



Business Potentials and Business Models in REORIENT Intermodal Corridor

**Dr Johanna Ludvigsen
REORIENT Scientific Project Officer**

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REORIENT Corridor and Hinterland Countries



North:

Sweden, Norway
and Finland

Central:

- Poland
- Czech Republic
- Slovakia
- Austria
- Hungary

South:

- Bulgaria
- Romania
- Slovenia
- Italy
- Croatia
- Bosnia/Herzegovina
- Serbia/Montenegro
- Macedonia
- Albania
- Greece
- Turkey





Business Potentials for REORIENT

**International study of 38 companies
from Norway, Sweden, Finland, Poland,
Czech Republic, Austria, Hungary,
Bulgaria and Romania**



Business Potentials for REORIENT Corridor

The study assessed how companies in manufacturing, export/import, logistics and transport industries reacted to business opportunities created by new corridor connecting Nordic Countries with Central and South-eastern Europe



Business Potentials for REORIENT Corridor

■ New trains services offered by the REORIENT Corridor

- T1 Halsberg-Trelleborg-Swinoujscie via Vienna /Bratislava to Budapest , carrying traditional train loads with bulk cargo**
- T2 Trelleborg via Swinoujscie to Bratislava/Vienna, a shuttle train carrying unitized loads**
- T3 Gdansk/Gdynia-Bratislava/Vienna-Budapest-Beograd-Thesallonica, carrying unitized loads**
- T4 Bratislava-Budapest- Bucharest to Constantzia, mixed train carrying wagons with bulk and flatcars with unitized loads**



Business Potentials for REORIENT Corridor

■ Importance of markets in REORIENT hinterland

Companies already operating in REORIENT countries are more willing to invest resources in transit over REORIENT corridor in the next 2-3 years

■ Intent to use corridor services by company size

Most respondents are positive with exception of *large size private companies* who attribute high risks and large business contingencies to new corridor use.



Business Potentials for REORIENT Corridor

■ Intent to use the corridor due to perceived benefits

27 respondents see the REORIENT corridor as an ability to improve supply quality to their customers

26 companies expect that the REORIENT corridor will create for them new competitive advantages now and/or in close future



Business Potentials for REORIENT Corridor

- **Intend to use the corridor as characterized by resources needed**

Most companies indicate that they will need additional financial and managerial resources to capitalize on REORIENT.

However, quite few also state that they would need new logistics partners, suggesting that their current distribution solutions may not be qualified for the new freight supply system.



Business Potentials for REORIENT Corridor

■ Financial and managerial ability to use REORIENT corridor

All 29 companies indicate that they can/may acquire financial assets ranging from 100,000 to 1 billion (in national currencies) to invest in development /utilization of corridor services. 28 firms indicated that they can/may obtain necessary material and managerial resources to capitalize on shipment opportunities via new corridor.



Business Potentials for REORIENT Corridor

Summary :

- Most respondents are positive to REORIENT corridor services
- Businesses already operating in REORIENT hinterland markets being the most affirmative .
- Large companies are negative; they consider usage of new corridor risky and contingent on re-arrangements
- Majority of companies indicate that shipments via REORIENT may increase their competitive advantage, improve customer service, but also require new partners, more managerial resources and financial investments
- So, managerial decisions on utilisation of new strategic opportunities can take quite some time.



Business Potentials for REORIENT Corridor

Thank you for your attention

ju@toi.no

+47 22 57 38 44

The next phase of the study presented by Jarkko Lehtinen assessed the viability of different business models for REORIENT service provision.



