

Own Account Logistics – Reinvented Business Strategy for Transportation in Industry and Trade

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ABSTRACT: The European transport market has been under regulation for decades until the 1980th when the European Union started a comprehensive deregulation process. The deregulation was focused on the *commercial transport* market and led to a profound change of the freight market situation esp. on road transport. Foremost countries like Germany with an until then tightly regulated market tumbled into harmful market adjustments caused by the suspension of licenses, allocation quotas and tariffication. The market change went along with the business trend of *outsourcing* for transportation and other logistics services based on beneficial business model theories e.g. economies of scale etc. Ever since the alternative model of *own account transportation* became an unremarkable presence in the market and lost almost any attention in scientific discussion. Nevertheless, transport for company purposes only is still part of EU regulations as common rules for access to the international road haulage market.² Critical discussion about advantages of outsourcing, quality concerns and rising awareness towards transaction cost economics was the inducement for an appraisal on the actual situation and business relevance of today's own account transportation. The research is based on a survey with consignors in production industry and trade, in cooperation with the *German Federal Association of Private Transport and Logistics (BWVL)*.

KEYWORDS: private account transportation, own account transportation, deregulation of transport markets, commercial transport, outsourcing

JEL Codes: L92, L98, M38, R40, R48

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² EU Regulation (Ec) No 1072/2009 of the European Parliament and of the Council of 21 October 2009 as common rules for access to the international road haulage market

Introduction and objectives

Beginning from the 1990's the European transportation market started into major changes by releasing single country regulations on market entry and transaction procedures. The initiative was started by the EU Commission in order to establish same market entry and operation conditions for all member countries. The end of the Warsaw pact period anyway brought market liberalization processes in east European countries gradually joining the EU.

The research goal was to gain an actual overview on the market situation in the logistics industry segment of own account transportation (also called private haulage or self-provided transportation) after the deregulation process as far as possible has come to an end on the regulatory side. This research was designed as a stock taking of today's significance of private haulage after the deregulation of transport markets in Europe, to show the current situation and to deliver indications for the future development. The study was set up for the own account transportation market segment in Germany. It was expected to find out about the relevance of on account transportation for German industry (production and trade) in general and to identify the entrepreneurial reasons for such activities.

Explaining the issue and relevant literature

Up to the 1990's the infrequent scientific discussion on transportation within the as well recently established field of logistics was polarized between self-provided transportation vs. external procurement of transportation capacity of commercial traffic (also called commercial haulage). The discussion was focused on cost reduction and core competence alignment (Gudehus, 2010) based on neoclassical model theory (e.g. transaction cost theory) mostly. Besides general literature on logistics and transportation is explaining private haulage there was and still is no exigent scientific literature to be found focusing on this topic. It always has been an accessory matter on general logistics issues.

The scientific discussion totally disappeared as a result of the transport market deregulation process. Even as own account transportation was set free of formal restrictions and turned into an organizational transportation option with almost no limits anymore the market awareness

tumbled down to zero. At the same time the also exempted commercial traffic started into a major boom. In this context, the hype on outsourcing led to a significant business growth within the commercial transportation industry and introduced a quite intensive scientific discussion in this sector. The “TOP 100 in European Transport and Logistics Services” issued by Deutsche Verkehrszeitung (DVZ) Hamburg, is one of the important publication on the market situation for the commercial traffic industry sector.

Although the market was deregulated on the legal side transportation for own account and commercial haulage are still defined in EU and national law. The EU regulation No. 1071/2009 and 1072/2009 defines the proof of reliability, proof of financial efficiency and the verification of suitability for traffic management staff in order to obtain the EU license for commercial haulage. The German regulation is determined in the federal road haulage law (Güterkraftverkehrsgesetz – GüKG). Special regulations on private haulage are to be found in paragraph 2 GüKG. The four core indicators for private haulage are shown in *fig. 1*.

