Logistics Services Outsourcing: Recommendations for Achieving Success

Tiia Vissak
Faculty of Economics and Business Administration, University of Tartu
Narva Rd. 4-A211, 51009 Tartu
Estonia
tiia.vissak@ut.ee

Abstract

The importance of services – including transportation – continues to grow, both in terms of their contribution to GDP and the share of workforce. Still, the issues associated with distribution, especially logistics outsourcing, although affecting a large part of firms' activities, have not received as much attention in the literature as they should be. Moreover, some firms still do not regard logistics as an important activity, and this may considerably harm their competitiveness. This paper aims to give suggestions to practitioners, whether to outsource logistics services at all and if yes, then how to select suitable service providers and achieve success in relationships with them.

To widen the understanding of logistics services outsourcing, the paper is based on both academic and non-academic literature. It uses some of the IMP literature, but also the literature on outsourcing, supply chain management and logistics and, in addition to that, includes some insights from the business press.

The paper includes four short case stories and also some managerial suggestions from Estonia. It concludes that logistics services outsourcing can be very beneficial for a firm. It can enable a company to focus on core business, develop better products and improve customer relations. A firm can also simplify its logistics process, reduce paperwork, learn from other enterprises, decrease inventory, lead-time and risks, reduce re-deliveries, credits for damage and costs. Outsourcing can also lead to improved reduced coordination and communication needs, increased delivery returns, improved cash-flow, faster transit times and, ultimately, new sources of income, a higher value-added and an improved competitive position. On the other hand, some companies avoid outsourcing as they resist to change, are not aware of the capabilities and success of third-party logistics, are afraid of complexity and increasing costs, fear that carriers and third parties would be unable to provide the superior service the customers demand and that this might result in a loss of goodwill and increased customer complaints. Some enterprises also do not wish to downsize the logistics workforce, as it might have a negative impact on employee morale. The other reasons for avoiding outsourcing include the lack of organizational support, the fear of losing control or depending too much on vendors, the lack of information about the performance of providers that makes it hard to select suitable partners, and the fear that the vendor will behave unethically, for example, reveal delicate information. The decision what, when and how to outsource, should be made very thoroughly and the partners chosen carefully. A company should understand clearly what services it needs, develop a detailed contract with the service provider, communicate with it often, share information, evaluate the relationship periodically, and, if necessary, advance it or form a new one.

The paper adds to the IMP literature by looking for useful insights in the outsourcing, supply chain management and logistics literature and bringing out some specifics of business process outsourcing. It also points to some research gaps and develops a visual model for achieving success in outsourcing logistics services.

Keywords: business process outsourcing, logistics, networks, supply chain management, transition economies

Introduction

The importance of the service sector continues to grow, both in terms of its contribution to GDP and the share of workforce. Consequently, the number of publications in this area is increasing (for an overview, see, for instance, Verma 2000). On the other hand, although the issues associated with distribution (services) have become central to the growth and well-being of firms, industries, and society, in general, the research activities devoted to them – especially from the buyer's perspective – are still relatively sparse (Stern and Weitz 1997; Van der Valk, Wynstra and Axelsson 2005).

During the past decade, global transportation has undergone a revolution in technique, methods and function: thus, moving freight is not a simple task of transporting shipments from point A to B, any more: it is a complicated network of logistics, supply chain management; just-in-time delivery and outsourcing, operated and controlled electronically from initial pick-up to ultimate delivery (Dauernheim 2002; Gadde et al. 2002a). Consequently, it affects a large part of firms' activities, including all the processes involved in delivering the final product to the consumer: supply, distribution and manufacturing/production (Pontrandolfo et al. 2002).

In the following years, logistics outsourcing should grow 12 percent a year worldwide (Kerr 2004). Several reasons have caused its increasing importance (see Table 1). Yet, while the role of the logistics service providers has become increasingly strategic – efficient logistics performance may be an important competitive advantage – the practices used to evaluate and select them have not. As a result, many companies still regard logistics as a secondary activity. Thus, their logistics services are not sufficiently effective or cost efficient: some may even negatively affect their operational capabilities (Bhatnagar and Viswanathan 2000; Gould 2003; Razzaque and Sheng 1998). Consequently, this paper aims to give suggestions to practitioners, whether to outsource logistics services at all and if yes, then how to achieve success.

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To widen the understanding of logistics services outsourcing, the paper is based on both academic and non-academic literature. It uses the literature on outsourcing, supply chain management and logistics – including some of the IMP literature – and also presents four short case stories and some suggestions from the Estonian business press, made by local managers. The cases and suggestions were chosen by replication logic rather than by sampling logic: in other words, they were selected because they could be used for producing contrasting results (Yin 1994) rather than because these managers, their companies or suggestions were representative of the total population (Chetty 1996).

The paper begins with some reasons for (not) outsourcing logistics services and continues with suggestions for the firms that have decided to outsource: how they should find suitable partners, what they should do after the contract is signed and so on. It ends with some research implications.

