Massey University

Research Report

Logistics Outsourcing – An Innovative Strategy or a Logistical Nightmare?

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ABSTRACT

In the past, a typical company would manage all logistics processes by itself, end-to-end. Larger organisations are able to manage these activities better because they gain economies of scale from processing all logistics functions. However, business rivalry and globalisation have forced many organisations to rationalise all activities from marketing to production, human resources and now also logistics. In the process, the organisational focus has now shifted from an organisation carrying out all its activities to concentrating on its core activities; non-core activities such as logistics and other back office functions are being outsourced.

Outsourcing of logistics and supply chain services is not a new concept. While outsourcing has seen renewed emphasis in recent years, the practice can be traced back to almost as far as one would care to research it. In *Warehousing Profitably*, Ackerman (2000) suggests that one of the first business logistics arrangements is described in *The Bible*, Genesis 41[1]:

> This is an account of the seven years of plenty during which the people in the land of Egypt accumulated crops for the predicted seven years of famine. The grains and other fruits of their labours were taken to storehouses for safekeeping.

One could argue that this could be the beginning of logistics outsourcing in the form of warehousing by a third party.

What we see today is the advanced and most modern form of outsourcing which includes value added services beyond anyone's imagination. This has contributed to the phenomenal growth of the logistics outsourcing industry worldwide. According to a recent study by Armstrong & Associates Inc., the logistics and supply chain outsourcing business exceeded US$100 billion in 2005 in the United States of America alone. This is a 16% increase over the previous year's turnover[2]. This figure includes 22% revenue generated by value added services. The global revenue of Third Party Logistics (3PL) companies in 2005 was US$ 333 billion[3].

However, the success of outsourcing is in question due to an increasing number of outsourcing initiatives failing within the first year and continued discontent among the outsourcing business community. "About one quarter of all logistics outsourcing agreements fail within the first year, and 60 percent within three years," says Jim Tompkins, CEO and founder of supply chain consulting firm Tompkins Associates, Raleigh, N.C. A recent Warehousing Education and Research Council (WERC) pamphlet reported that 55% of logistics outsourcing alliances are terminated after 3-5 years. In some cases it was noticed that the relationship ended even before completion of the first year of operation. According to a survey reported by the *Journal of Commerce*, 43% of identified users of 3PLs in North America cancelled at least one 3PL contract in 1998[4].

Outsourcing of logistics and supply chain activities is considered an innovative solution in view of expanding and increasingly growing globalisation. However, the outsourcing of non-core activities to a third party is not always successful. This particular issue encouraged me to investigate the reasons for outsourcing failures. This research focuses on the reasons for outsourcing failure and discontent among the outsourcing community.

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1. Literature Review

> "A literature review is a summary of a subject field that supports the identification of specific research questions." (Rowley and Slack, 2004)[5]

The areas of focus are as follows:

1. Definition of Logistics Management
2. Definition and Evaluation of Outsourcing
3. Objectives of Logistics Outsourcing
4. Areas Outsourced within Logistics
5. Reasons for Logistics Outsourcing Failure
6. Successful Logistics Outsourcing Process

The literature review has been conducted for the above topics in order to stay close to the topic of my research work. The review of the literature has helped me immensely in finalising the research report. The wealth of information available on this popular topic helped me to understand the subject thoroughly and to conduct my research work.

1.1 Definition of Logistics Management

Logistics may be referred to as: Business Logistics, Channel Management, Distribution Management, Industrial Logistics, Logistical Management, Materials Management, Physical Distribution, Quick-response Systems, Supply Chain Management and Supply Management (Lambert, Stock and Ellram, 1998).[6]

The management of logistics functions in modern organisations involves decision making for the complete distribution of goods and services in the marketing function (Watson and Pitt, 1989)[7] with a view to maximising value and minimising cost. A growing awareness that competitive advantage comes from the delivery process as much as from the product (Muller, 1991a)[8] has been instrumental in upgrading logistics from its traditional backroom function to a strategic boardroom function (Foster, 1994)[9].

It has been a common belief that logistics involves the movement of goods from 'point A to point B'. In the early stages of the evolution of logistics, the term was associated with the military as early as 1898 (Simpson and Weiner, 1989):

> Strategy is the art of handling troops in the theatre of war; tactics that of handling them on the field of battle ... The French have a third process, which they call logistics, the art of moving and quartering troops.[10]

Over time the logistics application has moved into the commercial arena. Although the definitions differ from individual to individual, the consistent definitions have always been provided by organisations such as APICS (Cox et al., 1998)[11], which defines 'logistics' in both military and business contexts:

> In an industrial context, the art and science of obtaining, producing and distributing material mid product in the proper place and in proper quantities. In a military sense (where it has greater usage), its meaning can also include the movement of personnel.

In a true business context, Cavinato (1982)[12] has defined logistics as:

> The management of all inbound and outbound materials, parts, supplies, and finished goods. Logistics consists of the integrated management of purchasing, transportation, and storage on a functional basis. On a channel basis, logistics consists of the management of the pre-production, in- production, and post-production channels. The term logistics should be distinguished from physical distribution in that the latter normally applies to only the post-production channel.

The focus point of this definition is the movement of goods. However, the scope is expanded beyond finished goods distribution by including in-bound and out-bound materials.

The most balanced and complete definition has been provided by the Council of Logistics Management (CLM). This definition deals with many facets of logistics function:

> Logistics is that part of the supply chain process that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information

> between the point of origin and the point of consumption in order to meet customers' requirements.[13]

The most important point to be noted in this definition is that, for the first time, reverse movement of goods has been considered as part of logistics. This definition covers almost all aspects of integrated logistics management.

1.1.1 Logistics and Supply Chain Management

With increasing globalisation we often hear the term 'supply chain management' (SCM) used as a substitute for 'logistics management'. Hence, it is very important to understand its true definition and relationship to logistics. With the increased interest in supply chain management, several authors have discussed the differences between this newer term, supply chain management, and logistics. Cooper et al. (1997) stated that a "contemporary understanding of SCM is not appreciably different from the understanding of integrated logistics management".

However, these same authors suggested that a broader understanding of supply chain management was emerging, one that:

> includes the integration of business processes from end use through original suppliers that provides products, services, and information that add value for customers. Supply chain management is not just another name for logistics. It includes elements that are not typically included in a definition of logistics,

> such as information systems integration and coordination of planning and control activities.[14]

The comprehensive definition was provided by CSCMP (Council of Supply Chain Management Professionals):

> Supply Chain Management is the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole.[13]

Recalling the definition of logistics provided by the CLM and CSCMP, it is very clear that logistics management is part of supply chain management and the terms are not interchangeable.

1.1.2 Logistics as a Functional System

A functional system was defined as a "collection of interrelated objects and the interrelated activities in which these objects are engaged" (Granzin and Bahn, 1989, 91-102).[15] De Hayes and Taylor (1974)[16] conducted research into modern functional logistics systems and concluded that they are critical in providing time and place utilities associated with every finished product.

Bowersox (1974)[17] further added that the conceptualisation of logistics as a functional system is crucial in improving the seamless flow of goods and information with the main objectives of meeting cost-effective, fast and reliable delivery within a business or throughout a network of businesses. Bowersox divided the logistics function, thought of as a functional system, into five broad areas:

1. Facility location
2. Transportation
3. Inventory
4. Communication
5. Material movement

These functions enable a logistics system to meet the objective of the right product at the right place, at the right time and at the right cost. In addition, a seamless flow of information through communication will ensure logistics system efficiency.

Recently, Novack et al. (1992)[18] updated the above logistics framework by identifying some of the misconceptions associated with the functional view of logistics activities. Novack et al. (1992) felt that a linear functional sequence will render major objectives indistinct and complicate the logistics process. Further, they recommended a classification of the framework in which system (logistics) optimisation is given priority over optimisation of individual logistics activities.

Novack et al. (1992) introduced a new dimension to Bowersox's framework by dividing logistics activities into two categories. The first category includes the "Physical activities that are required to create form, time, and quantity utilities of customer need" (Novack et al., 1992, p. 234).[18] These activities cover inventory, transportation and customer service functions. The second category includes the "transaction activities that follow or initiate the physical activities previously presented" (Novack et al., 1992, p. 234).[18] The functions in this category encompass transaction negotiation areas. These include purchasing inbound material, supplies and products, and order cycle management, which controls the flow of information in managing customer service activities.

Granzin and Bahn's research (1989)[15] further refined the work done by Bowersox by identifying direct links between logistics operations and the final consumption of goods by introducing a new customer-oriented logistical interface into the model.

1.1.3 Logistics and Information Technology

Finally, authors such as LaLonde and Auker (1973)[19], Langley et al. (1988)[20] and Stock (1990)[21], building on previous research on functional logistics systems, have identified logistics information systems as strategic and operational enablers in optimising an organisation's entire supply chain of which logistics is a part of the whole process. LaLonde and Auker (1973) have identified that information technology as a management tool is used more effectively as decision-making and planning functions within a logistics system.

Langley et al. (1988)[22] established very clearly that computer technology had become increasingly associated with the planning, implementation and control of traditional inventory activities such as product receipt, storage, order picking and shipping.

Stock (1990)[21] was able to conclude that many organisations were able to reduce warehousing costs by using information technology in their warehousing operations. These cost reductions were achieved through a coordinated flow of information and goods.

Within the range of definitions discussed above there is a general consensus about what logistics entails. The common element running through all definitions of logistics is that it enables the process of planning and controlling the flow and storage of goods, services and information from the point of origin to the point of consumption. This definition is generally considered to include inbound, outbound, internal and external movements, and return of materials to the company and the movement of both raw material and finished goods. Logistics is not confined to manufacturing activity alone. It is relevant to all enterprises including government, institutions such as hospitals and schools, and service organisations such as retailers, banks and financial service organisations. To use an extreme though entirely realistic example, moving material and personnel to a space station orbiting the earth can be a daunting task, but overcoming the enormous challenges to the logistics capabilities of NASA offers significant opportunities for future space exploration.

In order to clarify what logistics management is and the activities involved in this function, Figure 1.1 in the next section reproduces a chart developed by Lambert et al. (1998)[5]. This chart clearly establishes all the components of logistics management and flow. Some of the many activities encompassed under the logistics umbrella are shown in the chart and these are self-explanatory.

1.1.4 Components of Logistics Management

Major activities undertaken in the logistics management process are given below in Figure 1.1. This Figure illustrates that logistics is dependent upon natural, human, financial and information resources for inputs. Management actions provide the framework for logistics activities through processes of planning, implementation and control. Logistics management effectively manages the material in the form of components, in-process inventory and finished goods inventory. The outputs of the logistics system are competitive advantage, time and place utility, efficient movement to the customer, and providing a logistics service mix such that logistics becomes a proprietary asset of the organisation. These outputs are made possible by the effective and efficient performance of the logistics activities shown at the bottom of Figure 1.1.

