

## CASE 1-2

# TEA Logistics Services, Inc.

### Company Overview

TEA Logistics Services, Inc. (TEA) was started in 2005 by three siblings in a family that had a long history of involvement in logistics. TEA began operations primarily as a freight brokerage in the United States, matching shipper loads with carrier capacity. While this operation was profitable, it did not give TEA the opportunity to develop deeper partnerships with its clients. So, in 2010, TEA decided to become an asset-based third party logistics (3PL) company that focused on three verticals: electronics, automotive, and pharmaceutical in the United States. Their assets included temperature-controlled and dry van trailers with over-the-road tractors, delivery vans, and leased distribution center capacity. TEA continued its brokerage operation until 2012 and then decided to cease that operation and focus on 3PL activities.

### Current Situation

The success of the brokerage operation gave TEA numerous contacts in the shipper community. One of them, Systa Technologies, was a major U.S.-based assembler of high-end computer servers and storage units. Systa, based in Houston, Texas, had assembly facilities in California, Alabama, and Minnesota. Systa relied on 3PL transportation and warehousing companies to provide their logistics services. TEA proposed that it act as a 3PL and 4PL (non asset-based provider) to manage Systa's transportation and distribution needs. In 2014, the contract was signed and TEA became Systa's sole provider of logistics services in the United States.

### Expansion Opportunity

While Systa was a world leader in the quality of its products, it was being pressured to increase margins because of global competition. One of its major costs of assembling servers and storage capacity in the United States was labor. Systa made a strategic decision to open a new assembly facility in South Africa. It chose South Africa for three reasons. First, South Africa has abundant and low cost labor. Second, the Chinese have been investing billions of dollars in building infrastructure in South Africa to accommodate the eventual relocation of assembly plants from China to South Africa. Third, China was not selected for the facility because its labor rates are on par with those in the United States. Systa has proposed to TEA that it expand into South Africa as well so it can handle all of Systa's logistics needs in that country. TEA has never operated outside of the United States.

1. What opportunities do you see for TEA to expand globally, specifically to South Africa?
2. What challenges do you see facing TEA in making this operating expansion?
3. If TEA were to accept the offer, how would you suggest that TEA enter the South African market when establishing its operations?