

CHAPTER I

INTRODUCTION



Statement of Problem

In the current global markets, competition in providing service and customer satisfaction seem to be increasing. Reduced prices, superior product quality, excellent customer service, expanded variety, and exceptional value are examples of the increasing demands being placed on businesses by their customers. To enable the company to satisfy the increasing number of customer requirements, many believe that supply chain management is the answer.

In today business, emerging trend of outsourcing in supply chain management (SCM) has become a significant topic of discussion among managers and academicians. As increasing in competitive pressure, the improvement of logistics service provider (LSP) or 3PL provider has been taken into account since they become the key party in supporting organization to achieve their capabilities or core competencies as strategic alliance or partnership. Starting from in-house logistics to outsourcing, third party logistics providers (3PL) become main party who provide organization in saving cost while creating more value added to end- customer. The scope of outsourcing relationships between companies and 3PL providers consist of a variety of options ranging from narrow and limited to specific activities like transportation to broad substantive activities in the entire supply chain like warehousing, inventory management, order processing, information systems and packaging. However, 3PL providers lack of expertise and information technology (IT) resources required to operate across the entire supply chain and to truly integrate supply chain processes. 3PL providers have almost reached their limit of what they can do to improve the supply chain performance, while their outsourcing operations provided one- time reductions; they cannot deliver continuous, ongoing savings (Foster, 1999)

In addition to that, the use of multiple 3PL providers by individual companies, the growing complexity of 3PL's contracts, the need for supply chain integration, and the desire on the part of the companies to focus on their core competency, has led to interest in a new concept called fourth party logistics (4PL) (Lieb and Hickey, 2002) where companies outsource the whole supply chain to a fourth party that assembles,

coordinates and integrates the capabilities of all the 3PL providers, with the power to design, build and run comprehensive optimized supply chain solutions. (Bumstead and Cannons, 2002)

Despite, the advancement of supply chain management in the many developed countries, logistics and supply chain management has just, recently, been considered as the critical element for national competitiveness in Thailand. Logistics development has been placed on Thailand's national agenda to be promoted as part of the government's economic restructuring mandate.

The National Economic and Social Development Board (NESDB) has identified the following areas of improvement: 1) revising laws to encourage logistics activities; 2) upgrading infrastructure and services to connect missing links within and between transportation modes, reducing bottlenecks and creating shortcuts to speed up the flow of goods and services; 3) developing an information network and database system to create e-logistics; 4) improving the quality and quantity of human resources; and 5) strengthening and developing logistics service providers. (BOI, 2005)

A recent study on Thailand's logistics sector commissioned by Japan's Ministry of Economy, Trade and Industry (METI) indicated the cost of logistics in Thailand was around 25-30 per cent of its gross domestic product, compared with 10 per cent in the US, 7 per cent in the EU, 11 per cent in Japan and 20 per cent in China. This dismal state of the country's logistical infrastructure explains the high operating costs for businesses and therefore its serious lack of competitiveness. (Nation Multimedia, 2005)

In today's world, Thailand has to compete with other countries in logistics services, in order to enhance the competitiveness of its existing manufacturers, as well as to attract foreign direct investment, especially in giant industries such as automotive business and fast moving consumer goods industry that are perpetually expanding. Thailand displays strong automotive market growth. Country moves closer to realizing "Detroit of Asia" status. Thailand's automotive industry plans to leverage its competitive advantages to achieve a top-10 world automotive manufacturing ranking by 2010. Thailand, already the world's second largest pick-up truck market and ASEAN's largest automotive market and assembler. According to the Thai Automotive Industry Association, the automotive and auto parts industry

generated the country's second highest level of export revenue last year, representing approximately 12% of GDP. Double digit export growth over the past few years illustrates Thailand's rising significance as a regional automotive hub.

Thailand's extensive supporting network of auto parts manufacturers is a crucial factor in contributing to the industry's strength while giving Thailand an edge over competitors. (Thailand automotive industry update, 2005)

Top 10 Exports H1 2006

| Product | % growth (y-o-y) | Value (US\$ bn) |
|--------------------------|---------------------|--------------------|
| 1. Computer and Parts | 29.04 | 6.87 |
| 2. Automobiles and Parts | 29.40 | 4.49 |
| 3. Electronics | 26.72 | 3.31 |
| 4. Rubber | 53.40 | 2.43 |
| 5. Plastic Pellets | 8.40 | 2.17 |
| 6. Jewelry | 22.74 | 1.80 |
| 7. TVs and Radios | 4.13 | 1.63 |
| 8. Garments | 7.44 | 1.54 |
| 9. Chemical Goods | 17.68 | 1.51 |
| 10. Oil | 91.40 | 1.46 |

Table 1.1: Top 10 Exports

Source: Board of Investment, 2005

According to the above point, both automotive and consumer product industry are crucial to overall economic outlook of Thailand in many aspects such as gross domestic product (GDP) figure, unemployment rate and consumer spending, for example. In addition, logistics and supply chain management plays a significant role in the achievement of these two industries.

Unfortunately, there are not many studies about the relationship between 3PL/4PL and these two giant industries in Thailand. Therefore, in this study, the researcher is trying to understand in depth and further explore the trend of 4PL in automotive and consumer product industry. To identify the most important factors that using to select 4PL provider, the major benefits that a customer expected from using a 4PL provider, the obstacles or any concerns that companies could encounter when they use a 4PL service.

Research Question

1. What are the most important factors used in selecting 4PL providers?

2. Do the companies in different industries use difference factor in selecting 4PL providers?
3. What are the major benefits that customer expected from using a 4PL provider?
4. What are the obstacles that companies could encounter when they use 4PL service?

Objective of the study

1. To evaluate the most important factors considered when selecting 4PL service.
2. To compare all factors in selecting 4PL providers between automotive and consumer product industry.
3. To identify the major benefits that customer expected from using a 4PL provider.
4. To provide the obstacles that could encounter companies when they consider using the 4PL provider.

Limitation of study

1. This study will limit only on automotive and consumer product companies in Thailand which have annual revenue from 1 -200 billion baht.
2. This study will focus only customer side or user of LSP and will not focus on LSP side.

Significance of the study

Since there is not much research paper in Thailand regarding to this new model, 4PL, the finding of this research will provide information which can be used as a guideline for both 4PL user and provider in possibly factors in selecting 4PL provider including the basic knowledge of 4PL.

Furthermore, this research also study in major benefits that customer expected to receive from 4PL provider and their obstacles if consider to use 4PL service. Due to this, 4PL provider can use this research in order to consider for their service performance and competency improvement.

The researcher strongly believes that the research outcome will disclose such essential information for all involved parties and other researchers who are interested in the issue of 4PL in Thailand.