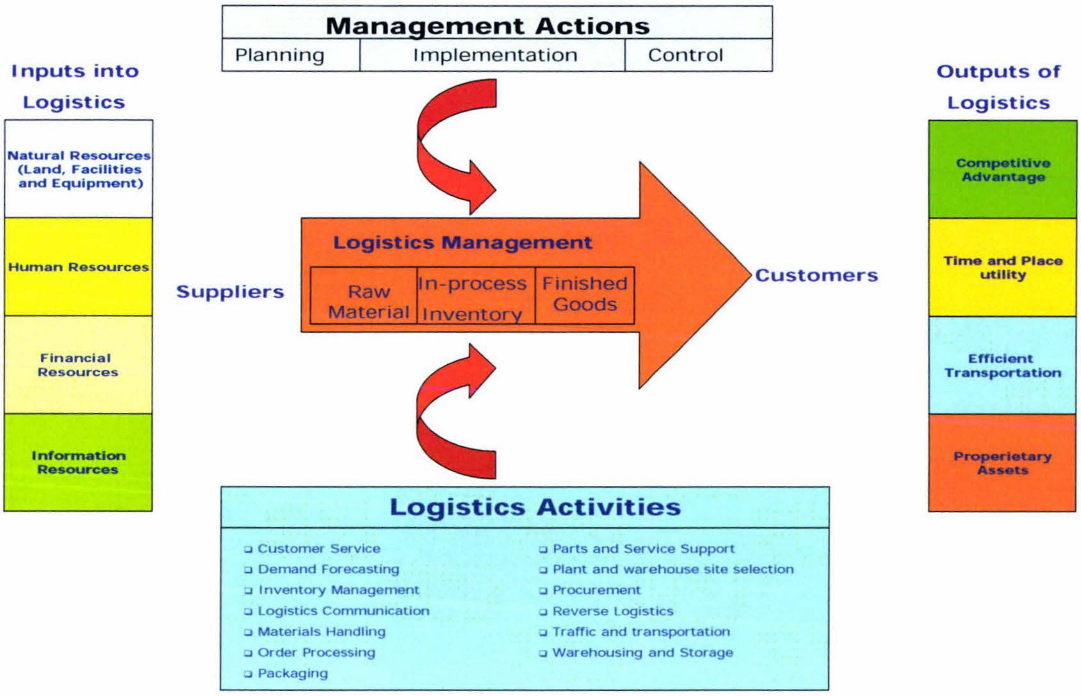


Figure 1.1 Components of Logistics Management

Source: "*Fundamentals of Logistics Management, Douglas M. Lambert et all 1998*[6]

1.2 Definition and Evaluation of Outsourcing

Outsourcing can be defined as handing over the work formerly executed by an internal work stream to an outside agency that specialises in these kinds of activities. Outsourcing can be classified into two categories. One is out-tasking, where work is done outside the organisation but the organisation retains full control over the operation by defining the task and process of execution. The second is in the form of a partnership, where the client passes discretion regarding the execution of tasks to the vendor. This means passing ownership and control of activities performed in-house to an outside third party contractor (Gupta and Gupta, 1992;[23] Willcocks et al., 1995)[24], with the contractor expected to exercise judgment and skill in executing the tasks. In a true partnership both parties engage actively to improve the output and adapt to changing business conditions. In this process the partners share cost savings and improve profitability.

In Contract Logistics, third party logistics and outsourcing generally mean the same thing (Lieb et al., 1993).[25] Jon Africk, consultant of A. T. Kearney, has defined third party logistics and outsourcing as multiple logistics services/activities provided by a single vendor on a contractual basis for a defined length of time. They offer "at least two services that are bundled and combined, with a single point of accountability using distinct information systems that are dedicated to and integral to the logistics process" (Bradley, 1994c).[26] However, it has been noted that outsourcing "may be narrow in scope" and limited to one type of service such as warehousing or transportation (Lieb et al., 1993).[25]

On the other hand, Bradley (1994a)[27] felt that there is no difference between outsourcing logistical functions and any other procurement processes. Bradley claims that like any reliable supplier of raw material and components, a contract logistics service provider should also provide a high level of customer satisfaction so that their clients can become tougher competitors.

Outsourcing is a frequently discussed management subject (Gilley and Rasheed, 2000).[28] Some of the definitions in the literature have focused on material sourcing activities that were previously undertaken internally. Lei and Hitt (1995) [29] define outsourcing as "reliance on external sources for manufacturing components and other value-adding activities". Some authors focus on international sourcing of components, sub-systems and completed products (Bettis et al., 1992)[30]; Feenstra and Hanson, 1996)[31]. Perry (1997)[32] discussed outsourcing employees, defining outsourcing as "another firm's employees carrying out tasks previously performed by one's own employees". Sharpe (1997)[33] defined outsourcing as handing over to a third party supplier those activities which are outside the organisation's chosen core competencies. Deavers (1997)[34] says that:

> outsourcing is used to describe many different kinds of corporate action: all sub-contracting relationships between firms, all foreign production by US firms, hiring of workers in non-traditional jobs such as contract workers, and temporary and part-time workers, etc.

Outsourcing is a strategic decision to contract out one or more activities required by the organisation to a third-party specialist (Michael & Allen, 2001)[35]. Outsourcing (contracting out or off-shoring) is often defined as the delegation of non-core operations jobs from internal production within a business to an external entity (such as a subcontractor) that specialises in that operation. Outsourcing is a business decision that is often made to lower costs or focus on competencies (Wikipedia, 2005)[36]. Baziotopoulos (2006)[37] thought that outsourcing is the process of transferring an existing business function, including the relevant physical and/or human assets, to an external provider in order to strategically use outside resources to perform activities previously handled in-house. Outsourcing involves transferring a significant amount of management control and decision making to the outside supplier. Outsourcing always involves a considerable degree of two-way information exchange, co-ordination and trust. The term "outsourcing" became better known largely because of a growth in the number of high-tech companies in the early 1990s that were often not large enough to be able to easily maintain large customer service departments of their own. "Outsourcing" means sharing organisational control with another organisation, or a process of establishing network relations within an organisational field.

Outsourcing is a viable business strategy because turning non-core functions over to external suppliers enables a company to leverage its resources, spread its risks and concentrate on issues critical to survival and future growth (Sink & Langley, 1997).[38]

Some of the simple definitions below explain the meaning and purpose of outsourcing but do not address issues such as timing of the move and the difference between contracting and outsourcing. However, these simple definitions provide ample scope for arriving at an understanding of the meaning and objectives of outsourcing.

1. "Having an outside vendor provide a service that you usually perform in-house" (Laabs, c. 1997).[39]

2. "The transfer of routine and repetitive tasks to an outside source" (Gibson, 1996).[40]
3. "Paying other firms to perform all or part of the work" (*Structural Cybernetics*, c. 1996).[41]

An examination of the detailed definitions provides an understanding of the wider scope and the philosophies of outsourcing organisations. Outsourcing is deciding to obtain selected goods and services from outside your company (Engelke, c. 1996)[42] and finding new suppliers and new ways to secure the delivery of raw materials, goods, components and services by utilising the knowledge, experience and creativity of new suppliers not used previously (Kraker, 1995[43]).

Neale (1995)[44] described outsourcing as "the practice of handing over the planning, management and operation of certain functions to an independent third party". A note of caution is sounded about the difference between outsourcing and contracting out, as already mentioned above by Anonymous (1995)[45]:

> Note that outsourcing is not a synonym for contracting out. Contracting out refers to work assigned to an outside supplier on a job-by-job basis, usually involving a cost-plus arrangement. Outsourcing, on the other hand, entails an empowerment in organisations, long-term relationship between supplier and beneficiary, with a high degree of risk-sharing.

The essence of these definitions is that outsourcing aims to look for outside agency expertise to handle certain non-core functions. These functions were traditionally handled in-house. In view of the flexibility in today's business environment, we now know that anything can be outsourced. Initially the focus was on outsourcing services to a third party, but now the decision whether to "make or buy" is also influenced by outsourcing non-core activities to a third party which specialises in such services or activities.

1.3 Objectives of Logistics Outsourcing

Outsourcing is a fast-growing aspect of the world economy with worldwide spending of about US $3.7 trillion in 2001 (Clott, 2004)[46]. The biggest motivation for outsourcing logistics activities is to free up assets and reduce cost in the immediate financial period. It was reported that organisations outsourcing their in-house functions to third party service providers have saved significant amounts in operational and capital costs (Hendry, 1995; Rimmer, 1991; Uttley, 1993).

C. John Langley Jr., TLI Professor of Supply Chain Management at the Georgia Institute of Technology, conducted a survey in 2005 in association with DHL and SAP which examined the factors that influenced logistics outsourcing during 1996-2005. The biggest factor that influenced an outsourcing decision was pressure to reduce cost (87% in 1996 and 91%-100% in 2005); the second was IT development (47% in 1996 and 81%-96% in 2005); the third was globalisation (58% in 1996 and 63%-90% in 2005); and the last but not the least was customer service enhancement (65% in 1996 and 74-84% in 2005).

Based on several years of work and research, the author has developed graphic representation of the objectives of logistics outsourcing; see Figure 1.2.

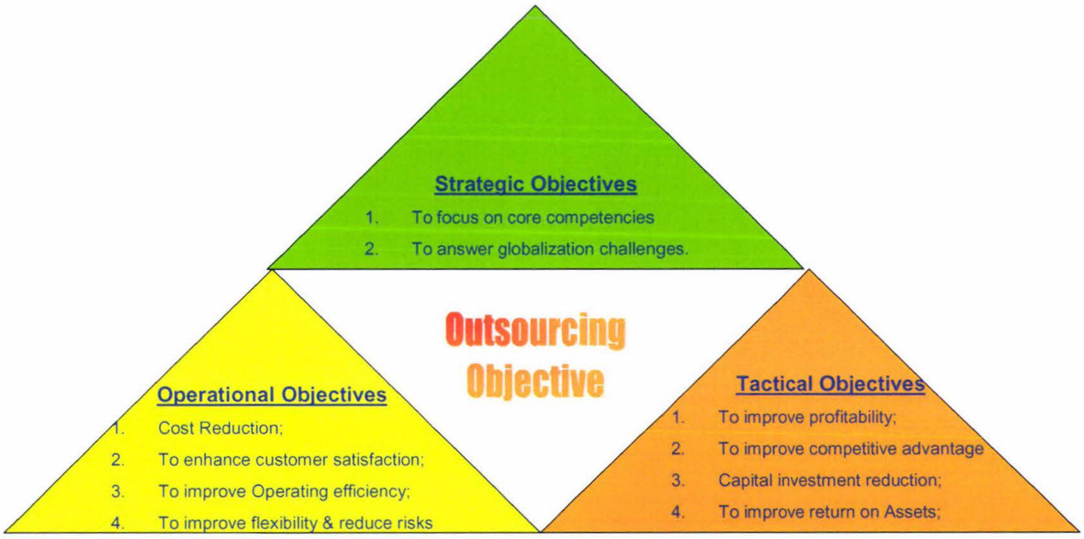


Figure 1.2 Outsourcing Objectives

1.3.1 Strategic Objectives

1.3.1.1 Focus on Core competencies

Core competencies are the key skills, characteristics and assets that any organisation brings to the marketplace. These competencies, on an organisational level, are a synergistic blending of the core competencies that people in the organisation individually bring to work every day. Perhaps the most often cited strategic reason for outsourcing is to allow the organisation to better focus on its core competencies (Quinn and Hilmer, 1994; Quinn, 1999; Sislian and Satir, 2000)[47].