Reasons for (not) Outsourcing

Often, logistics outsourcing is initiated due to cost considerations (Lieb and Bentz 2003). Still, it is necessary to remember that initial cost savings is not the only, and perhaps not even the most important determinant in deciding whether to control inventory "in house" or employ a third party (Dauernheim 2002). The following issues should also impact the decision of firms to either outsource or not (Brandes, Lilliecreutz and Brege 1997; Cap Gemini… 2003; Dauernheim 2002; Forsström and Törnroos 2005; Harland et al. 2005; Rao and Young 1994; Razzaque and Sheng 1998; Stuart and McCutcheon 2000; Telfer 2002; The Outsourcing… 2004):

- the company's business strategy, including the strategies of risk- and cost-reduction and quality assurance;
- the importance of logistics functions for the core activity;
- the criticality of cross-border production management;
- the needs to control the supply chain, compete globally with global services and protect in-house expertise;
- the financial state of the company;

- the level of in-house knowledge;
- the quality of the existing software and infrastructure assets;
- the fear of “lock-in” to few service providers;
- the readiness to “manage details”;
- the complexity of transactions and processes;
- the characteristics of market relationships and shipments (size, hazards);
- the possibility to increase customer satisfaction;
- the availability of necessary logistics services;
- the need for the resources and capabilities the potential partner might have;
- the confidence that the provider has both the skilled employees and technology to accomplish this task better than the enterprise itself.

Logistics outsourcing can be very useful (see also Table 2). It can enable a company to focus on core business, develop better products, improve customer relations, increase profits and achieve other strategic goals (Gamble 2003). A firm can also simplify its logistics process, reduce paperwork, damage costs and re-deliveries, learn from other enterprises, get fresh ideas, decrease inventory, lead-time and risks as the service provider can invest in IT, receive a better per-shipment price and thus offer discounts on volume. Moreover, the buyer would not need transportation equipment, warehouses and some of its logistics personnel, any more. Outsourcing can also lead to improved information availability – for example, concerning international customs brokerage documentation, airfreight rates and foreign market conditions – and security, reduced coordination and communication needs, increase of delivery returns, improved cash-flow, faster transit times and, ultimately, a higher value-added, new sources of income and an improved competitive position (Bernstein 2001; Bhalla 2003; Bhatnagar and Viswanathan 2000; Cap Gemini… 2003; Hansen Harps 2003; Harland et al. 2005; Jahre, Elvekrok and Flygansvær 2004; Konezny and Beskow 1999; Langley, Allen and Colombo 2002; Langley, Allen and Tyndall 2003; Razzaque and Sheng 1998; Stuart and McCutcheon 2000; Telfer 2002; The Outsourcing… 2004). A firm might also improve service levels and thus customer satisfaction (Lieb and Bentz 2003) and overcome seasonal peaks (Konezny and Beskow 1999). Moreover, some third-party logistics (3PL) customers have been satisfied with such relationships because they help to improve, rather than diminish, control over certain outsourced activities (Langley, Allen and Colombo 2002; Langley, Allen and Tyndall 2003). The usefulness of outsourcing can be also demonstrated by the following cases and manager's opinions.

- *Case 1.* In 2003, a large meat producer decided to re-organize its logistics system in order to reduce costs, stocks and delivery times. Its warehouses – in addition to a central warehouse, it also had three others in different parts of Estonia – often did not have the right amount of stocks, as they were hard to predict. So, the warehouses often had to utilize or discount some of the stock, or they had to tell their customers that they did not the products they needed. Moreover, the information between the warehouses and the head office moved slowly and the warehouses would have needed very expensive modernizations to continue operating. By 2005, the system was re-organized: all the three warehouses were closed down and their equipment sold. Moreover, the firm decided to order transportation, package handling and cash collecting services from outside. As a result, the company reduced its total logistics costs by about 20 percent.
- *Case 2.* In 2000, a medium-sized supplier of industrial equipment and their components decided to outsource warehousing and transportation services. It wanted to reduce costs and delivery times and concentrate its main resources on developing its core competencies. To achieve it, it was necessary to find a suitable partner that could be able to offer transportation services not only in Estonia, but in Scandinavia, Latvia and some other European countries as well, because the firm imported most of its equipment and components from these regions. The partner also offered warehousing services. As a result, the company re-organized its stock reserve management and became able to react faster to customers' needs – it reduced delivery times to its customers from 1 to 0.5 days and from its suppliers from 7 to 3-4 days – and started to deliver smaller amounts to them. This led to 2.6 times smaller reserve stocks and – as a result – lower costs: for instance, stock handling costs decreased by 15 percent. Moreover, the firm can now use its warehouse for other purposes.
- *Opinion 1.* As our sales have increased, it seemed reasonable to outsource logistics services. It is important to concentrate on core competencies and improve them (a sales manager of a large beverage producer).
- *Opinion 2.* Outsourcing makes it possible to focus on a firm's core competence, reduce costs and improve the quality of the service. Moreover, if there should be any serious problems, a

new service provider could be found without major difficulties (a member of the board of a medium-sized supplier of food industry equipment)

- *Opinion 3.* We are active on several continents. It would be impossible to transport everything on our own trucks and keep them busy all the time. Outsourcing enables us to focus on our core activities, reduce costs and delivery times (a production manager of a large electronics manufacturer).