Business Models for Management of Freight Transfer along the REORIENT corridor

Results from International Study of Business Business Model for REORIENT Corridor

4th PROMIT Cluster Workshop

25th-26th September 2007

Board of Maritime Gdynia Port

Jarkko Lehtinen



Intermodal ReOrient Corridor

Sequence of intermodal freight movement operations

- Domestic feeder transport and logistics service for export shipments
- Arrival at dispatching harbour and loading onto sea-going vessel
- Short-Sea journey
- Arrival at receiving harbor
- Arrival at intermodal hub and transloading onto rail
- Rail line haul
- Arrival at intermodal HUB for load-breaking
- Distribution to consignees through local transport and logistics



Business Model Definition

- Professor Tom Malone from the Massachusetts Institute of Technology describes business model as “It's what a company does and how it makes money by doing it.”
- Osterwalder, A: “Business model is a *conceptualization* of the firm’s value creation logic describing the *value proposition*, *customer interaction* and the *asset configuration* built and used by the firm to offer value in the *chosen markets*, in order to make profits.”



A structure of Business Model as Defined in the REORIENT Project

- A system or a network of companies engaged in collective management of freight supply from origin to destination
- Every company has a specific role within such network
- The companies operate at different functional layers:
 - First layer: The leader of the chain or network integrator
 - Second layer: strategical partners
 - Third layer: operative partners
 - Fourth layer: supporting partners



Four different types of business models for intermodal freight movement

- 1) A Freight operator-3PL Model,
- 2) An Anchor Customer Model,
- 3) An Agent Model, and
- 4) A 3PL Model.

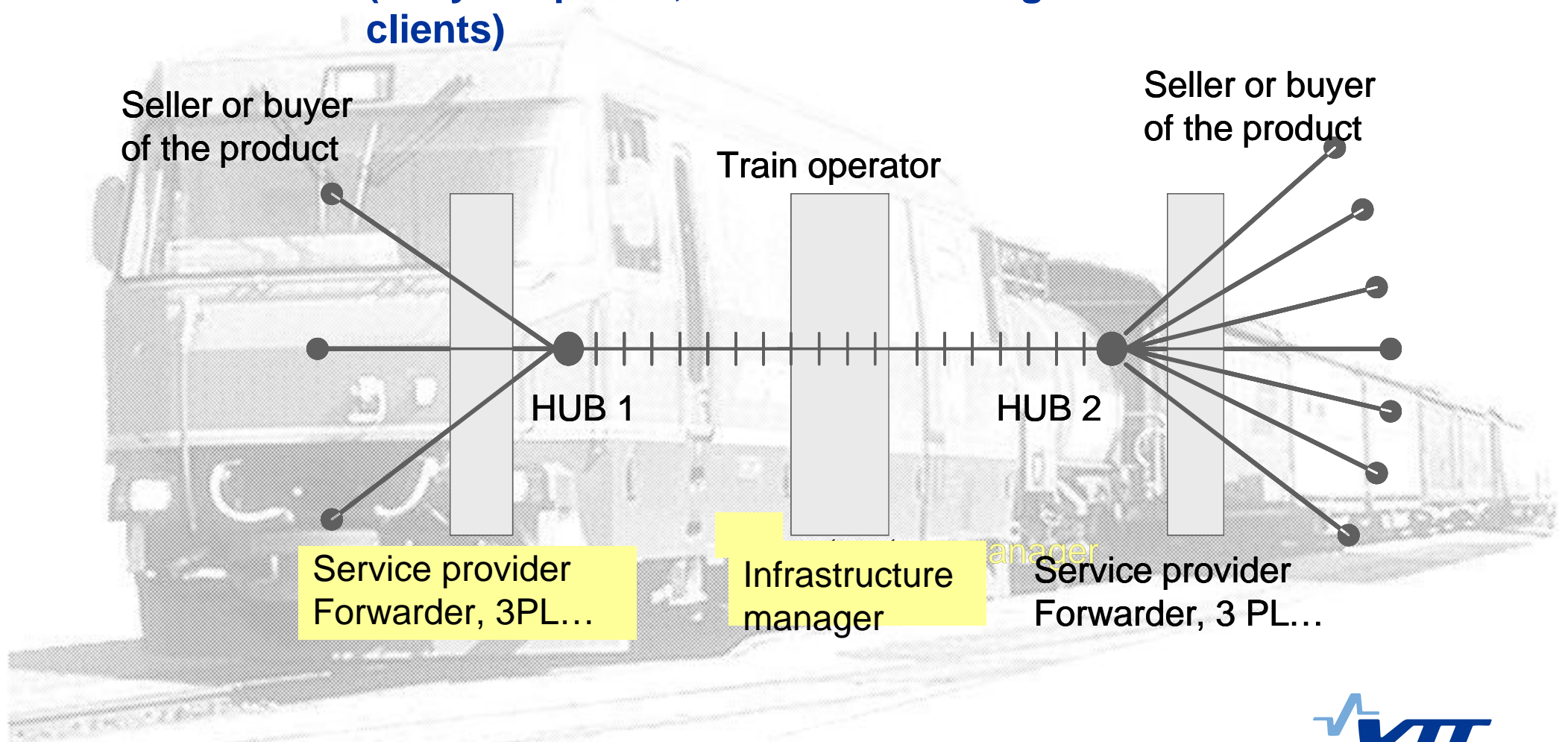
Each of these four different models provides different insights into the role a leader in freight transfer corridor