The concept of core competency was first discussed by Selznick (1957)[48] who used the concept of "unique competency" to portray the advantage accruing to an organisation through several value added activities. Competency is the critical factor in executing a specific task efficiently and consistently. McLagan (1983)[49] indicated that competency is the trait and knowledge that underpins effective work. Thornston (1992)[50] also illustrated that competency is a set of behavioural characteristics related to work performance. Spencer and Spencer (1993) [51] proposed the "iceberg theory", which states that competency includes both implicit and explicit traits that are related to the understanding and prediction of work performance.

"In this day and age of re-engineering, lean inventories and global competition, many firms are concentrating their efforts on core activities that are critical to survival" (Harry L. Sink et al., 1996). [52] Several surveys conducted in Europe have indicated strongly that logistics activities are outsourced to focus on core business:

- P.E. International (1994)[53] – Consumer goods industry: One of the five reasons given for outsourcing is "business focus related" and logistics considered as "non-core activity".
- Boyson et al. (1999)[54] – All industries: One of the five reasons given for outsourcing is "business focus related" and "outsourcing non-core business". Further, the same survey revealed that those areas? "outsourced are what was a major problem for the company". This point indirectly establishes that logistics is not a core area of expertise.
- Fernie (1999) [55] – Retailers: One of the reasons given for logistics outsourcing was to "provide more specialist services". This indicates that organisations are more focused on core competency.
- van Laarhoven et al. (2000) [56] – Wide range of industries: Asserts that "focus on core" is the reason for outsourcing logistics activity.
- Penske Logistics (1999)[57] – Several Industries: Even though this survey did not highlight reasons for focusing on core competency, one of the reasons given was to "increase

efficiency". Increasing efficiency is possible only through focusing more on core competency and outsourcing non-core activities.

Organisations today consider outsourcing a strategic business activity. Drtina (1994)[58] described these firms as "intellectual holding companies" because they focus so strongly on their core technologies while they purchase other services from companies that excel at delivering them. Thus, their entire operations function at a high level, yet they do not have to maintain high cost infrastructure. They get world-class capabilities without the risks involved in developing them.

A study by the CLM (Bowersox, 1990) showed that the logistics practices of leading edge companies were inclined to provide more commitment to achieving customer satisfaction. Further, these findings revealed that leading edge companies use logistics as their strategic weapon to attain a sustainable competitive advantage.

1.3.1.2 Logistics and global challenges

Global trade is growing rapidly despite many trade barriers. Consumers are spread worldwide, giving organisations a greater opportunity to expand their business globally. At the same time, consumers are demanding in nature. In order to meet consumer demands, consumer services are being established worldwide and, increasingly, business services are becoming globalised in much the same way that manufacturing is outsourced overseas. Data on international trade in services is limited, but we can be sure that the delivery of services is becoming increasingly globalised both within the US and abroad (Dicken, 1991).[59]

The globalisation of business has been viewed by many scholars as one of the important drivers of logistics outsourcing. Byrne (1993)[60]; Foster and Muller (1990)[61]; Rao et al. (1993)[62]; Sheffi (1990)[63] and Trunick (1989)[64] are the most prominent among those scholars who identified globalisation as one of the important factors influencing outsourcing decisions.

The growth of global markets and the opportunity to source components globally have influenced decisions to outsource the logistics function (Bovet, 1991[65]; Cooper, 1993[66]; Fawcett et al., 1993[67]; McCabe, 1990[68]; Whybark, 1990).[69]

Global markets have complicated the supply chain (Bradley, 1994a)[70] and increased the use of transportation, complicated the distribution system and increased inventory holdings. External factors influencing globalisation, such as lack of customer knowledge and the different political systems of countries have influenced decisions to outsource the logistics function.

1.3.1.3 Factors affecting globalisation

The most useful dimensions for classifying service operations draw on the work of Chase (1978)[71], Haywood-Farmer (1988)[72] and Schmenner (1986)[73]:

- Consumer involvement and customisation
- Complexity of inputs and outputs
- Labour intensity

These dimensions are also implicit within the array that Collier (1985)[74] has suggested should be considered in determining "international transportability", such as legal restrictions, advertisability, standard or customised service package, technical capabilities, adequate channels of distribution, cultural and social norms, buyer behaviour, distance, language, political stability and national synergism.

McLaughlin (1992) [75] suggested adding five key operational issues of international services to factors influencing globalisation:

1. Level of cultural adaptation
2. Impact of telecommunications
3. Potential for unbundling service
4. Approaches to teamwork
5. Re-engineering opportunities

1.3.1.4 Other globalisation challenges

All organisations adopting globalisation need to be aware of variables that can affect a firm's distribution system. Some of these factors can be controlled by logistics executives. Others are not subject to control, but must still be dealt with by an organisational global strategy.

Lambert (1998)[76] in *Fundamentals of Logistics Management* identified some of the controllable and non-controllable elements of global logistics:

Uncontrollable elements

- Political and legal systems of foreign markets
- Economic conditions
- Degree of competition in each market
- Level of distribution technology available or accessible
- Geographic structure of foreign market
- Social and cultural norms of various target markets

Controllable elements

- Customer Service
- Inventory
- Packaging
- Transportation
- Warehousing and Storage
- Other activities

All of these challenges complicate business operations beyond self-management, which encourages logistics outsourcing. A survey conducted by Georgia Institute of Technology and CAPGEMINI[137] in 2005 revealed that 80% of the surveyed companies in North America and 63%-90% across all regions feel that globalisation influenced their decision to outsource their logistics function.

1.3.2 Tactical Objectives

1.3.2.1 Improving profitability

Bettis et al. (1992)[77] argued that a decrease in companies' competitive advantage as reflected in declining profitability leads to outsourcing. Outsourcing is considered a strategy that allows companies to concentrate on core business (Prahalad and Hamel, 1990)[78] in ways that reinforce competitive advantage (Porter, 1980).[79] Therefore, it is expected that outsourcing improves profitability. Hence a positive relationship between the outsourcing payment to sales (O/S) and operating profit percentage (OP%) is expected (Juma'h and Wood, 2000).[80]

Juma'h and Douglas (2000)[65] found in their research that "Announcements of outsourcing agreements in the UK started in 1991, but the majority of outsourcing announcements occurred in the period from 1994 to 1996 when UK companies generally had improved their profits" (pp. 12-15). The median net profit (loss) ratio for UK companies showed a decreasing trend from 1989 to 1991, when operating profit was at a minimum point in 1991 and 1992 in line with the UK economic recession, after which it turned up between 1992 to 1996.

A decrease in companies' profitability implies a decrease in return on equity, according to Ahmad and Douglas (2000).[65] "One possible route to decrease costs is by decreasing employee's remuneration. This reached its maximum in 1994, then decreased in subsequent years."

"However, the impact of employer reduction of salary may be less evident in the quick ratio because quick ratio depends on managerial policy in keeping current resources at a certain level. This general growth trend in outsourcing means that the majority of outsourcing announcement agreements in the database occurred in a period where comparable companies were increasing their profitability."[65]

It is evident that outsourcing leads to an improvement in profitability through reductions in operating and financial costs in the long run. Traditionally, when business is booming, the temptation is to hire more staff, expand facilities and bring more of the business in-house, where firms hope to better control costs. However, today's knowledge and service-based economies offer innumerable opportunities for well-run companies to increase profits through outsourcing (Quinn, 1999)[81]. When used properly, outsourcing can boost profitability in many ways, including:

- Staffing on need basis
- Having the best capabilities and technology at their disposal
- Having facilities across the globe as and when required

"Profitability is arguably the most important criterion for evaluating the performance of a firm. Profitability metrics measure the return that the firm's owners receive from their investments. We use return on assets (IBE/assets) and net profit margin (IBE/sales) to paint a firm's profit picture. IBE is the income before extraordinary expenses, which we use to better isolate the results from unusual situations and differences in accounting practices (Smith et al., 1998). Our research hypotheses on profitability are:

- "The outsourcing firm will demonstrate an improvement of asset return compared to its control firm.
- The outsourcing firm will demonstrate an improvement of net profit margin compared to its control firm." (Bin Jiang, Frazier and Prater, 2006)[82]

1.3.2.2 Improving competitive advantage

Porter (1998)[83] explains competitive advantage as follows: "when a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage." Further, Porter identified two basic types of competitive advantage:

1. Cost advantage
2. Differentiation advantage

One can achieve a cost advantage by outsourcing the logistics functions to a third party operator. Cost efficiency remains the primary objective for outsourcing. Firms evaluate outsourcing to determine whether current operating costs can be reduced and if saved, resources can be reinvested in more competitive processes.

Lonsdale (1999)[84] points out that the ultimate aim of resource-based thinkers is to earn supernormal profits whose appearance does not induce new competition, a position summarised by Peteraf (1993)[85] as follows:

> She argued that firms will earn rents, or, in other words, enjoy sustainable competitive advantage, if they possess resources that are heterogeneous, if those resources are resistant to imitation and substitution, if there were ex-ante limits to competition for those resources, and if the resources are imperfectly mobile. (pp. 179-91)

The competitive and differential advantage to an organisation is no longer solely dependent on internal resources. The ability to access the best of the talent and technology through outsourcing gives any organisation an unbeatable competitive edge over its competition. "Competitive advantages from information no longer accrue naturally to institutions that have internal technological 'resources.' Rather, the benefits accrue to institutions with the flexibility to tap the source of the best technology at an acceptable price" (Huber, 1993)[86].

1.3.2.3 Reducing capital investment

Outsourcing logistics activities includes outsourcing facilities, equipment and infrastructure. Through outsourcing an asset-based organisation can turn itself into a non-asset-based organisation. The main objective is to make capital funds more available for core areas and to improve the return on assets (Corbett, 1998[87]; Lynch, 2004[88]; Razzaque and Sheng, 1998[89]; and Trunick, 1989 [90]). 3PL surveys conducted by the Georgia Institute of Technology and CAPGEMINI from 2002 to 2006 revealed the following quantum of asset reduction:

Table 1.1: Fixed Asset Reduction

Year	All Regions	N. America	W Europe	Asia Pacific	Latin America
2006	20.00%	12.70%	21.90%	21.80%	36.60%
2005	N/A	8.00%	20.00%	33.00%	14.00%
2004	N/A	16.00%	17.00%	25.00%	41.00%
2003	N/A	16.00%	5.00%	N/A	N/A
2002	N/A	16.00%	N/A	N/A	N/A

Source: [91] CAPGEMINI and Georgia Institute of Technology 3PL Survey 2002-2006

The above results support Razzaque and Sheng's (1998) [92] view that outsourcing reduces the need to invest capital in facilities, equipment, IT and manpower.

1.3.2.4 Improving return on assets

Return on Assets (ROA) is a useful indicator for determining how profitable a company is relative to its total assets. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is also referred to as "return on investment".