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On the other hand, some companies avoid outsourcing as they resist to change, are not aware of the capabilities and success of third-party logistics, are afraid of complexity (Konezny and Beskow 1999), fear that carriers and third parties would be unable to provide the superior service the customers demand and that this might result in a loss of goodwill (Rao and Young 1994) and increased customer complaints (Langley, Allen and Colombo 2002; Langley, Allen and Tyndall 2003). Firms may encounter problems when they analyze the possibilities to start using a third-party logistics provider, in the implementation phase, in alliance operations, and in the auditing of the alliance (Gadde et al. 2002b). Some enterprises also do not wish to downsize the logistics workforce, as it might have a negative impact on employee morale; think that the outsourced services are too expensive, 3PL employees are not well trained (Lieb and Bentz 2003) and their own company has more expertise; or fear of losing personnel who have been trained in the organization’s particular business practices and have become a part of the organizational family. The fears that outsourcing may produce inferior results – for example, not reduce the costs and time/effort spent on logistics – might also limit it. The other reasons for avoiding outsourcing include the lack of organizational support and managerial knowledge, the fear of losing control or depending too much on vendors, the lack of information about the performance of logistics service providers that makes it hard to select suitable partners, and the fear that the vendor will behave unethically, for example, reveal delicate information (Jahre, Elvekrok and Flygansvær 2004; Harland et al. 2005; Konezny and Beskow 1999; Langley, Allen and Colombo 2002; Langley, Allen and Tyndall 2003; Razzaque and Sheng 1998; The Outsourcing… 2004). Some of the reasons to retain some logistics functions are also presented in the following two cases and two opinions.

- *Case 3.* A large clothing retailer and producer, active in Estonia, Latvia, Lithuania, Poland, Russia and Ukraine – it has 24 stores in Estonia and 66 abroad – has decided to retain all its logistics functions in delivering clothes to its Estonian shops, although it uses the services of several providers when it exports its clothes. The firm does not want to outsource local logistics services because it is afraid to lose flexibility: it has production units in four places in Estonia and one in Russia not far from the border, and often its trucks have to make unplanned trips as it is very hard to predict which models and sizes the stores need in the very near future. With its own trucks, it can send its clothes to the local stores very quickly. It would be hard to find a local service provider who would agree to deliver small quantities almost instantly after the order comes.
- *Case 4.* A large wholesaler and retailer of groceries and primary goods faced serious problems when its parent company merged with another one and their store chains were integrated. Their stores started to have some logistical problems as the headquarters began to dictate what to order and when, while before, the shops themselves decided what and how much to buy. As a result, the firm lost some of its customers, because some of their favorite products were not in the shops at all, any more, while some others were not there all the time. Moreover, while some shops received their deliveries late, some others received them too early and sometimes they even had to send the trucks back, because they did not have enough storage space. So, the company's market share decreased and several managers decided to leave.
- *Opinion 4.* It is useful to make deliveries with the firm's own vehicles only if it needs to make fast, irregular deliveries and if the amount is large enough. If the amounts are small and deliveries are infrequent, it might be more efficient to use a courier firm (a logistics manager of a medium-sized logistics services provider).
- *Opinion 5.* Our own truck drivers should feel a larger responsibility. The logistics providers' drivers might drive too carelessly and so our glass might be damaged. So we prefer to deliver our glass with our own trucks. Moreover, in critical situations, information should move faster in-house than between the firm and the potential logistics provider. In the latter case, it might

also deform as it moves through more people and so we might lose money (a production manager of a medium-sized construction glass producer).

From the above it can be concluded that the choice (not) to outsource depends on several factors. Companies planning to outsource their logistics function globally must address each of these issues carefully, so that contract logistics can be a catalyst for improvement, rather than another problem to handle (Razzaque and Sheng 1998). The suggestions for selecting suitable service providers and achieving success in outsourcing are presented in the next section.

Suggestions for Achieving Success in Logistics Services Outsourcing

Several authors have made suggestions for enterprises interested in total or partial, short- or long-term logistics outsourcing (see Figure 1). They could be divided into two main groups: first, if a firm has decided to outsource, then how it should select a suitable logistics company (or companies); and second, how to increase success in the ongoing outsourcing relationships. The suggestions will be introduced below.

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Before the strategic logistics sourcing process even *begins*, core competencies should be distinguished – as they should not be outsourced – from the activities not close to them (Bhalla 2003; Hansen Harps 2002; Hagberg-Andersson, Åhman and Kock 2000; Langley, Allen and Tyndall 2003; Stuart and McCutcheon 2000; The Outsourcing… 2004), strategic business needs determined and the types of logistics services required to support them identified. If a decision is taken to outsource, attention should be paid to the number, location, capacity and type of manufacturing plants and distribution centers, the set of suppliers, the transportation channels and the amount of raw materials and finished products to produce, store and ship between suppliers, warehouses and customers (Bhalla 2003; The Outsourcing… 2004). Exchange rates, duties, prices, taxes, cash and information flows, trade barriers and government regulations should be also considered (Vidal and Goetschalckx 2000).

