100% sure how this should be done. As all participants were a member of branch organizations, we would suggest that the latter could play an important role in this process to help SME logistics service providers to define future problems and possibilities. These branch organizations have the manpower missed by the SME logistics service providers and could provide their members with a wider knowledge and insight into the whole market. Still we want to suggest to SME logistics service providers to use scenario planning tools in order to draw the outlines of what could happen and where potential opportunities lie.

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