Because outsourcing enables the transfer of assets to service providers and makes use of a service provider's assets without having to invest in infrastructure, the benefits are twofold. One is that the return on assets improves and the other is its impact on equity. According to Juma'h and Wood (2000)[93]:

> because outsourcing may liquidate some assets and avoid the need to replace existing assets or purchase new assets in future, shareholders' equity may be affected. That is, companies do not need to issue new equity to expand service functions such as information technology as they increase business activities. If, on the other hand, the benefits received from outsourcing agreement including capital release are less than its payments, outsourcing companies may need to finance the difference from current resources or from long-term liabilities or equity. (pp. 265-275)

1.3.3 Operational Objectives

1.3.3.1 Reducing costs

Some researchers feel that cost reduction can be achieved by outsourcing non-core functions and taking advantage of economies of scale, and the unique expertise that a 3PL can provide by sharing costs with other customers (Anderson and Weitz, 1986)[94]; Roodhooft and Warlop, 1999).[95]

As these 3PL operators are willing to invest in new technology from time to time to sharpen their service capabilities, outsourcing companies are able to reduce both operational and capital costs. This is possible only due to shared costs (Alexander and Young, 1996) [96]. Good examples of technology investments include Warehouse Management Systems and other ERP and software tools. In view of the high capital requirement, it becomes almost impossible for individual organisations to access all modern tools.

Cost efficiency remains the primary objective for outsourcing non-core activities. Firms evaluate outsourcing options to determine whether current operating costs can be reduced at least by 10 to 15% and focus on re-investing saved resources and costs. This was proved over several years in surveys conducted by the Georgia Institute of Technology and CAPGEMINI. These surveys revealed two facts, namely, that saving costs is the prime objective of outsourcing, and that the greatest cost savings were achieved by the outsourcing companies. Table 1.2 presents the survey findings on the quantum of cost savings for the last five years.

Table 1.2 Logistics Cost Reduction

Year	All Regions	N. America	W Europe	Asia Pacific	Latin America
2006	11.50%	9.90%	11.00%	13.70%	11.70%
2005	N/A	11.00%	10.00%	11.00%	10.00%
2004	N/A	15.00%	11.00%	15.00%	17.00%
2003	N/A	9.00%	7.00%	N/A	N/A
2002	N/A	7.00%	33.00%	N/A	N/A

Source: CAPGEMINI and Georgia Institute of Technology 3PL Survey 2002-2006[91]

Prime objective of outsourcing

	North America		All Regions
	1996	2005	2005
Pressure to reduce Costs	87%	96%	91%-100%

Source: 2005 Third party logistics results and findings of 10th annual study done by Georgia Institute of Technology and CAPGEMINI jointly[145]

"A major influence impacting on the outsourcing of products and/or services is consideration of scale and costs." (Finlay and King, 1999)[97]. The Boston Consulting Group (1991) revealed that most Western companies outsource primarily to save on overhead or to achieve short-term cost savings (*The Economist*, 1991)[98]. This finding has been echoed by McFarlan and Nolan (1995)[99]. Others argue that the growth in indirect overhead costs, which represents "non-core competencies", is increasingly being outsourced (Branda, 1999; Chalos, 1994)[100].

Richard Wilding (2004) identified cost savings as the major reason for outsourcing logistics activities across several industries. Some of the research referred to includes Bayson et al. (1999) (all industries), Fernie (1999) (retail industry), van Laarhoven et al. (2000) (wide range of industries) and Penske Logistics (1999) (several industries). All of these reports have identified cost savings as the primary objective of logistics outsourcing.

The US auto industry produced results clearly indicating that cost savings are the primary objective of logistics outsourcing (Chalos and Sung, 1998)[101], "Chrysler estimated that for the fiscal year 1997, supplier cost reduction efforts ('SCORE') would add $325 million to its annual profits and eventually generate over $1.2 billion in savings" (Chalos and Sung, 1998)[101].

Similarly, General Motors insist that its 30,000 worldwide parts suppliers must hold warranty costs below predetermined levels (Blumenstein, 1997) and, through such discipline, attempt to eliminate waste along the entire supply chain (Christian, 1997).

Outsourcing the logistics function is widely regarded as an innovative approach to save costs and gain a competitive advantage (Crouse, 1991; Elmuti et al., 1998; McKinnon, 2001; Razzaque and Sheng, 1998)[102]. The Outsourcing Institute has highlighted the fact that companies gain a 9% costs saving and a 15% increase in capacity and quality, on average, through outsourcing (Elmuti et al., 1998)[102].

There are several such examples clearly indicating that cost savings is the primary objective of outsourcing non-core supply chain activities to improve organisational profitability and competitive edge.

1.3.3.2 Enhancing customer satisfaction

In today's environment of error-free, prompt deliveries and unique business and consumer requirements, customer service has to be one of the most important considerations for any firm. This focus on increased customer satisfaction in both the business-to-business and business-to-consumer markets has resulted in many changes to logistics practices and service approaches. These changes are likely to continue and must be addressed in a timely fashion if a firm expects to remain competitive.

Specialised services are becoming the rule, rather than the exception. Although some logistics service providers have been able to serve the needs of various industries efficiently, a number of firms have gradually evolved into businesses which offer specialised services for specific industries. This, of course, shortens the learning curve, encourages expertise and removes the inefficiencies from the system. All these initiatives are aimed at improving customer satisfaction.

"Quality of a logistics system has often been equated with service quality" (TM Staff, 1991). As a corporate strategy, a company should align customer service strategy with logistics excellence in order to maximise customer satisfaction (Kearney, 1994; Schary, 1992). Consistency in the service levels offered to customers is the natural output for strategically focused and well-developed supply chain optimisation systems. This kind of supply chain optimisation will result in high quality service in spite of cost constraints and low cost despite service constraints. The supply chain of a company can be differentiated to serve its target service level (Byrnes et al., 1987). As the supply chain output has a direct impact on customer service levels, most organisations re-engineer their supply chains, keeping in mind service level improvements. Quite often the end result of re-engineering the supply chain is the outsourcing of non-core logistics functions.

Table 1.3, adapted from Jon Africk of A.T. Kearney consultants and quoted in Bradley (1994c)[103], identifies the difference between traditional and contract logistics services. This signifies the customisation element in contract/outsourced services. As more and more customers are demanding in nature and looking for value added services through customisation, outsourcing is the best solution, providing much-needed customisation and maximisation of customer service levels.

Table 1.3 Traditional vs. Contract Services

Traditional services	Contract services
Not tailored	Tailored
Usually one-dimensional – trucking or warehousing for example	Are multi-dimensional, linking transportation, warehousing, inventory management, systems and others
Shippers aim to lower transportation cost through a contract	Goal is to lower total cost while providing better service and more flexibility
Contracts tend to run for a year or two	Contracts are more likely to be of longer duration, multi-year arrangements negotiated at a higher management level
Require expertise in, say, transportation of packaged materials	Requires broad logistics and analytical skills
Contracts generally take less time to negotiate	Contracts generally take more time to negotiate
Simpler arrangement and relatively low switching costs	Complexity of arrangements leads to higher switching costs

Value creation and value addition are two important factors that currently differentiate organisations. More and more companies are looking for 3PL companies to provide that service which enables them, via enhanced customer service, to increase profitability and their competitive edge (Daugherty and Pittman, 1995).[104]

One method of determining the customer service level is to measure the cycle time from order to delivery. There is usually considerable improvement found in this activity after outsourcing a company's logistics activities. This was revealed by the yearly surveys conducted by the Georgia Institute of Technology and CAPGEMINI. Table 1.4 below shows the reduction in the order to delivery cycle time in all regions.

Table 1.4 Average Order-cycle Length Change (days)

Year	All Regions	N. America	W Europe	Asia Pacific	Latin America
2006	12.7 to 9.7	11.0 to 8.4	10.2 to 6.5	15.7 to 13.9	15.9 to 10
2005	N/A	9.3 to 7	6.3 to 4.3	6.3 to 4.1	16 to 8
2004	N/A	12.2 to 6.8	7.1 to 4.8	38.7 to 19.4	20.7 to 15.3
2003	N/A	9.8 to 7.9	4.7 to 2	N/A	N/A
2002	N/A	6.5 to 4.3	4.4 to 3.5	N/A	N/A

Source: CAPGEMINI and Georgia Institute of Technology 3PL Survey 2002-2006[91]

The quality and extent of in-house logistics services also determines outsourcing decisions. Some companies cannot provide proper service or cannot improve the service to their customers (Stank and Maltz, 1996[105]; van Laarhoven et al., 2000[106]; Wong et al., 2000[107]). By outsourcing critical activities which cannot be handled in-house, a company also benefits from development of technology and improved services during the outsourcing contract period (Hannon, 2003[108]; Jennings, 2002)[109]; van Laarhoven et al., 2000[106]). Especially 4PL offers superior management in the supply chain and in IT (Bade et al., 1999)[110]. Currently, 3PL and 4PL provide a variety of services, from warehouse labour to shipment monitoring, via satellite. Some of these services cannot be handled with in-house resources due to the costs and technology involved.

For instance, EXEL, a UK logistics provider, developed an e-business application for Hitachi's SAP R3 system, enabling Hitachi customers in

Europe to receive their products directly from the factory (Barlas, 2002)[111]. Another example is Menlo Logistics, which manages logistics functions for Sears. Menlo Logistics ensures quality service by renegotiating contracts every year (Wong et al., 2000). "It is an attractive proposition; satisfy customers completely and the world will beat a path to your door. But, for many, the pathway is cratered with major gaps that separate customers and suppliers".[112]

Customers are increasingly insisting on high quality products and superior service tailored to their needs, and at reduced costs. Customers expect suppliers to deliver the 'basics' flawlessly, then find that "something extra" which helps them to reduce cost or boost revenues. Unfortunately, most companies set up their logistics processes to meet the needs of the 'average' customer. To compete, these companies will need to re-engineer their logistics processes to be much more flexible. The flexibility is provided through outsourcing non-core activities and those activities which need specialist attention.

1.3.3.3 Improving operational efficiency

Owing to globalisation, large corporations across the world are turning increasingly to service providers who can add value and increase their competitive advantage by undertaking logistics functions on their behalf. This enables these corporations to focus on their core business while logistics are handled by those experts whose core business it is to provide logistics support.

Bendor-Samuel (1998) emphasised the fact that outsourcing provides expertise that is not available within an organisation. This expertise could be process expertise, access to capital, access to expensive technology, etc. Another possible benefit is that outsourcing provides companies with a greater capacity for flexibility, especially in the purchase of rapidly developing new technologies, fashion goods, or the myriad components of complex systems (Carlson, 1989[113]; Harrison, 1994[114]).