To achieve success, strategic plans should be reviewed; and expectations and potential synergies identified, first for the overall organization and then for each business unit. Based on the above information, a solution to the problem should be developed and a list compiled what stays internal and which services should be outsourced. In other words, a rigorous make-or-buy evaluation process should precede the decision to outsource. Then, the level of business involved should be selected – it does not have to be "all or nothing" – the necessary logistics services identified and a selection made between long- and short-time relationships (Gould 2003; Hansen Harps 2003; Langley, Allen and Tyndall 2003; The Outsourcing… 2004). After that, the number of services should be chosen and a decision made whether to focus on handling or value adding; execution of activities or management (Andersson and Norrman 2002).

Outsourcing must be done carefully, systematically, and with explicit goals (Bhalla 2003; The Outsourcing... 2004). The logistics strategy should be aligned with corporate strategy (Hansen Harps 2003) and culture (The Outsourcing… 2004). A company should become an integral part of the logistics process long before its products are ready for distribution. Sales and marketing plans should be integrated with the traffic department well in advance of actual production and distribution dates. It is necessary to achieve senior (especially for larger projects) and lower-level executives' support of the logistics outsourcing decision. How and when the products move along the supply chain is often just as vital as production, sales and marketing efforts (Dauernheim, 2002; Hansen Harps 2003; McLoughlin 2002; Razzaque and Sheng 1998; The Outsourcing… 2004).

To find suitable logistics partners and manage the strategic sourcing project, a team could be formed (Gould 2003). Its members should be total-cost thinking, familiar with new optimization tools, aware of the department's core competencies and knowledgeable of international transactions. They should be able to decide when and which logistics services should be outsourced (Kerr 2004), predict the likely impact that outsourcing will have on the organization's stakeholders, including stockholders, customers, suppliers and employees (Bhalla 2003; The Outsourcing… 2004), and possess negotiating and relationship management skills (Edmonds 2000). The team should include sourcing and logistics/supply chain personnel and representatives from user areas that will be directly and heavily impacted by the outsourcing under consideration. Specialists, such as the company's legal counsel, should also be included. The size of the team depends on the scope and size of the project, but smaller teams can be more effective than larger ones. After the planning phase, the team could be expanded. After collecting accurate and timely data on logistics costs – naturally, the actual price an organization will pay is set in actual negotiations – firm's and its potential partner's capabilities and other important factors, they should propose how to (re)structure the enterprise's logistics practices (Gould 2003; The Outsourcing… 2004). The ideas should be documented (Hansen Harps 2003).

The team should gain a solid understanding of the current and potential service providers' technological and managerial capabilities and recent developments in the service provider's business community (Gould 2003): some new entrants could also start providing necessary services (Andersson and Norrman 2002). Lesser-known providers should not be ignored. Enough time should be taken to analyze the vendors' owners, reputation, potential, business experience, knowledge of the industry, location, geographical spread, level of service (including the one of IT-solutions: for example, the availability of necessary statistics and the possibility to watch the delivery of shipments in real time); terms of payment, flexibility, capacity, financial stability, business partners, the skill and dedication of its workforce, infrastructure, the ability to handle all the necessary business aspects (Bernstein 2001; Dauernheim 2002; Gamble 2003; Hansen Harps 2002, 2003; Razzaque and Sheng 1998), family history, beliefs (Schwartz 1999), the local project manager's skill and dedication, driver turnover statistics, recent management changes (McLoughlin 2002) and corporate culture: values, overall management style, decision-making processes, goals and objectives (Edmonds 2000). It is important to take a long-term view: the buyers should look for partnerships extending their capabilities, and acknowledge that relationships are interdependent – they can affect each other (Forsström and Törnroos 2005; World Economic… 2001).

After analyzing the above information, reference checks should be conducted with past and present customers of high-interest suppliers and the factors identified that could either add or eliminate a potential candidate such as recent start-ups, mergers, divestitures, and companies in financial difficulty (Bernstein 2001; Gould 2003; Lieb and Bentz 2003). It must be taken into account that cost should not be the sole or even the most important consideration (Dauernheim 2002). When a provider offers its services for significantly less than others, their quality may turn out lower than expected or it may raise prices soon after the contract is signed (Hansen Harps 2003; McLoughlin 2002).