Model no 1

Train operator- and a 3PL Model, (balanced) model

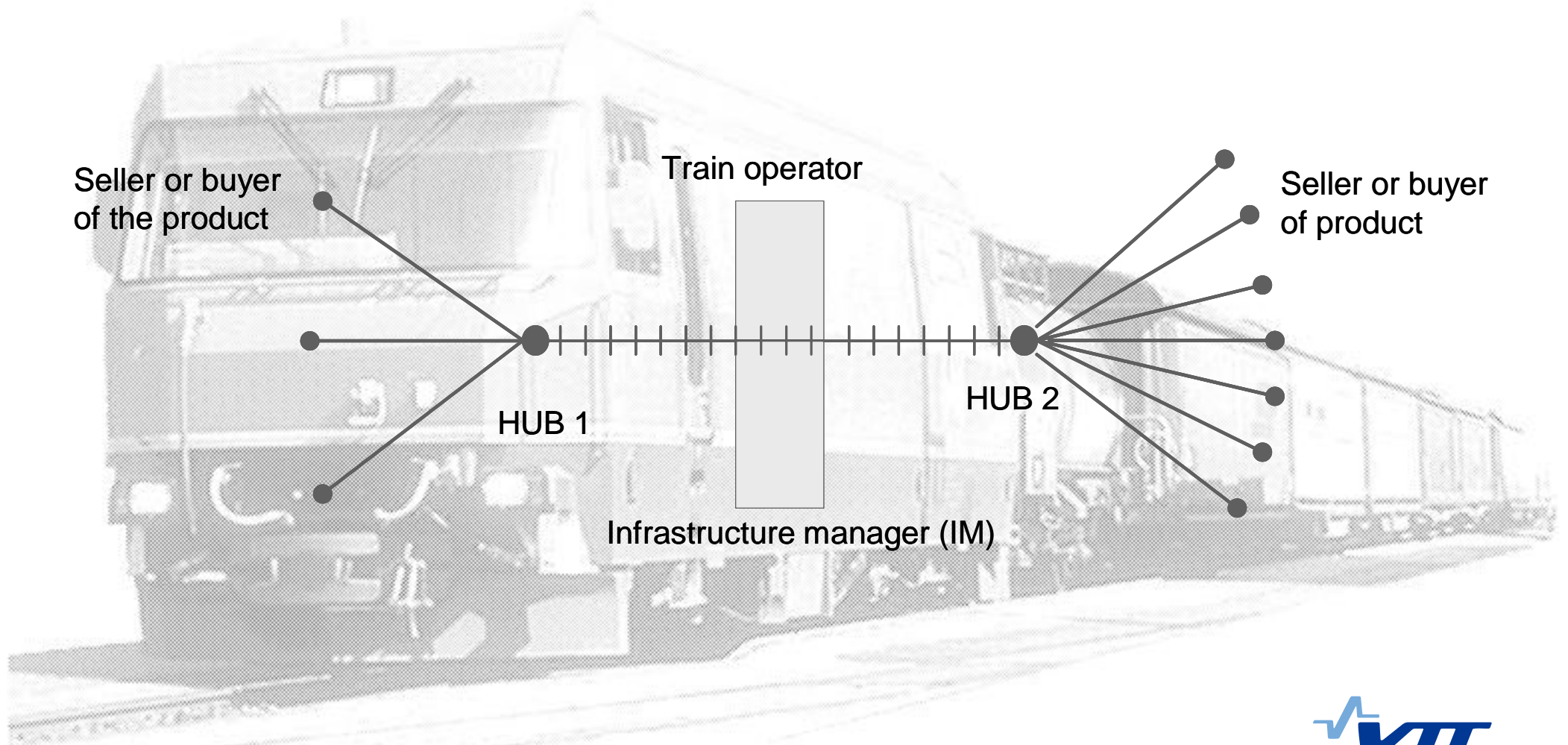
(They cooperate, 3PL concludes agreements with clients)