Many scholars believe that globalisation is one of the few prime drivers of logistics outsourcing (Byrne, 1993; Foster and Muller, 1990; Rao et al., 1993; Sheffi, 1990; Trunick, 1989).[115] The continued growth in global markets and foreign sourcing has placed increasing demands on the logistics function (Bovet, 1991; Cooper, 1993; Fawcett et al., 1993; McCabe, 1990; Whybark, 1990)[116]. This in turn has led to more complex supply chains (Bradley, 1994a).[27]

The operational efficiencies are driven by cutting edge logistics and supply chain solutions such as just-in-time (JIT) principles. The increasing popularity of JIT is another major factor promoting outsourcing (Goldberg, 1990; Sheffi, 1990; Trunick, 1989).[117]

Under the pressure of globalisation and with the focus on minimising inventory levels across the organisation, JIT delivery and logistics control have become even more crucial for the success of an organisation. The complexities and cost of operating in a JIT environment are encouraging many organisations to outsource their operations in order to achieve efficiencies and cost reductions.

Trunick (1989)[117] suggests emerging technology and versatility of third parties as two other important drivers of outsourcing. As it would be time-consuming and expensive to develop and implement new technologies in-house, organisations have adopted the practice of outsourcing these functions. Organisations thereby achieve the double advantage of having the best technology, which helps them to maximise operational efficiencies, at a fractional cost (shared).

The rules of engagement in business change very rapidly and in order to adapt to changing situations, organisations need flexibility. 3PL service providers provide outsourcing organisations with an opportunity to turn fixed costs into variable costs and, at the same time, improve their operational efficiencies by providing operationally flexible supply chains. Small companies tend to be more interested in third-party use (Maltz, 1994)[118] since they are in greater need of expertise and assistance in the area of technology (Harrington, 1995b).[119]

One of the most important reasons for employing third-party logistics providers is their ability to provide clients with expertise and experience that otherwise would be difficult to acquire, or costly to have in-house (Byrne, 1993; Dillon, 1989; Goldberg, 1990; Richardson, 1990, 1992, 1993a, 1993b; Sheehan, 1989; Trunick, 1989)[120]. The expertise gained from working with other clients allows users to benchmark against other companies and may lead to opportunities for improving operational efficiencies, resulting in reduced costs and improved customer satisfaction.

Although globalisation demands a local presence in different markets and different countries, it is impossible for an organisation to be physically present everywhere. A contract logistics company with national and regional expertise can provide a customer with a local image even though the customer may have no local presence in assets and logistics employees (Bradley, 1994b, 1994c).[121] With the contract logistics firms as their advisors and innovators, companies benefit since the former "add value that translates to profit" (Wood, 1993).[122]

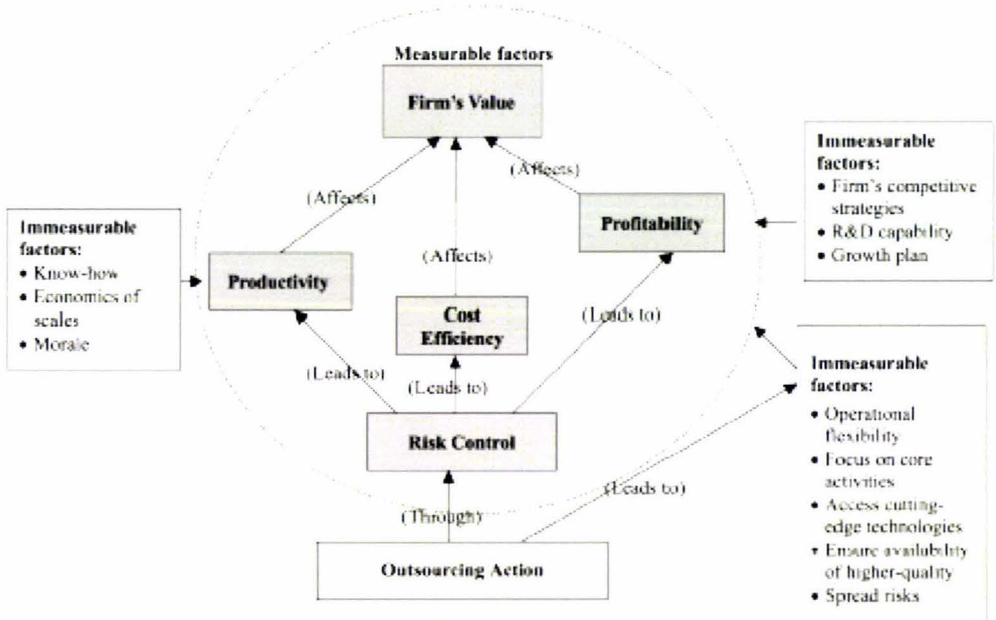
Today's modern supply chains are more complex and logistics operations need specialised expertise to deliver sustainable operational excellence. This is possible only through outsourcing those functions which need specialist attention and which are not organisational core competencies.

1.3.3.4 Improving flexibility and reducing risks

Globalisation and increasingly complex supply chains demand flexible supply chains in order to reduce business risks. Global outsourcing is a strategy of redesigning, redefining, reshaping and energising organisations all over the world (Casale, 1996).[123]

Outsourcing to meet global business requirements is the strategic use of outside resources to perform activities that are traditionally handled by internal resources. It is a management strategy by which an organisation delegates major, non-core functions to specialised and efficient service providers, or as Corbett, a leading consultant on global outsourcing asserts, "outsourcing is nothing less than the wholesale restructuring of the corporation around core competencies and outside relationships" (Corbett, 1999)[124]. The traditional emphasis in global outsourcing on tactical benefits such as cost reduction and lower labour costs in low cost countries have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Wild et al., 1999)[125].

The survey undertaken by Elmuti and Kathawala (2000)[126] reported that 92 respondents have indicated that "Maintain sufficient flexibility to respond to market conditions" is one of the reasons for outsourcing.



Note: Shadowed items can be measured by financial data

Figure 1.3 Business Risk control is necessary part of outsourcing

Source: Bin Jiang (2005)[127]

“Business risk control is a necessary part of an outsourcing contract. By controlling the amount of outsourcing value and outsourcing span, the outsourcing firm can control the outsourcing business risk. Cost efficiency can be measured by the ratio of input and output. ”Bin Jiang (2005)[127]

Sharing and reducing risks are also an advantage of logistics outsourcing. The outsourcing company transfers, avoids and eliminates risks because the logistics providers are specialists (Hannon, 2003; Zineldin and Bredenlow, 2003).[128]

1.4 Areas Outsourced within Logistics

> The data suggests that businesses are now recognizing that most functional areas are too business-critical not to consider outsourcing. (The Outsourcing Institute)

What should be outsourced? There is no standard answer to this question since it depends upon each organisation's objectives and requirements.

Logistics as a functional system

A functional system can be defined as a "collection of interrelated objects and the interrelated activities in which these objects are engaged" (Granzin and Bahn, 1989).[129] Research by De Hayes and Taylor (1974)[130] concluded that logistics systems are critical in providing time and place utilities to the customers associated with every product. Work by Bowersox (1974) [131] complemented this theory by indicating that the conceptualisation of logistics as a functional system is very critical in maximising efficiency in the flow of goods and information. Further, he noted that logistics as a functional system would help organisations to meet objectives such as cost savings, and fast, reliable delivery of products within an organisation and within the network of organisations. Bowersox (1974)[131] divided the logistics function into five broad areas:

1. Facility location
2. Transportation
3. Inventory
4. Communication
5. Material movement

More recently, Novack et al. (1992) [132] updated Bowersox's logistics framework by highlighting some of the misconceptions associated with a purely functional view of logistics activities. According to Novack et al. (1992)[132], a linear functional sequence obscures major logistics objectives and complicates the management of logistics processes.

According to Bask (2001)[133], there are four different types of outsourcing logistics services: (1) general service, (2) routine 3PL services, (3) standard 3PL services and (4) customised 3PL services. As for 4PL, the companies like TNT Logistics or UPS Supply Chain Solutions can be a part of customised 3PL services (Schwartz, 2003) [134]. Berglund et al. (1999) [135] separated logistics services into two categories: Value-added logistics service and Basic logistics service, while Shanahan (2004)[136] categorised types of logistics services in terms of practical use. The top five 3PL services used during 2000-2003 were freight payment, shipment consolidation, direct transportation service, customer brokerage and warehouse management (Shanahan, 2004)[136]. In the logistics market, there are other services available, for instance, freight forwarding, carrier selection, rate negotiation, product returns, logistics information systems, contract manufacturing, order fulfilment, consulting services and so on (Aghazadeh, 2003).[137]

Figure 1.4 below reveals the true picture of logistics activities outsourced world-wide, based on the survey conducted by Georgia Institute of Technology and others.

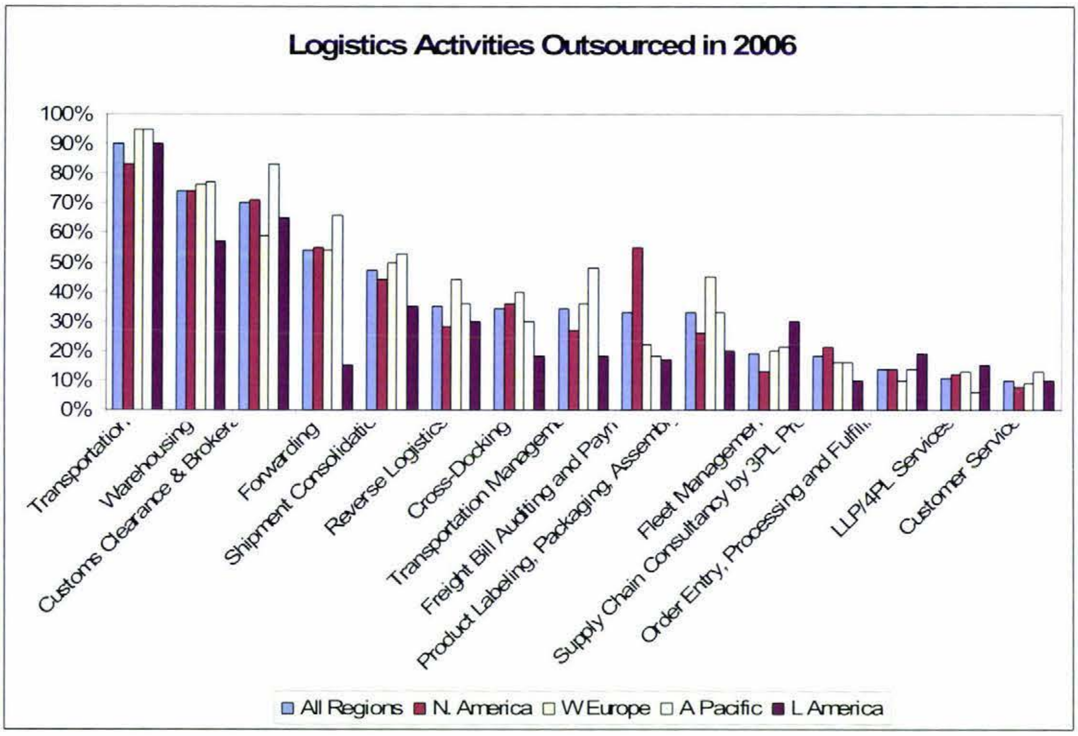


Figure 1.4 Logistics Activities Outsourced in 2006

Source: CAPGEMINI Survey (2006) [138]