After some information is gathered, an initial short list of 3-8 potential service providers should be developed. It should include only the best of the potential suppliers. Then, formal requests for information should be sent out. They should include the preliminary contract. To evaluate the proposals, outside consultants may be involved, if necessary. Those providers that have elected not to participate; have not responded to the request or do not appear to be qualified, should be eliminated. To gather additional information about the providers, customers, vendors, distributors and other logistics providers should be contacted. Then, a list of final candidates should be compiled and a request for proposal sent to them. Based on the responses, the potential partner(s) should be identified (there are arguments both for having only one partner and having several; for an overview, see Hagberg-Andersson, Åhman and Kock 2000) and contract developing and negotiating process started. The selected provider(s) should show top management commitment and work hardest to understand the customer's operation and reasons for considering outsourcing. Still, the customer should retain some control of its supply chain: for example, maintain and update its own data files and retain links with carriers. The parties should define in writing, what they expect from the relationship. The contract should cover all of the customer's intended business needs – leaving out the unnecessary services – and volumes (with possible fluctuations) and include joint goals and objectives as well as measurable, quantifiable and comparable indicators and targets and each party's responsibilities for meeting them – the performance incentives and penalties should be large enough so that the providers will prefer fill their obligations instead of paying fines – nondisclosure clause, a clear, formal dispute resolution process, minimum services levels, renewal options, ownership and confidentiality of data, the actions in the case of force majeure, and the actions to take if the company or the service provider decides terminate the relationship. It should identify which parts of the contract are absolute "musts" that cannot be compromised on and which are negotiable. Because each aspect of the outsourcing relationship is governed by the contract, both parties should agree on everything.

The contract must be written so that both parties view it as a win-win situation and can earn profit in their respective businesses (Andersson and Norrman 2002; Bhalla 2003; Edmonds 2000; Gadde et al. 2002b; Gamble 2003; Gould 2003; Hansen Harps 2003; House and Stank 2001; Kerr 2004; Langley, Allen and Tyndall 2003; Lieb and Bentz 2003; Razzaque and Sheng 1998; The Outsourcing… 2004). The following opinions show what some Estonian firms expect from their logistics providers and why they prefer a smaller or a larger number of service providers.

- *Opinion 6.* With a smaller number of partners it is possible to get to know them better, take into account each other's needs and capabilities, build trust and save time and other resources (a member of the board of a medium-sized car dealer).
- *Opinion 7.* With a small number of partners, it is possible to reduce the price of their services (a logistics manager of a large wholesaler of construction materials).
- *Opinion 8.* With a smaller number of partners, there is a threat that the provider becomes lazy and the service quality goes down (a logistics manager of a large electronic components supplier).
- *Opinion 9.* Before, we used several service providers, but we had many problems: for instance, with timeliness. Now, we have a solid partner and everything is fine (a buying assistant of a medium-sized wholesaler of toys).
- *Opinion 10.* When we started to co-operate with our logistics service provider, we had very specific conditions: we wanted a full service from including initial pick-up to ultimate delivery. For us, it was also very important that we could observe the movement of each package through Internet. The service provider has offered us all that (a logistics manager of a large department store).
- *Opinion 11.* From a logistics provider, we expect flexibility, complaisance and timeliness. We also wish to observe the movement of our cargo (a sales manager of a large beverage producer).
- *Opinion 12.* A globally active enterprise like us buys complex and tailor-made solutions and so it is very important that the provider knows what the customer needs. This knowledge is especially important in critical situations, when there is no time to ask for long explanations, but just to act fast. Moreover, it is important that the provider knows if a particular client is more interested in a lower price or faster delivery. We prefer the latter (a logistics manager of a large electronic components supplier).

After the contract is signed, the provider should be given 6-8 weeks of lead time (McLoughlin 2002) to transition the operation from in-house to the 3PL provider (Hansen Harps 2002). Relocating a full department, including people and computer systems, to the outsourcer's premises – either locally or far away – will take longer and cost more (Gamble 2003). Thus, the existing logistics team should not be downsized prematurely (Telfer 2002). Moreover, it takes some time for the provider to understand its client's values, problems and needs and only after that, it can reach the desired service level. Consequently, it might take several months before positive changes become visible.

When the provider has taken over the operation, a governance program should be implemented, the performance of assets and the transferred personnel reviewed; continuing governance activities, service reviews and quality surveys conducted, and pricing benchmarks applied. Moreover, a management process and if necessary, a formal structure to oversee the third-party providers should be developed. A joint management team might be formed to deal with day-to-day, tactical, and strategic aspects of the relationship. A company should also continue to monitor and refine its relationships with the vendors: schedule regular operational reviews with them, formalize processes, communications procedures and contacts; and involve them in ongoing planning. The customer's and vendor's personnel should be involved in informal meetings and social events; education on company heritage and history; they might participate in "internal" meetings of the other firm and rotated between the enterprises (Gamble 2003; Gould 2003; Hansen Harps 2002; Lieb and Bentz 2003; Razzaque and Sheng 1998; The Outsourcing… 2004).