Model 2

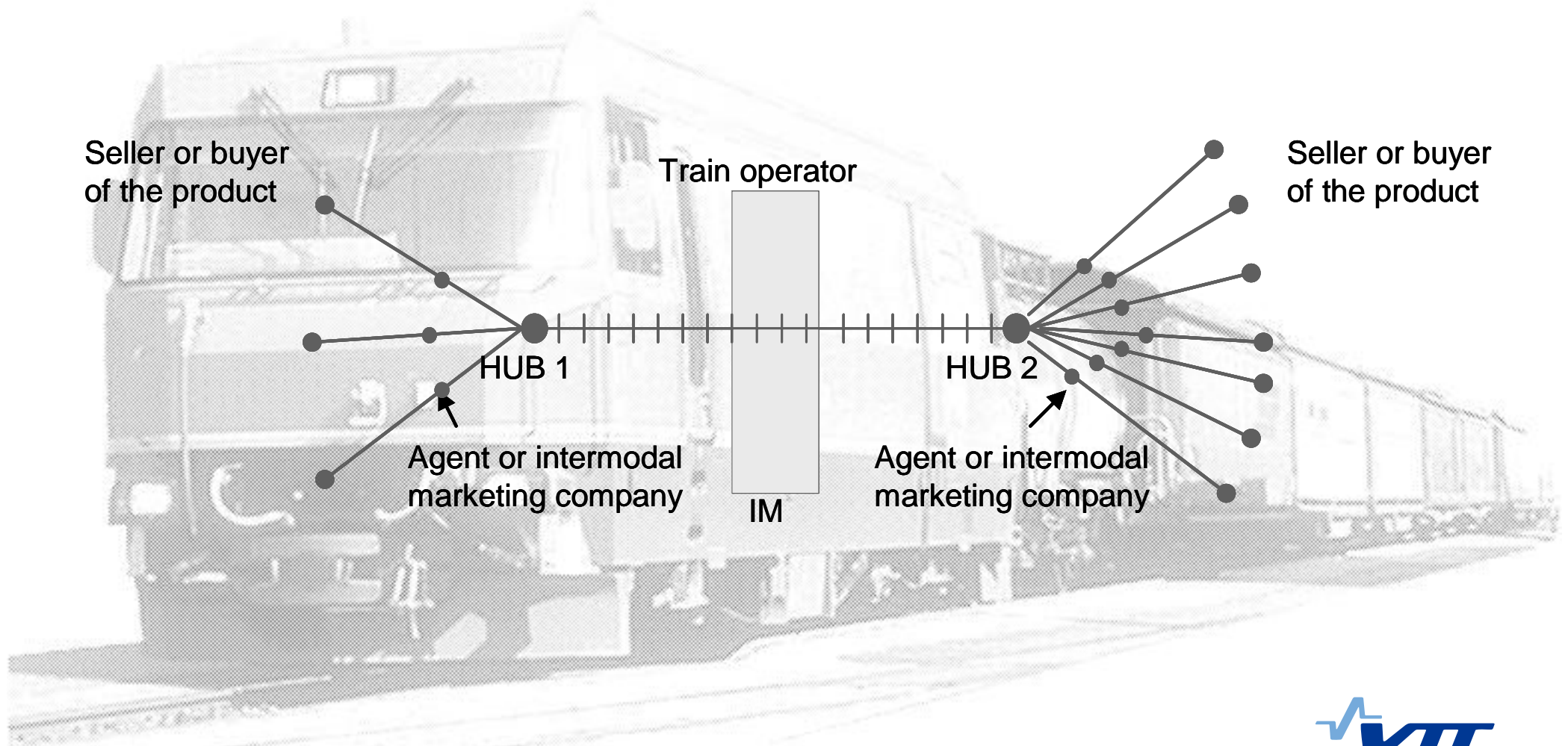
Anchor customer model
(Train operator does direct agreements with the clients)