Table 1.5 Activities Outsourced

Activity	All Regions	N. America	W Europe	A Pacific	L America
Transportation	90%	83%	95%	95%	90%
Warehousing	74%	74%	76%	77%	57%
Customs Clearance & Brokerage	70%	71%	59%	83%	65%
Forwarding	54%	55%	54%	66%	15%
Shipment Consolidation	47%	44%	50%	53%	35%
Reverse Logistics	35%	28%	44%	36%	30%
Cross-Docking	34%	36%	40%	30%	18%
Transportation Management	34%	27%	36%	48%	18%
Freight Bill Auditing and Payment	33%	55%	22%	18%	17%
Product Labeling, Packaging, Assembly, Kit	33%	26%	45%	33%	20%
Fleet Management	19%	13%	20%	21%	30%
Supply Chain Consultancy by 3PL Provider	18%	21%	16%	16%	10%
Order Entry, Processing and Fulfillment	14%	14%	10%	14%	19%
LLP/4PL Services	11%	12%	13%	6%	15%
Customer Service	10%	8%	9%	13%	10%

Source: CAPGEMINI Survey (2006)[138]

In today's world, globalisation is influencing the decisions about which activities are to be outsourced. The recent survey conducted by the Georgia Institute of Technology and CAPGEMINI revealed that the 3PL Service providers mainly deliver transportation, warehousing and custom clearance. The outsourcing of transportation is more common in Western Europe and the Asia Pacific than in North America. As custom clearance and brokerage are simpler in Western Europe, these functions are outsourced less often. As IT capabilities are an integral part of 3PL services, they go hand-in-hand with other services. In North America, there is much need for freight bill audits and payments, whereas in Western Europe and the Asia Pacific region, it is shipment consolidation, product labelling and reverse logistics that are much in demand. The need for 3PL services is thus different in different regions. The requirement for reverse logistics in Western Europe is because they have implemented the Waste Electrical and Electronic Equipment (WEEE) directive. Three industries; automotive, consumer products and retail, drive the logistics industry towards shipment consolidation. The use of "cross-docking", which is a sophisticated service, is limited because 3PL outsourcing is focused on warehousing rather than the complete supply chain. An issue to be addressed by 3PL service providers is that the core services they offer globally differ from region to region. Sometimes it is not the size that matters so much as location expertise and global consistency, and these areas should therefore be looked at by 3PL providers.

1.5 Reasons for Logistics Outsourcing Failure

The reasons why logistics outsourcing fails at times is the theme of this study. Not all outsourcing contracts prove successful and some turn into logistical nightmares. The main reasons for unsuccessful outsourcing are:

- Ignoring pitfalls in the outsourcing process;
- Gaps between expectations and reality;
- Communication barriers;
- Lack of commitment and failure to manage relationships effectively.

Nordin (2005)[139] identified three challenges associated with the process of outsourcing logistics activities, stating that if these three challenges are not handled properly they will contribute to the failure of logistics outsourcing project. The three challenges are:

1. Internal change challenge
2. Strategy formation challenge
3. Customer-relationship challenge

Frank (2005) notes that a recent Warehousing Education and Research Council (WERC) pamphlet reported that 55% of logistics outsourcing alliances are terminated after 3-5 years ".[140] The main reason for such termination or failure, is that it is often difficult to manage the work of the outsourcer and, as a result, the customer suffers from "project blindness". A recent report published by the leading research firm Gartner Inc. notes that 50 per cent of all outsourcing projects will fall short of delivering the expected value and will be deemed unsuccessful.[140] It can be assumed that many of these projects fall short of expectations because they were not appropriately and closely monitored from the beginning.

Customers are always the force that drives companies to strive for success, and so the very survival of companies could be said to depend on their customers (Kotler 2000; Kotler et al., 2001; Lewis, 2000). [141] Increasing competition provides customers with a variety of options and alternatives. This encourages dissatisfied customers to make quick decisions with regard to the products and services they buy, and therefore it is critical to ensure that the customer is always satisfied. According to Khong and Richardson (2003)[142], appropriate CSM can expedite and enhance customer re-buys, hence leading to improved customer satisfaction, customer retention and better management of the customer relationship. A recent survey reveals that 51% of respondents from all regions felt that "Service level commitments [are] not realized", whereas 60% of respondents in Latin America were unhappy about the service levels delivered. A survey by Wilding (2004)[143] reveals that

68% of respondents did not renew their outsourcing contracts due to "Service and quality issues: poor performance, poor service, customer service problems".

Another Important factor contributing to the failure of logistics outsourcing is inability to realise projected cost reductions, when cost savings was, of course, the primary objective in outsourcing (Arnold, 2000; Aubert et al., 1996; Bienstock and Mentzer, 1999; Bergsman, 1994; Brandes et al., 1997; Fan, 2000; Kriss, 1996; Laarhoven et al., 2000; Vining and Globerman, 1999; Willcocks et al., 1995).[144]

A survey conducted by CAPGEMINI et al. (2006)[138] revealed that 36% of respondents in all regions and 39% of respondents in North America expressed their discontent about not achieving expected cost reductions. A survey conducted in Europe by Wilding (2004)[143] reveals that 52% of respondents indicated that they had not renewed contracts due to cost issues. While cost is the biggest driver for logistics outsourcing, yearly surveys reveal that outsourcing organisations are not achieving their cost reduction goals. In a survey reported by CAPGEMINI, Georgia Institute of Technology, SAP and DHL (2005)[145], 49% of respondents from North America indicated that prices and overall costs increased once the logistics outsourcing relationship had commenced, whereas the respondents in other regions shared the same opinion but to varying degrees: Western Europe (35%), Asia Pacific (43%) and Latin America (23%). These results are presented in Table 1.6, compiled from the data presented in the annual studies conducted by CAPGEMINI and the Georgia Institute of Technology.

Table 1.6 Trend of Outsourcing Community Not Happy with Cost Reductions

Year	All Regions	N. America	W Europe	Asia Pacific	Latin America
2006	36.00%	39.00%	36.00%	34.00%	29.00%
2005	N/A	42.00%	41.00%	47.00%	50.00%
2004	N/A	47.00%	43.00%	52.00%	39.00%
2003	N/A	43.00%	56.00%	22.00%	N/A
2002	N/A	36.00%	37.00%	N/A	N/A

Source: CAPGEMINI and Georgia Institute of Technology 3PL Survey 2002-2006[91].

Outsourcing is like a marriage between two business entities. The success of any marriage depends upon how the two individuals involved manage their relationship. In business, the success of outsourcing mainly depends on how the relationship is managed by the two businesses involved in outsourcing.

"You don't manage people; you manage things. You lead people."

Admiral Grace Hopper

Managing an outsourced relationship is not an easy assignment. Prior to implementation, contracts, procedures, and personnel all should be in place, and expectations and possible friction points identified. From time to time, however, interests and goals will differ and conflicts will arise which must be dealt with. Even when differences are minimal, managing the provider will be a full time job.

Clifford F Lynch in *Logistics Outsourcing – A Management Guide* [1]discussed the findings of Everest Group Inc. – Outsourcing consultants identified causes for dysfunctional outsourcing. The findings have been adopted from his book hereunder:

1. Pricing and service levels are established at the start of the contract and usually contain no meaningful mechanism for continuous improvement.
2. Differences in buyer and supplier cultures often cause misunderstanding and distrust. Even if the cultures are compatible, the two parties still have fundamentally different goals and objectives that are frequently difficult to harmonise.
3. All outsourcing contracts are based on key assumptions regarding technologies, business conditions, personnel, and other relevant issues. As soon as the contract is signed, these assumptions begin to change. However detailed the contract or favourable the terms, most contracts cannot anticipate the changes in an evolving environment. This phenomenon tends to ensure that one, if not both, of the parties will become disenchanted with the relationship. Longer-term contracts that lack flexibility tend to increase the likelihood of dissatisfaction.
4. Once the contract is in force, there is a great temptation for both parties to sub-optimise the relationship and attempt to better their lot

at the expense of the other. The inflexible nature of the contract usually favours the supplier.

5. Buyers frequently underestimate the time and attention required to manage an outsourcing relationship, or worse, they hand over management responsibility to the supplier. The supplier begins to operate in a priority vacuum, and service levels tend to deteriorate because the supplier's agenda is not in sync with the buyer's business objectives.
6. Lack of management oversight is usually the result of two factors: The team that negotiated the contract often does not stay engaged in contract management. A new team that may or may not understand the contract's intentions is given responsibility for managing the relationship.
7. Employees that understood the pre-outsourced environment have been transferred to the supplier's team. This disruption in continuity can have significant adverse effects on the outsourcing relationship (pp 233-235).

In discussing outsourcing relationships, Peter Bendor-Samuel[146], Editor of *Outsourcing Journal*, made an interesting distinction between partnerships and alliances. In suggesting that most contemporary outsourcing arrangements are alliances rather than partnerships, he said:

> A partnership is an association with another entity in a joint endeavour, where both parties have joint interests, joint risks and rewards. In a partnership, the interests are undivided. In an alliance, there is a pact

or agreement between the parties to cooperate for a specific purpose and to merge their separate interests and efforts for that common purpose. The two work together for each other's good. Their pact (or the contract) establishing their alliance and agreement to perform a specified function together provides for flexibility. It also recognizes that their interests will differ at times.

Such an arrangement will, by its very nature, produce cultural difference, and this is particularly true with logistics outsourcing. While the objectives of the two parties may be the same, their methods for achieving those objectives may be quite different.

For example, the client more often than not will be more bureaucratic, and employ an elaborate approval process before significant (or sometimes insignificant) change can be made. A logistics service provider, on the other hand, tends to be more entrepreneurial and is able to make decisions more quickly.

According to Clifford F. Lynch[1], "Everest group suggested another common source of difficulty is the leaving of the supplier to its own management devices. Too often either through lack of interests or lack of expertise on the client's part, with little or no direction.

The major challenge facing 3PL service providers in the acquisition or maintenance of an outsourcing customer is the establishment of trust and confidence. These two requirements are evident in outsourcing users' stipulations for dependability, customer orientation, and responsiveness to unforeseen problems.

Failure to reach a true meeting of minds is the primary cause of the collapse of logistics partnerships. There could be several reasons for this. Kenneth B. Ackerman (1996)[147] identified some of the reasons as to why a logistics outsourcing contract can fail and they are:

1. The buyer and seller have not reached a realistic understanding about the job to be done.
2. The seller has over-promised and is unable to deliver on that promise.
3. One or more managers at the buyer's company do not want to make the relationship work and maintain a well-hidden desire to see it fail.
4. The seller has discovered that he/she is losing money in the relationship and, since he/she cannot renegotiate the contract, he/she loses interest in serving his/her customer.
5. Service failures have become intolerable for the buyer.
6. An orderly procedure for separation is not specified in the agreement.

Some more common reasons for collapse of logistics partnerships identified by Kenneth B. Ackerman (1996)[147] include the following:

1. "A desire for failure" – This is similar to the "Internal Change Challenge" identified by Fredrik Nordin (2005),[139] whereby some of Managers of the outsourcing organisation will sabotage the outsourcing process in order to save their jobs. This will never come to light as it would be concealed by other reasons.
2. "Money Losing Contract" – This is part of the strategy formation challenge identified by Fredrik Nordin (2005).[139] Due to communication failure, the logistics service provider may not capture all costs involved in providing the services or the outsourcing organisation may not reveal their expectations clearly. This leads to additional workload and resource constraint which ultimately leads to a loss-making contract. As the outsourcing organisations fail to recognise the difficulties of the service provided due to budget constraints the gap widens between the service provider and outsourcing organization which leads to outsourcing downfall.