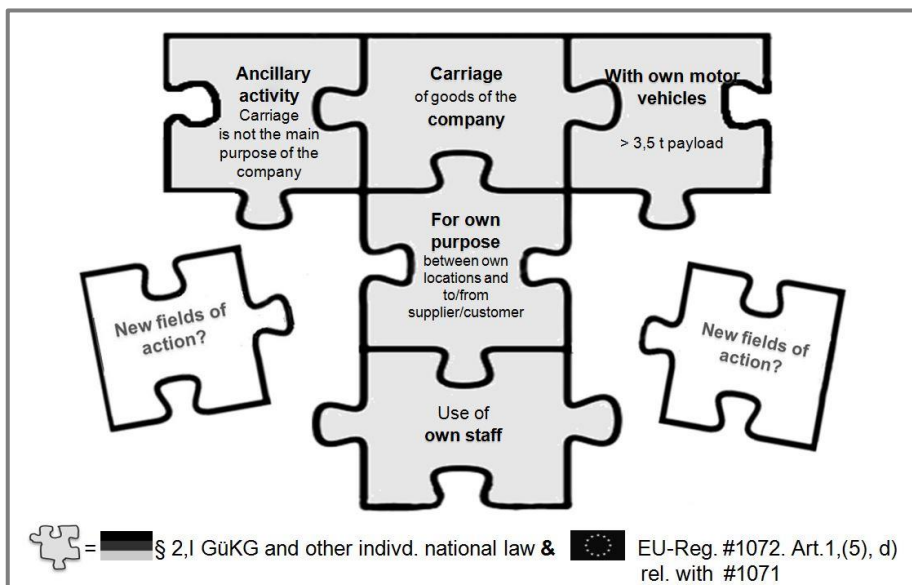


Fig. 1: Elements of Private Haulage

Source: own illustration

Besides these general but more formal attributes today there is a fairly unlimited (free of volume and destination licenses) transport allowance for private haulage. This may be considered as a competitive advantage for private haulage, which turns into one of the research question picked up in the questionnaire for this survey.

Methodology and data sources

The 24 relevant questions for this market survey are composed by the *Institute for Logistics* at Berlin School of Economics and law in spring 2015. A preliminary evaluation of the prime survey results took place fall 2015. The data collection was continued until summer 2016 with targeted additional companies and additional interviews.

The research was supported by the German Federal Association of Private Transport and Logistics (Bundesverband Wirtschaft, Verkehr und Logistik – BWVL) e.V. (<http://www.bwvl.de/english-1299353.html>). The association is specialized in the fields of own account transportation and logistics. The main task is to represent it's members interest in economics and politics. BWVL represents 1,400 member companies from the production industry, trade as well as logistics service providers sector. BWVL itself is member of the International Road-Transport Union (IRU) located in Geneva.

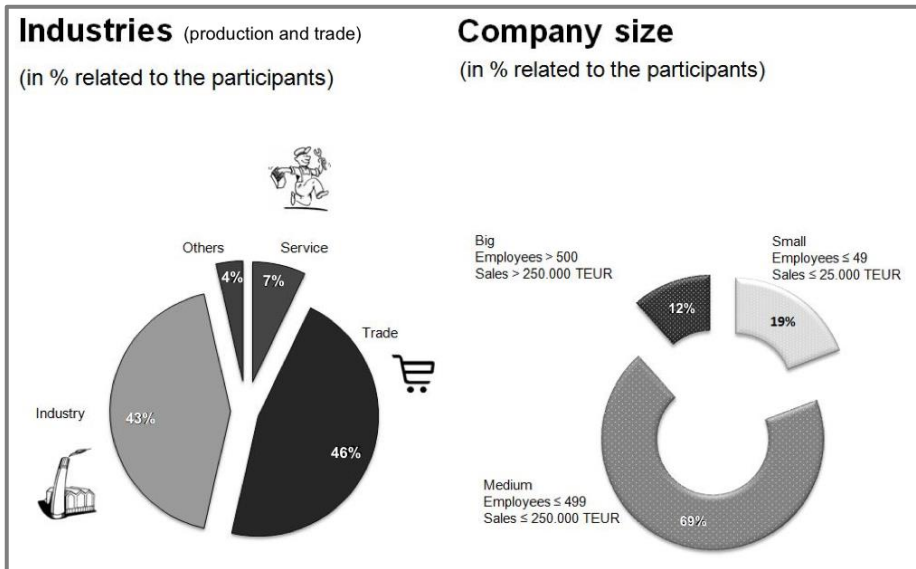


Fig. 2: Sample formation of the survey

Source: own survey

BWVL distributed the information about the survey and the questionnaire among its member companies. The study attained a return rate of questionnaires of 7% of all member companies. The majority of questionnaires was answered by small and medium sized companies. Answering the questionnaire was possible by filling in hard copies and electronically by mail or directly online on an internet platform using a provided access code.

Description and findings

The basic five theses for the questionnaire are listed as follows.

Transportation for own account is to be found ...

