

# Chapter 7

## A Framework for Thinking Intermediation in Logistics Management

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### ABSTRACT

*The purpose of this chapter is to provide a logistics market structural grid that is not based on industry practices. Rather, it is based on clear principles of microeconomics. The analysis of the logistics market based on intermediation standards highlights the essential role of the logistics management function, and derives the key determinants of the logistics management outsourcing. It also provides elements that contribute to the understanding of future industry trends. This chapter logically identifies that the key principles of microeconomics are well applicable to the logistics. They even help better explain the emergence of the logistics management function. It demonstrates that those principles in the context of the new technologic edge could lead to a reintermediation, creating a restructuration of some segments of the market.*

### INTRODUCTION

As the commercial contract between the main principal and the agent physically materialises, the Supply Chain Management (SCM) is at the core of the *seller - buyer* relationship. Following the *unionist* definition<sup>1</sup> of Larson *et al.* (2004), logistics is considered as being part of SCM; but the latter encompasses other key business processes that are not only logistics related, even though they can be influential. The logistics market is most often associated to service modes<sup>2</sup>, which represent the physical<sup>3</sup> (Duong & Paché, 2015). Therefore, it represents the most visible part of logistics execution. Logistics execution involves concrete means—vehicles, real estate, and other special equipment—for forwarding and storing purposes. Activating one or more of the service modes requires a coordination effort (Fulconis, Paché, & Roveillo, 2011) using business processes, information systems, human resources, and the organisational structure of the firm. This is called logistics management. Bowersox (1978) already differentiated the

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logistical management, systems, operations and coordination. The elongation and fragmentation of the supply chains give an even more centric role of the logistics management function. The logistics management function is essential to order fulfilment between the principal and the agent, and to the efficient coordination of the logistics physical means (Christopher, 1999). Such a logistics management function is distributed over shippers, logistics contractors, and subcontractors. It often leads to a fragmentation of the workflow coordination, resulting in inefficiencies. Logistics intermediation has not been as deeply studied as the financial intermediation. For instance, the keywords *logistics* and *intermediation* in Google Scholar give 9,990 results, while *financial* and *intermediation* give 235,000 results (Google, June 25, 2016). Recently Fulconis et al. (2015) analysed the logistics intermediation and supply chain management, in a sense that logistics providers now have to take over new responsibilities, hence pushing further the firm's boundaries (Cezanne & Saglietto, 2015). The market structure, terms, and nomenclatures of the logistics industry are not as mature as in the finance or information technologic industries (Saglietto, 2013). The microeconomics and intermediation theories are enlightening in this regard. While applying key intermediation principle to the logistics market, the role of each player becomes clearer. The intermediation theory provides answers to several fundamental questions: Who buys? Who sells? Who can insert in between buyer and seller? Why?

The major working hypothesis of this research is that there must be key measurable determinants which can explain the existence of an intermediated logistics management market. This chapter therefore aims to provide a market structure of the logistics industry, in addition to a better understanding of the logistics management function that is often embedded or addressed in the logistics contracts. A deeper analysis of elements of microeconomics influencing the intermediated trade and market equilibria will help to derive the key determinants, which could be used to support management decisions on the strategic topic of logistics management outsourcing.

The background section describes the main theoretical contributions to the intermediation subject. The main section will focus on the logistics market structure in order to highlight the logistics management function. Subsequently, in the solution and recommendation section, the key determinants of the logistics management intermediation will be extracted. The conclusion will lead to a prospective market approach to anticipate future evolutions of the logistics management function.

## **BACKGROUND: THEORETICAL INPUTS TO THE INTERMEDIATION**

The idea of intermediation leads to the notion of outsourcing the production of goods or services rather than vertical integration of production within the boundaries of the firm. The subsequent questions focus on why outsourcing occurs and how to make the trade-off between *make* or *buy*. This section shows the basic intermediation model and elaborates on further concepts of the economics influencing the formation of markets, prices, and equilibria.

### **Intermediation Model Based on Neoclassical Theory**

In his book, *Market Microstructure*, Daniel F. Spulber (1999) provides a clear classification of the economic theories of the firm, creating four categories articulated around a level of aggregation: (1) the neoclassical; (2) the industrial organisation; (3) the contractual; and (4) the organisational incentive. These four categories are articulated around a so-called "level of aggregation" to clarify the boundar-

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