3. "Intolerable service failures" – Service level failures occur for two main reasons. One is due to communication gap. At the start of the relationship, the outsourcing company may not clearly define the deliverables. This leads to additional workload, cost constraints and falling service levels. The second reason could be that the service provider is not capable of delivering the expected service levels due to inexperience. The following table reveals the quantum of discontent expressed by the outsourcing community in a survey

conducted by CAPGEMINI and Georgia Institute of Technology (2006).[138]

Table 1.7 Customer Not Satisfied with Service Levels

Year	All Regions	N. America	W Europe	Asia Pacific	Latin America
2006	51.00%	48.00%	50.00%	52.00%	60.00%
2005	N/A	56.00%	58.00%	43.00%	63.00%
2004	N/A	62.00%	48.00%	71.00%	65.00%
2003	N/A	66.00%	69.00%	22.00%	N/A
2002	N/A	54.00%	63.00%	N/A	N/A

Source: CAPGEMINI and Georgia Institute of Technology 3PL Survey 2002-2006.[91]

The pitfalls, difficulties and challenges discussed above may not deter companies from outsourcing their logistics functions in the future. Figure 1.5 seems to suggest this through its growth forecasts of logistics outsourcing across the globe for 2009-2011.

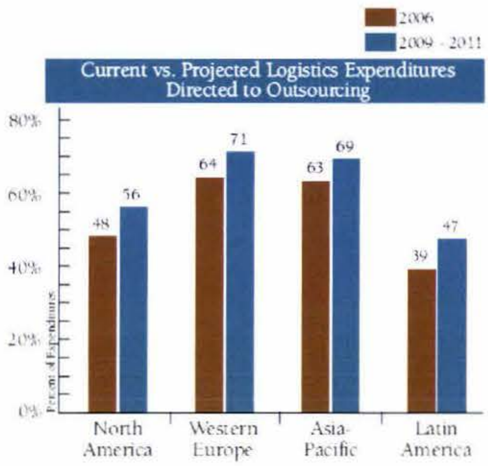


Figure 1.5 Current vs. Projected Logistics Expenditures Directed to Outsourcing

Source: CAPGEMINI and Georgia Institute of Technology Survey (2006) [138]

Keeping in mind recent failures, the outsourcing community is expected to go through this process more cautiously in the future and might even rely on outside expertise to select the right service provider. More and more information is becoming available to the outsourcing community which explains the correct process to follow when selecting a service provider. This aspect of a successful outsourcing process is discussed below.

There is no quicker way to sabotage a relationship than with unpleasant surprises. What is required, says Brunson (1997), is to act altruistically, concerned only for the welfare of others, with no selfish or ulterior motives, [which] is to affirm a sense of universal responsibility.[148] While this is a goal that both parties to an outsourcing contract should aim for, it is unlikely to ever be completely attained.

1.6 Successful Outsourcing Process

Outsourcing should be a lifetime commitment, according to Tompkins (Tompkins Associates): "The object is to have a relationship that will last for 10, 20 or 30 years." This is in sharp contrast to the practice of general contracting where relationships are typically much shorter. As mentioned above, 55% of logistics outsourcing alliances were terminated within 3-5 years, yet in some cases, the relationship ended within the first year. According to Atkinson (1998), 43% of identified users of 3PLs in North America cancelled at least one 3PL contract in 1998.[149]

Many of the Fortune 500 companies have embraced outsourcing as a strategic initiative to counter some of the challenges of globalisation. These companies, in search of increased competitiveness and success in the global marketplace, have identified logistics outsourcing as a solution to a puzzle that is becoming increasingly complicated. However, outsourcing is not a "walk in the park". According to Tompkins (2005), an uninformed process of outsourcing will result in a setback to the organisation:

> Taking the plunge into outsourcing strategic non-core functions without a robust process will not only prevent an organisation from achieving the benefits from outsourcing, but will also result in a major setback to the organisation. (p. 3)[150]

1.6.1 Outsourcing strategy

An outsourcing strategy is a structured process of determining the merits and demerits of outsourcing, which then enables the organisation to decide whether to outsource or not. If the answer is to outsource, the next question that should be answered through this process is what to outsource? According to Tompkins (2004) [151], one of the 10 risks of an outsourcing strategy is "outsourcing undesirable functions versus the ones that provide greatest competitive advantage".

Conventional wisdom and strategic perspective encourage organisations to focus on core activities and outsource non-core activities in order to stay focused on core functions (Bettis et al., 1992; Kelley, 1995; Lacity et al., 1995; Mullin, 1996; Peisch, 1995; Prahalad and Hamel, 1990; Quinn and Hilmer, 1994; Rothery and Robertson, 1995)[152]. The real problem lies in identifying what is a core function and what is a non-core function. This is the major problem in developing an outsourcing strategy.

"There are certain functions that a head office can best sustain.... In downsizing without due care for such functions, organisations risk dismantling the very foundations of their success" (Stephenson and Russell, 1995, p. 49).[153] "The key to determining the viability of outsourcing therefore lies in analysis of the organisation. Determine candidates, which areas within the organisation are not core? Where will the company get the best return on investment in outsourcing?

There are five criteria that help determine whether or not a function can be outsourced:

1. They are routine;
2. They are well delineated;
3. They can be measured and managed at arms length;
4. They can be readily provided by established vendors; and
5. They are offered in a competitive environment (Anon., 1995d).[154]

1.6.2 Cost considerations

Once a decision is made as to what is non-core, the second step is to validate the cost effectiveness of the decision to outsource. Some researchers believe that cost savings through outsourcing are made because of access to economies of scale and the unique operational expertise of service operators (Anderson and Weitz, 1986; Roodhooft and Warlop, 1999).[155]

Cost savings are the biggest KPI (key performance indicator) for today's practitioners, which is clearly evident from the survey findings of CAPGEMINI and Georgia Institute of Technology (2006)[138]. Table 1.8 shows the benefits of outsourcing, based on survey findings.

Table 1.8 Quantifiable Measures of 3PL Success

Quantifiable Measures of 3PL Success					
Cost/Benefit	All Regions	North America	Western Europe	Asia-Pacific	Latin America
Logistics cost reduction	11.5%	9.9%	11.4%	13.7%	11.7%
Fixed logistics asset reduction	20.0%	12.7%	21.9%	21.8%	36.6%
Average order-cycle length change (days)	From 12.7 to 9.7	From 11.0 to 8.4	From 10.2 to 6.5	From 15.7 to 13.9	From 15.9 to 10.0

Source: CAPGEMINI and Georgia Institute of Technology survey (2006)[138]

1.6.3 Outsourcing model/methodology

Once the decision to outsource is substantiated with analysis and facts, the next step is to ensure that an effective outsourcing model is adopted in order to make logistics outsourcing a success. Unfortunately, prescriptive models are relatively scarce in the area of logistics outsourcing. According to Probert (1996)[156], "There are few practical accounts of a methodical approach to make or buy strategy to be found in the literature, although discussion of the factors involved has a long history". McIvor (2000)[157] also concludes that, "The review of the literature and interviews with senior managers has revealed the lack of a practical framework which attempts to integrate the key-strands of the outsourcing decision-making process and the impact of the company's supply base on the decision". Marshall et al. (2004)[158] state that, "Within the outsourcing literature, there are few authors who regard outsourcing as a process".

Sink and Langley (1997)[159] developed a conceptual framework for a long-term partnership between buyer and seller of logistics services. The authors identified five main steps in the logistics buying process: identification of the need to outsource logistics; development of feasible alternatives; evaluation of candidates and selection of the supplier; implementation of services; and ongoing service evaluation. The model developed by Sink and Langley is reproduced as Figure 1.6.

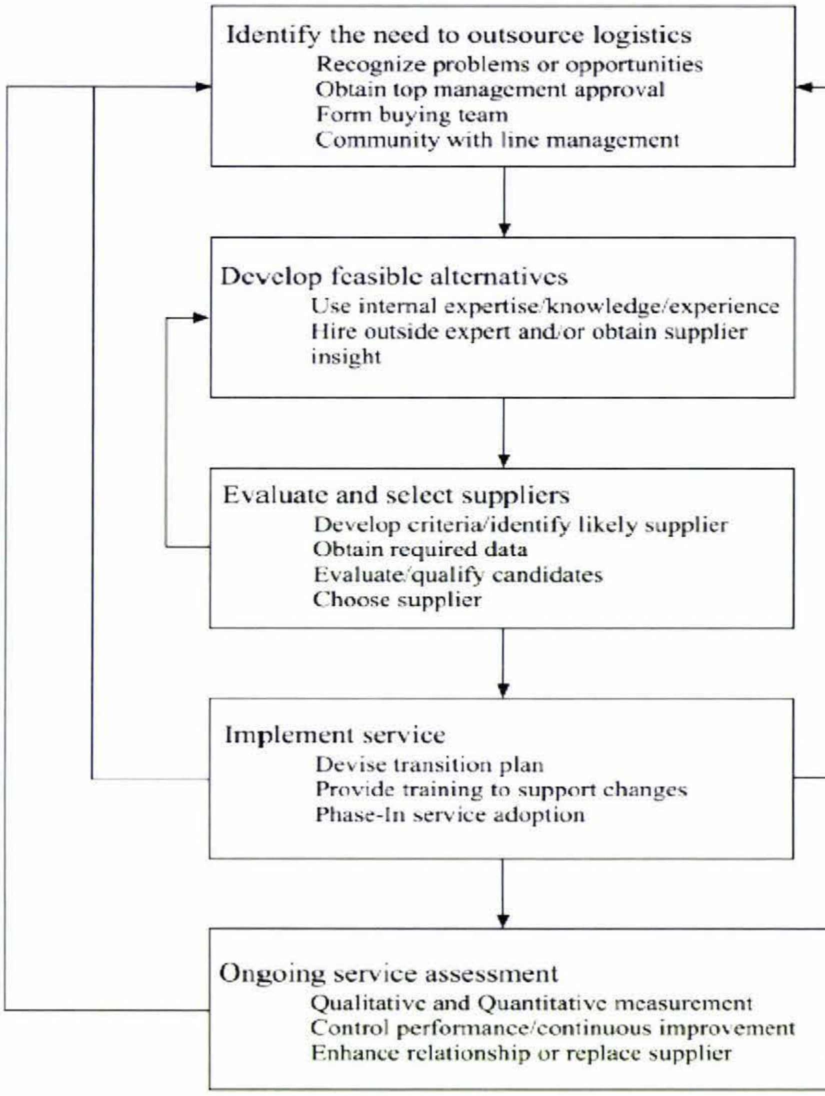


Figure 1.6 Successful Outsourcing Process

Source: Sink and Langley (1997)[159]

Power, Bonifazi and Desouza (2004)[160] identified ten critical outsourcing 'traps':

Trap 1 "Lack of Management Commitment" – Executive management tend to think that outsourcing is a quick and short term solution for increased costs and lower service levels. If management commitment and support are lacking, this could prove disastrous to the organisation.