- (1) for own store (point of sale), customer, warehouse delivery,
- (2) in case of goods with special time or location requirement at delivery,
- (3) with value added services alongside the delivery (construction, installation, commissioning)
– so called “service traffic”.

The organizational setup of private haulage operations may be ...

- (4) a subsidiary of the production or trade company together with other logistical tasks and/or
- (5) partly combined with commercial freight transport (legally possible after deregulation)
 - so called “open transport for own account” or “mixed traffic”.

The volume of German road freight traffic is shown in the following graph. For logistics services the volume is measured by its weight in tons (t) to show the quantity and in tons per kilometer (tkm) to indicate the performance of logistics operations. The challenge of this research is that there is no scientific discussion found in this field and additionally the German Federal Agency for Freight Transportation stopped the data collection on transport for own account as a consequence of the market deregulation. So, the official statistic on that field ends in 2014, shown in *fig. 3*.

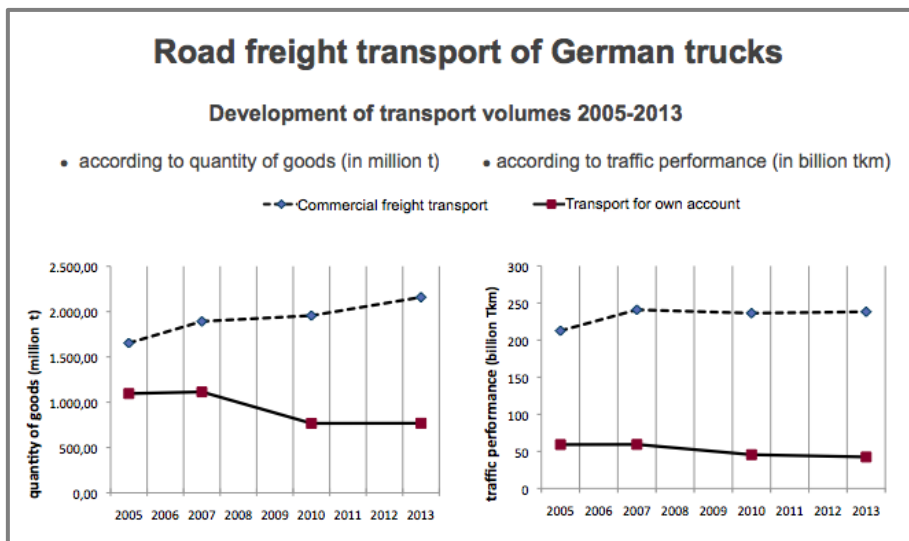


Fig. 3: Development of German road freight traffic

Source: Bundesamt für Güterverkehr (Hrsg.) (2014): Marktbeobachtung Güterverkehr (2006, 2008, 2011, 2014)

The official statistics as well as results of the survey show a slight growth of transportation volume in general and stagnation on the same level for private haulage. The development of the truck fleet (number of trucks) in operation follows the same trend according to the final data reporting of the agency.

Today's organizational type of the units executing transportation for own account within the companies participating in the survey is for a large majority of 87% the traditional type. The (legal) requirements of such traditional private haulage operations are seen in *fig. 1*. Just 5% of the companies are running a legally independent subsidiary and 8% are constituted in a joint venture e.g. together with a third party logistics provider, both considered as private haulage as they only or for a big part are operating for the company purpose.

The possible variations for executing transportation tasks indicated by the companies participating in the survey are displayed in *fig. 4*. Even outsourcing to logistics service providers (third party) is considered as an alternative for executing future distribution tasks additionally to transportation for own account (Delfmann–Reihlen, 2009, p. 896.).