Performance should be measured on an ongoing basis (Edmonds 2000; Hansen Harps 2002; House and Stank 2001; Razzaque and Sheng 1998) and over a long timeframe (Gamble 2003). It is vital not to expect too much: for example, for companies with solid logistics operations, a 3PL can provide better logistics competencies, but may not necessarily achieve savings (Hansen Harps 2003). The overall merits of outsourcing should be (re)considered at regular intervals: for example, once in every 3-4 years. Revisiting the outsourcing issue may be particularly relevant under changing market conditions or when internal, industry, or technology changes have occurred (Bhalla 2003; The

Outsourcing… 2004). It must be recognized that problems may occur and, according to Pressey and Mathews (2003), due to their "mortality", in the long-term, all business relationships should end. Anticipating such problems can enable a company to work out potential solutions in advance (Hansen Harps 2002, 2003). Still, when the relationships fail to deliver, strategic or tactical objectives change, or a given capability could yield more when recombined with another one realized through an alternative relationship or set of relationships, they should be reexamined (World Economic… 2001). If necessary, the parties should review their expectations, goals and responsibilities throughout the life of the agreement (Edmonds 2000). Dysfunctional business processes and organizational structures should be broken (Kerr 2004), but it must be acknowledged that in most cases, working through problems is more productive than changing providers in mid-stream (Hansen Harps 2002).

A buyer should also trust that its partner will apply its expertise to implement a suitable solution for the organization (Edmonds 2000). It should travel to its partner's location regularly to keep the relationship healthy (Hansen Harps 2003). Frank, open and honest communication on all matters and at all levels is important (Edmonds 2000; Hansen Harps 2002; House and Stank 2001): the more information the 3PL receives about what it takes to make the operation work, the more successfully it can respond to the customer's needs (Hansen Harps 2003). Periodic lapses in communication encourage participants to dissociate themselves from responsibility for partnership objectives and follow their own agendas: thus, they can be quite dangerous (House and Stank 2001). Moreover, a buyer should treat its service provider like an integral part of its organization (Hansen Harps 2002) and try to learn from it as much as possible (Shanahan 2004).

The service agreement will normally have a term. At the end of that term, the buyer has to make an informed decision to renew the agreement, negotiate a new one with its provider, start a new selection process or bring the function back inside the organization. This depends on its satisfaction with the vendor and the changes in the marketplace (Gamble 2003; The Outsourcing… 2004). It should consider future market and business strategy, including organization readiness and business drivers; check whether new technology or providers have come along that could now do it better, faster or cheaper; address critical success factors and develop comprehensive risk mitigation plans: for example, what it should do if the vendor is taken over (Gamble 2003; Langley, Allen and Colombo 2002). Below, some suggestions are given for the firms that want to improve their relationship with their service provider.

- *Opinion 13.* Before deciding whether to outsource or not, a firm should try to map its current situation (including core competencies and current logistics costs) and needs. Only then, it becomes possible to contact some potential service providers. It is very important to send them very detailed information of the company's needs and the result it would like to achieve. After receiving their offers, they should be compared with the current costs. Moreover, different risks should be taken into account when deciding whether to outsource or not (a member of the board of a medium-sized supplier of food industry equipment).
- *Opinion 14.* Outsourcing should be strategic. The service provider's credibility and readiness for long-term co-operation are very important. It is also necessary to have clear and measurable goals for the relationship with such a company. Moreover, the goals should coincide: for instance, both partners should have a long-term orientation; otherwise the relationship may fall down soon (a production manager of a large electronics manufacturer).
- *Opinion 15.* It is very important to have a clear contract: under what conditions the service provider could change prices, how the contract could be re-negotiated or terminated (for instance, how many days before that one of the parties should inform the other), what should be done if the service provider does not follow the contract and so on. Such a contract defends the best interests of both parties and it is a good basis for a long-time partnership. For instance, if the fine for not delivering the shipment is smaller than the cost of not delivering it, then the service provider might be tempted not to deliver it. He bigger the customer is, the more strict conditions it can demand: the service provider must understand that it faces the danger of losing an important customer, if it does not follow the conditions of the contract (a CEO of a medium-sized logistics services provider).
- *Opinion 16.* If the customer is not satisfied with the service provider, in general – for instance, with its service culture – then it is useful to come together and discuss all the problems. If there is a specific problem – for instance, with an incorrect invoice or a damaged shipment – then it would help if the customer would send an official letter with a detailed description of the

problem, including the dates, the persons who were responsible, the photos of the damages and so on (a sales manager of a large logistics services provider).

- *Opinion 17.* We have always tried to solve misunderstandings with our logistics service providers as soon as possible. If one of the parties has made a mistake and caused additional costs for the other party – for instance, if we have not been able to receive a shipment on time and the service provider has had to wait too long – then there is no doubt that it has to pay. If none of the parties is clearly guilty, then we have tried to reach a compromise. If the partner does not agree to find a solution to such problems, it is a clear sign that we should start seeking for another one (a logistics manager of a large department store).