Model 3

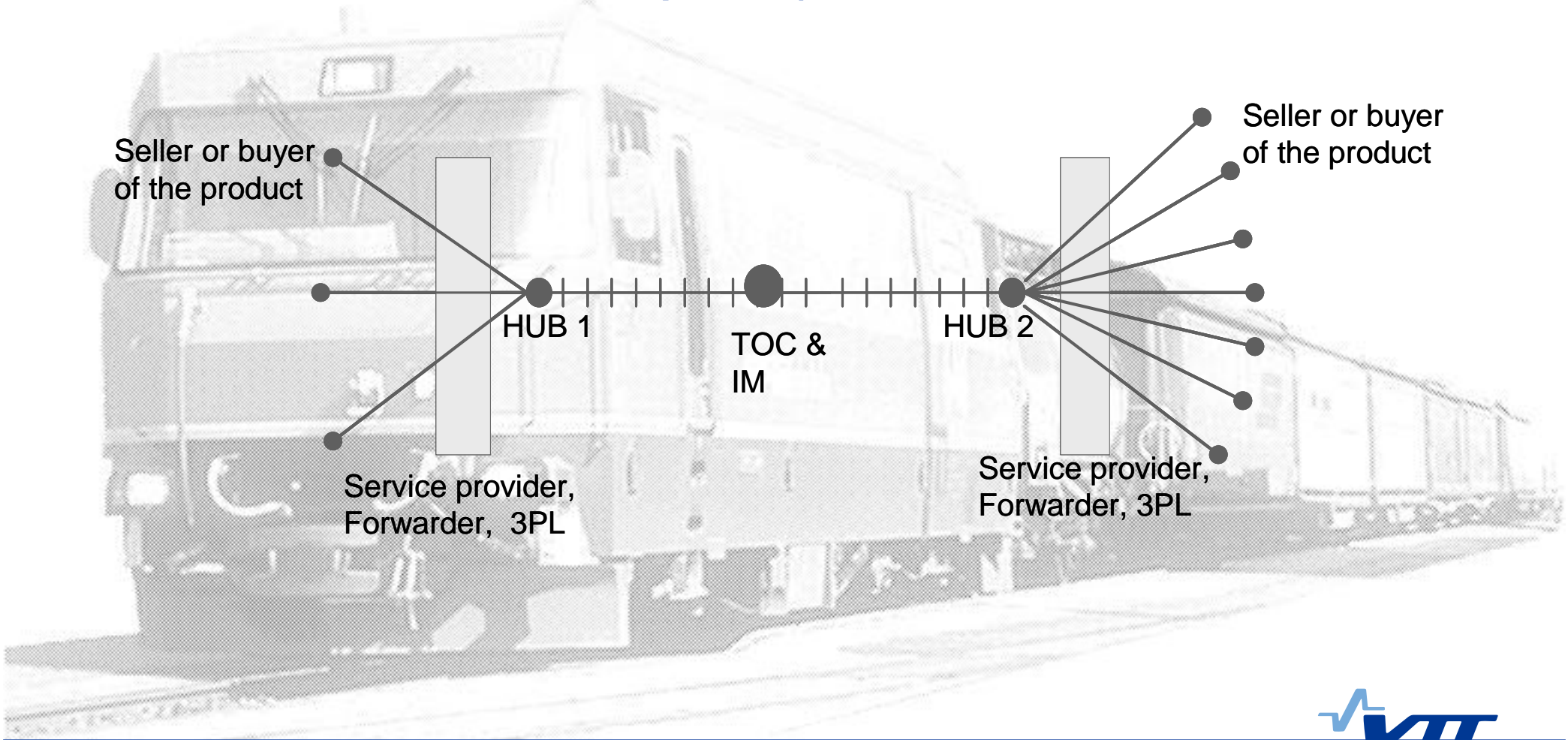
Agent model
(Agents of train operator(s) conclude contracts with clients)