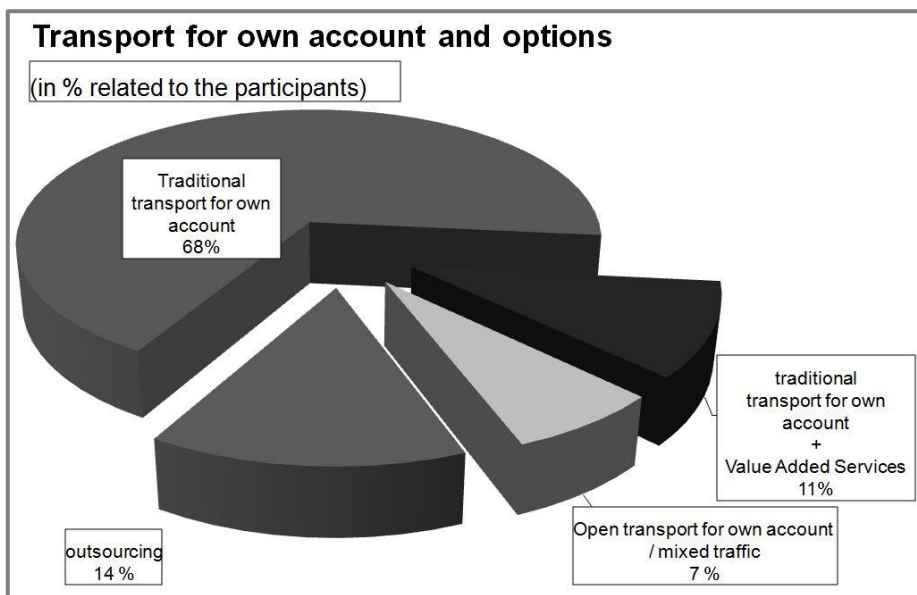


Fig. 4: Variation of transportation for own account

Source: own survey

The product portfolio handled by trucks of a private haulage entity is covering a wide range of commodities. The commodities appearing in the survey are raw materials, steel, fuels and dangerous goods, building materials, furniture and kitchens, food (esp. fresh and dairy products), plants and gardening products, animal feed and press products.

The reasons for private haulage operations provided by own fleet specified in the survey are displayed in *fig. 5*. The three most stated reasons are short-term availability, service quality and special product handling or know-how for the delivery process (Göpfert, 2013, p. 245.).

Transportation for own account is always integrated at least in the company's internal supply chain and the marketing supply chain towards the customer. Therefore, private haulage is closely linked to other logistics and value added services. Value added services are normally sales oriented merchandising elements expected by the customer. The performance portfolio linked to the transportation for own account operation found in the sample is shown in *fig. 6*.