Conclusions and Research Implications

Logistics services outsourcing can be very beneficial for a firm: it can focus on its core competence, reduce costs, delivery times and risks, learn from the supplier, increase customer satisfaction and, as a result, reach higher profits. On the other hand, some companies may lose from such a relationship: their costs may increase and flexibility decrease; delicate information become public, employee morale decrease and the dependence on service providers become too large. Consequently, the decision what, when and how to outsource, should be made very thoroughly and the partners chosen carefully. From the academic and non-academic literature, the following managerial suggestions could be made:

1. Distinguish your core competencies and determine your strategic business needs, expectations and potential synergies. Based on them, decide whether to outsource or not.
2. If you decide to outsource, identify the necessary logistics services and relationships (for example, long- or short-time).
3. Form your logistics strategy so that it is aligned with your corporate strategy. Achieve executives' and departments' support.
4. Form a team for finding suitable logistics partners and managing the strategic sourcing project. Involve specialists from different areas.
5. Gain solid understanding of the current and potential service providers' characteristics, including actual and potential capabilities, reputation; business experience, level of services, infrastructure, beliefs and corporate culture. Conduct reference checks.
6. Based on the collected information and your needs, develop an initial short list of 3-8 potential service providers. Send out formal requests for information. Evaluate the proposals and gather additional information.
7. Compile a list of final candidates and send each one a request for proposal. Based on the responses, identify the potential provider(s) and start the process of developing and negotiating a contract.
8. In the contract, cover all your business needs, include joint goals and objectives, measurement indicators, dispute resolution process, renewal options, ownership and confidentiality of data, force majeure and other important aspects. Distinguish between "must have" and "nice to have" services. Achieve your partner's agreement on every detail. Make it a win-win situation so that both of you can earn profit.
9. After the contact is signed, give your provider some time for reaching the desired service level. Do not expect significant improvements too soon.
10. Continue to monitor and refine your relationship with the vendor: communicate, share information, organize meetings, measure performance, give feedback. Accept that problems can occur, but reexamine the relationship, if it fails, if your objectives change, or if another relationship might provide better results. Based on your assessment, decide whether you should implement a new or advance the existing relationship.

There are still several possibilities for the future research. This paper concentrated on giving rather general suggestions for selecting the right service provider(s) and achieving success in logistics outsourcing. It should be useful to examine different countries (more/less developed), industries and firm types (small, large, foreign-owned, locally-owned and so on) and develop more specific recommendations for some of them: for instance, a small local department store should have very different needs than a global assembler of electronic components.

Some longer success stories and cases of failure might also be investigated: why the firms selected these particular service providers and not any others, how they negotiated over their contracts, how much their costs and delivery times changed, how often they had to complain over the vendors' service quality, why some relationships have succeeded while the others have failed – is the failure caused by unclear contracts, poor economic conditions, personal conflicts or other reasons – and what the companies decided to do after such failures: whether they found new service providers or chose not to outsource any logistics activities, any more. Additional data might be also gathered from surveys. Then, it should be possible to specify the suggestions and increase the managers' gains.

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Table 1. The trends and tendencies in global logistics outsourcing

The trends leading to increased logistics outsourcing	• Managers have understood the need to concentrate on the main activity (core competence). The imperatives of cost efficiency and customer responsiveness have pushed companies to locate their production/distribution facilities globally and reduce delivery times. • The shipments are getting smaller but more frequent, as customers want to reduce warehousing costs. • Some enterprises' need to diversify has considerably broadened their supply chains. • As access to information has grown, the firms' ability to collaborate across borders has increased and this, in turn, has intensified competition. • Lack of specific knowledge of destination countries forces enterprises to acquire the expertise of third-party logistics vendors. • Reducing the amount of time, energy, and effort expended in acquiring goods and services has become as important, if not more so, as being offered a reduction in their purchase prices. • In the supply chain, the technical (for example, IT) solutions have become more complicated and enable the providers to communicate more often with their customers and reduce the possibility of errors. • The number of integrated third-party logistics (3PL) providers has grown considerably and led to some price reductions. Moreover, they have developed a wide selection of services. • Through acquisitions, strategic alliances and new subsidiaries, the new logistics enterprises offer global reach and know-how and thus they have made it easier for companies to outsource more parts of their supply chain. • Customers tend to prefer long-time partnerships instead of short-term contracts with cheapest suppliers.
A selection of "new" and "old" logistics services	• warehousing, inventory recording and management • packaging, re-labeling, product return and repair, assembling, installation, product testing, consulting • handling of customer returns, after-sales service, marketing • purchase of materials • insurance, customs brokerage/clearance • in- and outbound transportation, shipment consolidation/distribution, tracing/tracking, fleet management, freight forwarding, cross-docking, freight bill auditing/payment, carrier rate negotiation • telecommunication • trade financing • performance evaluation and planning • implementation and management of the process • training

Sources: Andersson and Norrman 2002; Bhatnagar and Viswanathan 2000; Gadde et al. 2002a; Gould 2003; Konezny and Beskow 1999; Langley et al. 2002, 2003; Lieb and Bentz 2003; Rao and Young 1994; Razzaque and Sheng 1998; Shanahan 2004; Stern and Weitz 1997; World Economic… 2001