Model 4

**3PL model
(3 or 4 PL Suppliers make contract agreements
and own train operator)**





Evolution of business model scenarios

- **Opening period**
 - Liberalization of Rail Market
- **Pioneer period**
 - Models 1 and / or 2
- **Transition period**
 - Different Model Combinations: 1 and 4; 1 and 2; 1 and 3
- **Recovery period**
 - Mergers between small rail operators and, between the latter and 3PL providers
- **Mature Market**
 - Possibility of Model 4 but also in reverse order where a large state-owned railway (DB Railion) buys large 3PL operator (Schenker) to secure access to large goods repositories for trans-European transfer



Scenario 1

- **Big industries start with**
 - **potential Freight Operators**
 - **forward transport from hubs to destination**
- **Freight Operator needs backhaul**
 - **Negotiate with the clients independently or through intermediaries.**
- **The participants benefit from the decreasing freight costs and competitive edge.**
- **Competitors jump on bang wagon, but a single Freight Operator cannot provide the clients with service required.**
- **Refer to LSPs who link operators with clients.**



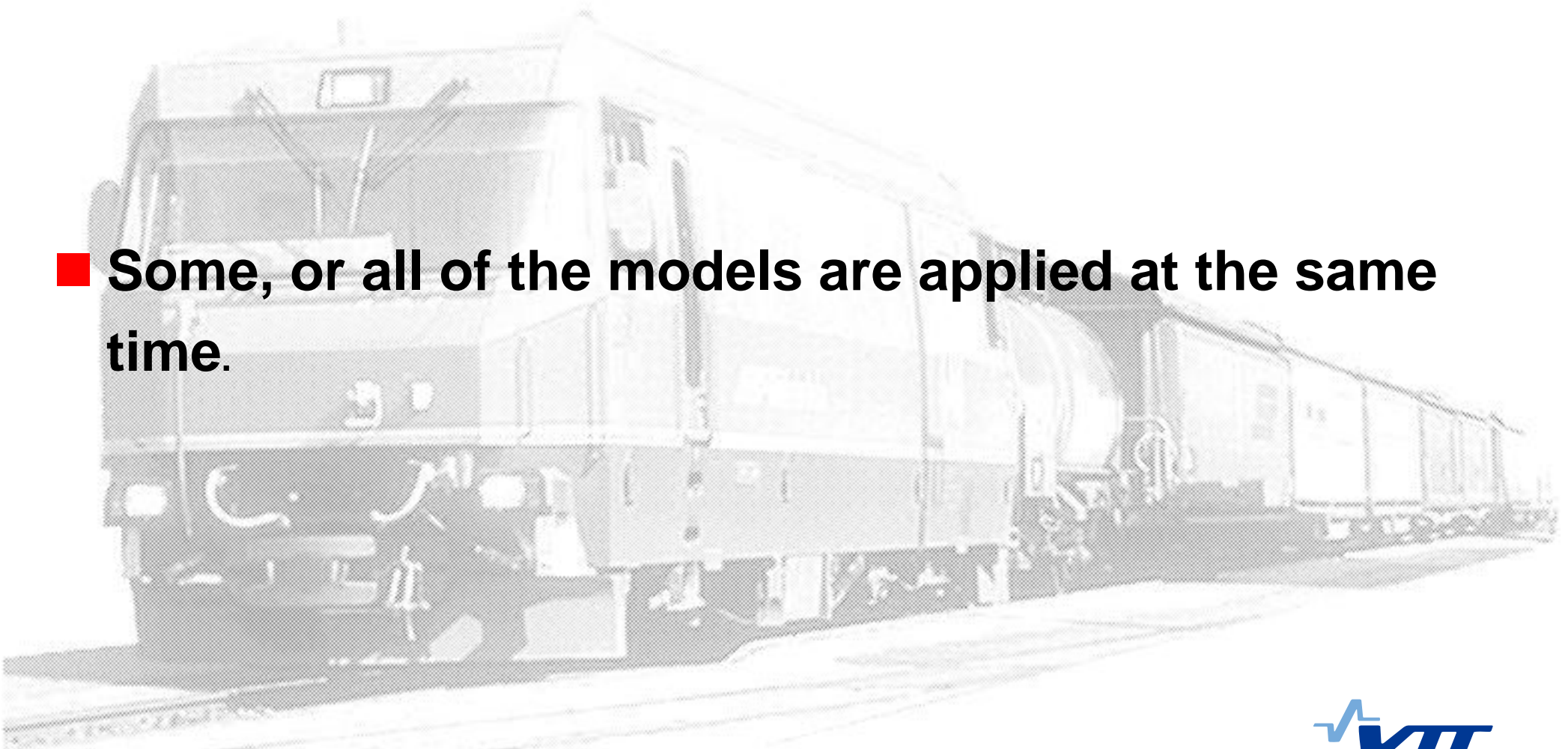
Scenario 2

- **Big wholesaler contacts LSP**
 - **Need for more cost effective intermodal route.**
- **LSP plans the route and negotiates with subcontractors including the Freight Operators for the rail part.**
- **LSPs contact other large customers**
 - **The traffic starts to grow**
- **New companies join the route and more complex transport services are required.**



Scenario 3

- **Some, or all of the models are applied at the same time.**





Who is the leader?

- **In the USA there was always a leader who:**
 - **set the service level for the corridor**
 - **made the agreement with the client (shipper / consignee)**
 - **collected freight from the clients (or the main part of the freight)**
 - **negotiated rates with the operators**
 - **credited subcontractors for their shares of service provision**