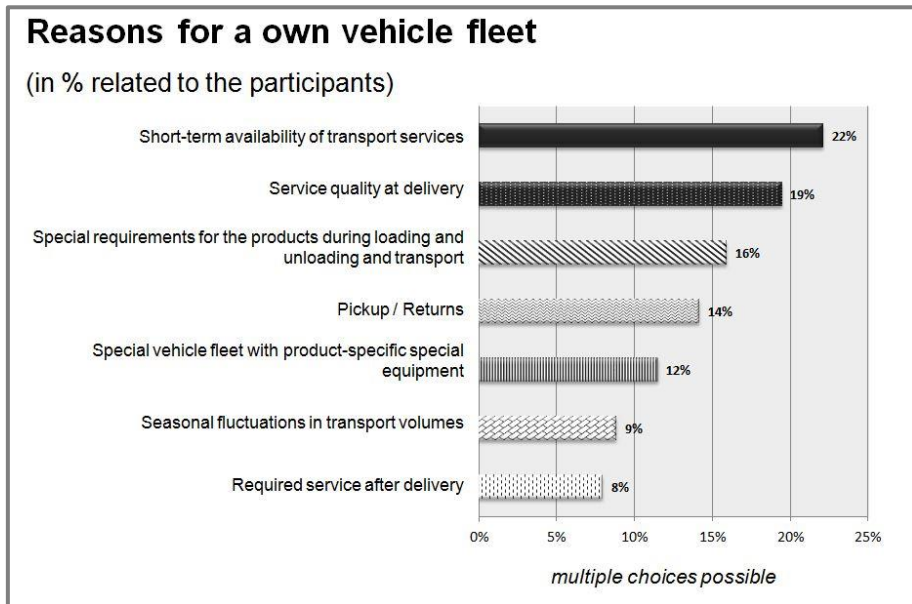


Fig. 5: Rationales of transportation for own account

Source: own survey

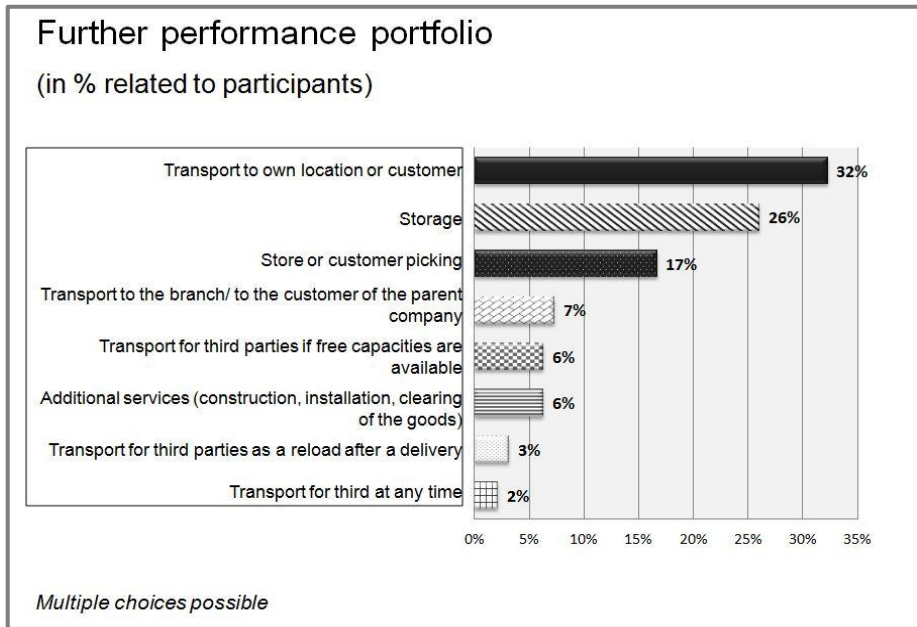


Fig. 6: Logistics and value-adding portfolio

Source: own survey

The most interesting question was to find out about the importance of certain reasons to run private haulage operations by production or trade companies in order to guarantee high service quality. The absolute and relative frequency entry for this question is displayed in *fig. 7*.

Not surprising but now confirmed in explicit predication the criteria

- “punctuality”,
- “secure delivery” and
- “reliability” are named.

Theses three are followed by

- “know how and appearance of delivery personnel”.

The conducted background interviews showed that the above listed characteristics are very closely linked to the delivery proposal and can be realized because of the general direct and short access on the private haulage operation unit for the company.

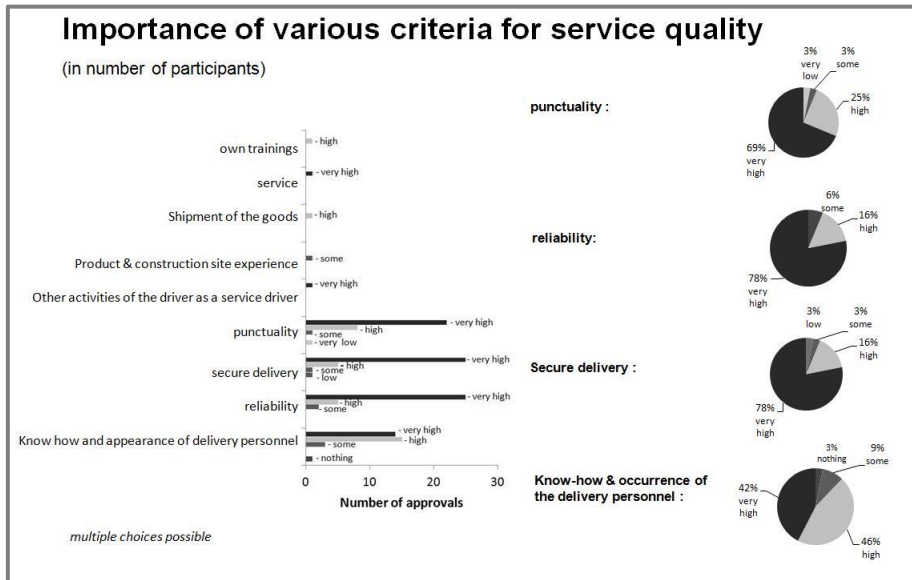


Fig. 7: Service quality criteria

Source: own survey

The criteria “know-how and appearance of delivery personnel” is also linked to marketing and customer communication purposes of the delivering company. Advertising on delivery trucks and delivery staff in company uniforms, close relations of the driver with the consignee staff, customer advisory service and sales pitches for follow-up orders or special offers by the delivery personnel where often mentioned as a positive effect of private haulage in the background interviews. Especially the collectable marketing information about the customer at the point of delivery is ranked as a very valuable bypass outcome of private haulage. Private haulage for inbound traffic might provide ahead of time information for the own company (e.g. production planning) or allow the use of specific transportation and loading devices to optimize truck-capacity utilization and inbound operations. On the other hand, on the supplier side transportation for own account is rather safe concerning lost of confidential information during the delivery process, at least safer compared to delivery execution by a third party logistics provider.