Table 2. The arguments for and against logistics services outsourcing

Reasons for preferring outsourcing of logistics services	**Reasons for avoiding outsourcing of logistics services**
• it enables a company to focus on core business and achieve its strategic goals • the firm can simplify its logistics process and reduce paperwork • the company does not have to worry about not having the right amount of stocks • sometimes outsourcing can even improve, rather than diminish, control over certain activities • the firm can learn from other enterprises • the company can considerably reduce delivery times, improve service levels and thus customer satisfaction • the firm can deliver smaller amounts of products than before, but with the same or lower costs • it enables to reduce costs (including damage, warehousing, transportation, package handling, personnel and re-delivery costs) and increase cash-flow • the company can use its warehouse for other purposes	• there might not be enough information about capabilities and success of third-party logistics • people may be afraid of changes and increased complexity • it is hard to find suitable partners, especially if a company needs to deliver small quantities but is unable to make predictions, when it needs them delivered • carriers and third parties may be unable to provide superior service, and this may lead to increased customer complaints and a loss of goodwill • downsizing the logistics workforce may have a negative impact on employee morale • in some cases, costs and time/effort spent on logistics might increase, while flexibility might decrease • the company might start depending too much on vendors • the vendor may behave unethically: for example, reveal delicate information

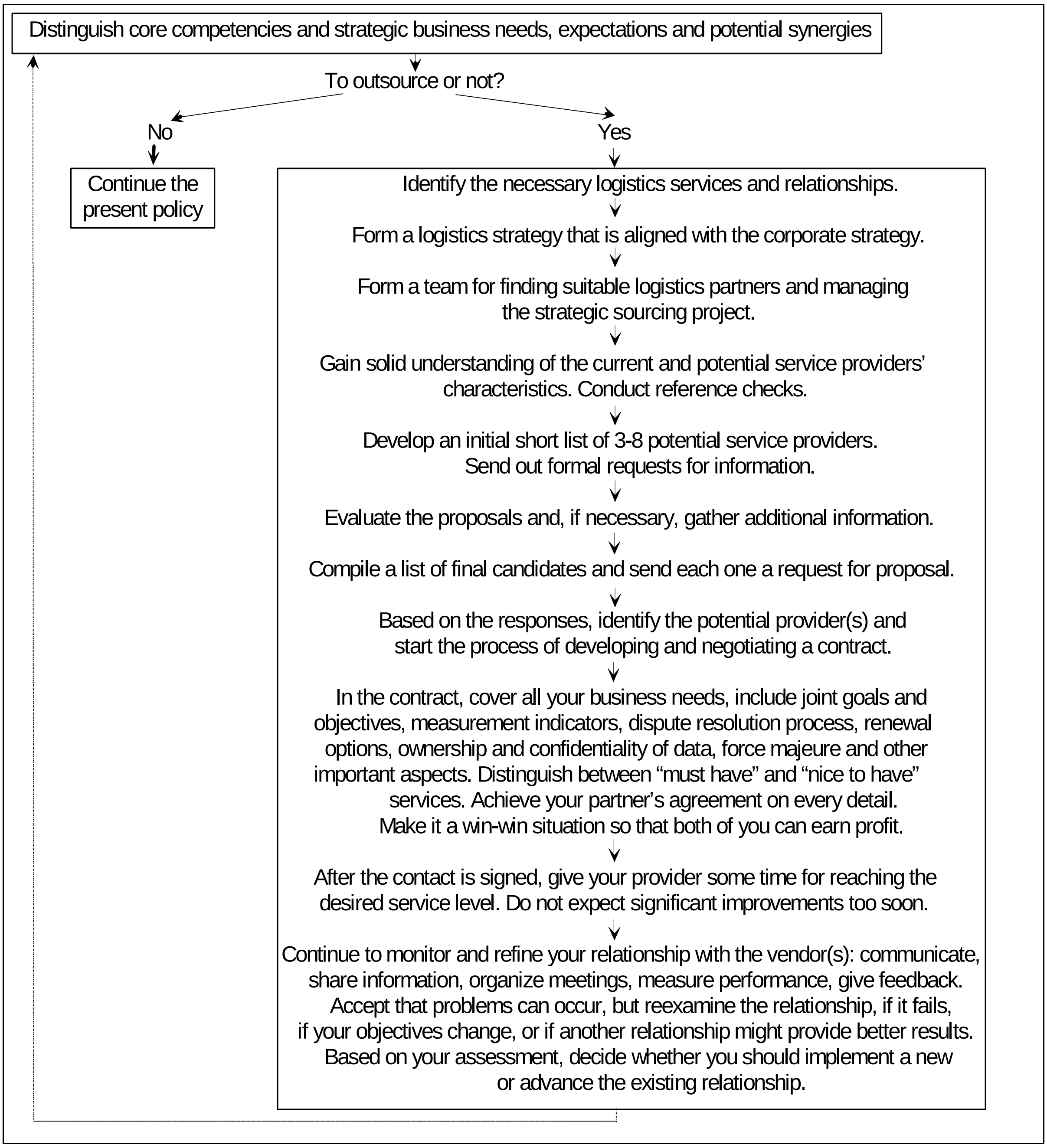

Figure 1. Some suggestions for potential logistics outsourcers

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