 - **carried the economic risk for corridor operations**



The REORIENT survey shows that in Europe

- The opinions on the leader's role vary:
 - It does not always conclude the contracts
 - It does not always collect the freight charges
 - It does not always carry the risk
- ⇒ So, the gap in coordination of intermodal freight movement exists
- ⇒ The leader(s) do(es) not yet exist??
- ⇒ Then, its' high time that potential leaders become active now...



What is required?

- **Client base**
- **Funding**
- **Equipment**
- **Network of operators for sea-land bridging**
- **ITC- solutions**
- **Expertise to establish viable service along the corridor**
- **Scheduling, time tables**



Comparative figures for US and EU

	EU	US
Growth in rail freight in tonne kilometres/miles from 1990 to 2003	6%¹	48%²
Growth in intermodal traffic from 1996 to 2005	57%³	80%⁴
The share of intermodal traffic in rail total revenues	-	23%⁵
<p>¹ Source: Eurostat; tonnekm-weighted average including Belgium, Denmark, Germany (not former DDR), Greece, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland and Sweden</p> <p>² Source: AAR</p> <p>³ Source: UIRR; only UIRR companies; number of consignments and TEUs</p> <p>⁴ Source: AAR; number of containers and trailers</p> <p>⁵ Source: AAR; major US railroads in 2003</p>		



Examples of empirical manifestations of business models

Model	EU	US
Anchor customer model	All incumbent railway companies	All major railroads
Agent model	UIRR companies (>50%) DB Railion	CSX Intermodal Triple Crown
Operator – 3PL model	UIRR companies (<50%)	JB Hunt + BNSF
3PL model	DHL Freight, Railion-Schenker	The Hub Group Schneider National





Results from survey of REORIENT companies

■ Conclusions:

- Models 1 and 4 are the best suitable for REORIENT
- Models 2 and 3 are possible, especially for transit countries
- Every model has strengths and weaknesses

⇒ "Theory vs. Practise"



Thanks for your attention

jarkko.lehtinen@vtt.fi

tel. +358 20 722 4562