Other criteria like the execution of “own trainings” for the distribution staff, other general “service” options for the customer, “product and construction site experience” (at the own company premises and at the customers) where mentioned as additional fill-in options with this survey

question. The above mentioned criteria are of no significant relevance, might possibly be assigned to the main criteria but should be mentioned to show the full range of motivation.

Another result dealing with the efficiency question of the transport for own account operation was the utilization rate of the own truck fleet. Utilization rate is defined as assignment time of trucks and drivers e.g. for customer delivery compared to the totally available working time per period. Only 13% of the survey participants answered this question. The interviews confirmed that the utilization rate figure is not measured in the operations frequently. Out of this small spot check 2/3 of the companies stated a very high utilization rate, in average up to 75% (Schulte, 2009, p. 194).

Summary / Conclusions

The survey shows that transportation for own account is still seen as a reasonable option for production and trade companies logistics operations. As stated in the **theses** above the survey confirmed private haulage is used for branch and outlet delivery, for delivering goods in need of special transportation means and special time and location requirements at delivery. Time requirements can be fixed and odd times (off hour) deliveries. Location requirement can be certain defined spots at the production site of the customer where the good have to be placed, filled in, unpacked etc.

Another reason for using transportation for on account are various value added services before, alongside or after the delivery and handover of the goods. This so called “service traffic” consists e.g. of construction, installation and commissioning tasks of any kind.

The mainly used organizational type for classic private haulage is as department or division within production or trade companies, fully integrated in the legal entity. A diversified organizational type is transportation or logistics duties carried out by a subsidiary for logistics operations. Such a type is legally autonomous but 100% owned by the mother company and run with a controlling agreement. Another type of diversification possible after deregulation is realized as classic private haulage department combined with commercial freight transport for third parties. This is called “open transport for on account” or “mixed traffic”.

The findings of this study are summarized and displayed in fig. 8. In the past often written off, the transportation for own account mode is still effective and turns out to generate competitive advantages in the case of reliable and specified delivery, value added service and marketing purposes.

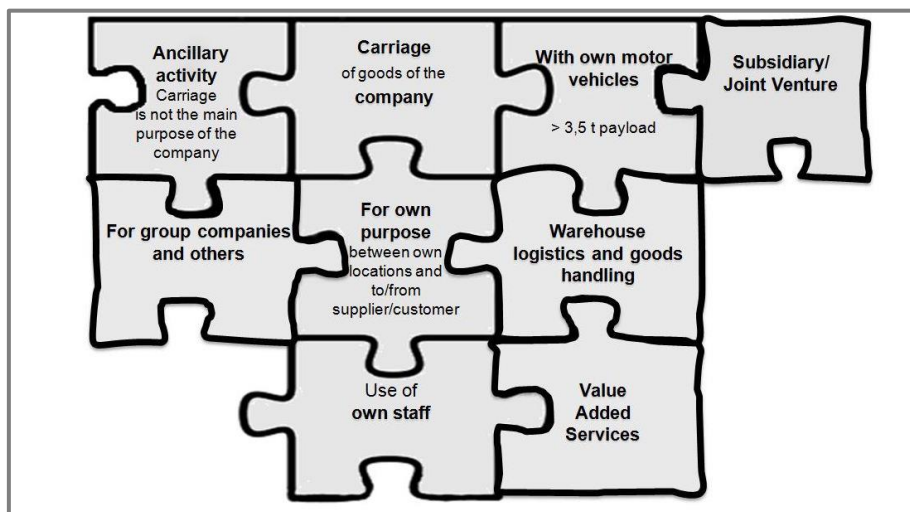


Fig. 8: Supplemented elements of private haulage after survey

Source: own illustration

The next step in research on this topic should be the extension and duplication of the survey on other European countries. To complete the picture of the “market volume” of transportation for own account motor vehicles < 3.5 tons should be included. For the scientific community a target research field would be the model theoretical proof of the research result with this and upcoming surveys of other European countries. This should include an introduction of indirect cost effects to the transaction-cost-theory discussion (Williamson, 1979) for private haulage.

Another related research may be a comparing survey amongst logistics service providers and freight forwarders operation with a own fleet.

There is a lot of research to be done to get the transportation for own account out of its sleeping beauty repose. Opening up the market challenge of logistics for own account against the third party domination for logistics services might be a good stimulation for future logistics operations in general.

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