Trap 2 "Lack of Outsourcing Communication Plan" – As outsourcing aims to move from fixed costs to variable costs, many in-house activities will be outsourced. In the absence of a well-documented communication plan, outsourcing will lead to rumours and a decrease in productivity.

Trap 3 "Minimal Knowledge of Outsourcing Methodologies" – Many organisations get caught up in the hype and fail to recognise the fact that outsourcing is a business strategy that works like a double-edged sword. In the absence of a structured outsourcing process, the initiative will fail and could prove to be fatal to the organisation's financial health and reputation.

Trap 4 "Failure to Recognize Outsourcing Business Risks" – Outsourcing is a conceptual proposition – it is not necessarily successful every time. It is absolutely necessary to identify all business risks involved in outsourcing in advance and develop a contingency plan.

Trap 5 "Failure to Obtain outside Outsourcing Professionals" – A critical examination of organisations whose outsourcing initiatives have failed shows a lack of professional outsourcing expertise in the organisation.

Trap 6 "Not Dedicating the Best and Brightest Internal Resources" – Many organisations ignore the fact that logistics outsourcing is a complementary relationship between two organisations. Failure to identify internal resources and dedicate them to the outsourcing process may have an adverse impact on the project's implementation and could lead to failure.

Trap 7 "Rushing through the Initiative" – In management's rush to reap the benefits of outsourcing; management may short-circuit the process in order to speed up the outsourcing process. This could prove dangerous to the organisation and any resulting inefficiency in project planning and implementation could lead to failure of the outsourcing initiative, with implications for the overall health of the business.

Trap 8 "Not Recognizing Impact of Cultural Differences" – One of the most underestimated risks in outsourcing lies in ignoring cultural differences between two organisations. Objectives may be interpreted differently, leading to a gap between what is expected and what is ultimately delivered.

Trap 9 "Minimizing what it will Take to Make the Vendor Productive" – Every operation is unique. The learning curve will be minimised if the outsourcing organisation provides proper documentation and transfers its knowledge base to the service provider. In the absence of documentation, communication gaps could compromise the productivity of the project. This could be easily avoided.

Trap 10 "No formal Outsourcing Governance Program" – Outsourcing a task is not end of the process; in fact, it is the beginning. The success of outsourcing lies in how well it is managed, monitored and assessed. Project governance is critical to the success of outsourcing.

Marshall et al. (2004)[158] divided the outsourcing process into four stages:

Stage	Activities/characteristics
Initiation stage	Idea generation Formation of motives Go/no go regarding further evaluation
Evaluation stage	Evaluation of internal and/or external options Formal or informal Possibly halt of the process
Management stage	Transfer of assets and people
Outcome stage	Reflection Possibly terminate, re-tender, continue or renew contract

Source: Based on Marshall *et al.* (2004)

Figure 1.7 Stages of Outsourcing Process

Source: Based on Marshall et al. (2004)

1. Outsourcing the strategy development stage;
2. Selecting the service provider stage;
3. Project Implementation stage; and
4. Project Management stage.

This is very close to what Jim Tompkins (2004)[151] suggested in his article titled "40 Risks to Establishing an Outsourcing Relationship". He has identified 40 risks in each of the four staged

The 40 risks listed below are adapted from Tompkins (2004)[151].

1.6.4 Outsourcing strategy risks

1. Outsourcing undesirable functions versus the ones that provide greatest competitive advantage.
2. Not clearly defining goals and objectives before starting the outsource process.
3. Not establishing an effective internal baseline to measure providers against, including costs, service and value adds.
4. Outsourcing in the international market without international operations experience.
5. Inadequate business case development for the outsourcing decision.
6. Making the decision to outsource without complete information on internal costs and processes.
7. Not considering the impact of outsourcing on other functions and areas of risk such as environmental and regulatory factors.
8. Lack of understanding of human relations and employment law requirements for an outsourcing initiative.
9. Announcing outsourcing before sufficient details have been finalised, creating morale issues.
10. Lack of risk analysis and risk assessment planning.

1.6.5 Outsourcing selection risks

11. Not including enough resources to effectively manage the vendor selection process.

12. Not having the proper internal skill set to effectively manage the selection process.
13. Not understanding or leveraging the benefits a Request for Information (RFI) can have in narrowing the potential provider field before entering the Request for Proposal (RFP) process.
14. Not casting one's net widely enough for potential providers of the service, and thus missing good candidates.
15. Not involving a variety of perspectives in the selection process.
16. Having a poorly developed and documented service or product specifications.
17. Having inaccurate costing of assets that will be transferred to the service or product provider.
18. Not doing business and financial due diligence on potential providers.
19. Insufficient knowledge of service provider capacity limitations.
20. Making the selection process a personal rather than a commercial decision.

1.6.6 Outsourcing implementation risks

21. Not establishing an outsource relationship that has sufficient flexibility to deal with business fluctuations.
22. Initiating an agreement with a service provider that limits flexibility in the future.
23. Having an unrealistic timeline for any of the steps of the outsource process including start up.

24. Having poor implementation planning with respect to timing of transition to service provider and demands on the organisation.
25. Underestimating the time required to negotiate a Service Agreement.
26. Not fully defining an employee transition plan.
27. Not getting the operational issues resolved in the Service Agreement before moving into the legal aspects of the agreement.
28. Having inadequate planning concerning information systems and interfacing with the service provider.
29. Having insufficient technology development before implementation.
30. Not training the provider in critical elements of the company product line or service expectations.

1.6.7 Outsourcing management risks

31. Not considering the full impact of an outsourcing agreement on a company's financial condition.
32. Lacking internal communication.
33. Lacking incentives for provider continuous improvement.
34. Not establishing multiple touch points between the company and the provider.
35. Lacking a contingency plan for major disruptions at the service provider.
36. Not putting a full communication plan into effect including escalation processes, regularly scheduled meetings, review periods, and employee communication.
37. Doing a poor job managing expectations around the go-live.

38. Expecting too much from a provider in the early months after the go-live.
39. Neglecting to "flex" the outsource relationship as outsource requirements evolve.
40. Lack of a formal "lessons learned" roundtable on outsourcing in general and, specifically, established outsource relationship.

This is a comprehensive list of business risks to be addressed when outsourcing logistics activities. The structured process of Outsource Strategy, Selection, Implementation and Management is critical for outsourcing success. Anticipating and avoiding risks through a robust outsourcing process will help organisations avoid foreseeable risks of outsourcing, and achieve operational excellence and targeted cost savings.

2. Research Hypothesis Development

Introduction to my hypothesis:

In order to focus on core competencies, organizations have increasingly formed the view that non-core activities should be outsourced. This is one of the core objectives of outsourcing. Some examples in support of my argument are listed below:

1. "When Keith Pallesen, sourcing consultant for GMAC Mortgage, hires outside firms to perform tasks such as managing his company's travel arrangements or inventory, his main concern is increasing the lending company's market share." – "It is no longer about saving money", 5th annual outsourcing Index "In the end, I'd rather spend money on things that are crucial (to the growth of the company's core business)," he insists.

2. Al Garcia, Vice President of information technology at Comac Inc., a wholly-owned subsidiary of Boston-based Iron Mountain, says saving money was a secondary motivation when he decided to outsource his network servers to AT&T more than a year ago. "It gave us the ability to have top-level support that we couldn't hire internally," he said. Ensuring that his network never goes down was his primary goal. "It was a qualitative thing," he added. "It is no longer about saving money", 5th Annual outsourcing Index.

3. The 2002 Outsourcing world summit revealed that 46% of participants outsource due to reasons other than savings costs.[161]

4. The EYEFOR TRANSPORT (2005) survey revealed that 15% of the participants indicated that improving supply chain management was the primary reason for outsourcing. A further 14% said that cost reduction was the main reason for outsourcing, while a further 14% have used outsourcing to improve customer satisfaction.[162]

In Post-Capitalist Society, Peter Drucker described growing reliance on outsourcing as a necessary change in business philosophy. He wrote that this change:

> "means that big business, the government agency, the large university, will not necessarily be the one that employs a great many people. It will be the one that has substantial revenues and substantial results - achieved in large part because it, itself, does only work that is focused on its mission; work that is directly related to its results; work that it recognizes, values, and rewards appropriately. The rest it contracts out."[163]

However, in the recent past objectives of outsourcing are diluted due to increasing uncertainty in the business environment and increasing competition. The focus is now shifting to saving costs. Cost savings are possible if the project is properly managed and implemented in the first year. However, the same % of cost saving would be impossible in the second year if the project is not implemented successfully. In fact, the cost over-runs may even sabotage the project. Hence, primary objective of outsourcing should be to focus on core areas of expertise and outsource non-core functions. Cost savings could be the secondary objective and not the primary objective.

Through current research findings the author will establish the objective of outsourcing, confusion with regard to outcomes of outsourcing, time frame of outsourcing and what causes outsourcing failures clearly.

The author will clearly establish that cost savings is the primary objective of current outsourcing operations and confused approach with regard to the outcomes of outsourcing; short term contracts and poor service levels contribute to the failure of outsourcing.

A hypothesis is a "tentative explanation" for what we observe (Campbell, 1993).[164] Logistics outsourcing is a very popular subject reviewed and researched by several professionals from the academic world as well as from industry. It can be hypothesized that:

1. The primary objective of logistics outsourcing is to save costs.
2. Outsourcing organisations have unclear expectations about outsourcing.
3. Outsourcing is a short-term solution to address operational inefficiencies and increase cost savings.
4. Logistics outsourcing is an innovative solution if the concept is handled with care and joint participation; otherwise, it is a logistical nightmare which leads to outsourcing failure.

The objective behind selecting the above-mentioned four hypotheses is to test whether logistics outsourcing is an innovative solution or logistical nightmare. The first proposition presupposes that cost savings is the fundamental objective of outsourcing. The second proposition suggests that the outsourcing community is not clear about outsourcing outcomes. The third proposition tests whether outsourcing should be considered a short term solution or a long-term strategic alliance with common objectives. After examining three leading indicators of outsourcing failures, this research tests theories of the roles that 3PL companies played in outsourcing failure and examines other reasons for logistics outsourcing failure.

2.1 Hypothesis One: The primary objective of logistics outsourcing is to save costs.

Cost efficiency remains the primary objective of outsourcing. Growing global competition has forced more and more organisations to look for solutions to reduce costs. Some researchers believe that a major means of cost reduction is through accessing economies of scale and unique logistics expertise which drives efficiency and delivers cost reduction through outsourcing logistics activities (Anderson and Weitz,1986[165]; Roodhooft and Warlop, 1999[166]).

Several surveys have identified that costs savings is the biggest motive behind outsourcing the logistics function. A survey conducted by CAPGEMINI and Georgia institute of Technology (2005)[145] revealed that 91% to 100% of respondents outsource logistics functions due to "pressure to reduce costs". If that is correct, the outsourcing initiative may fail as soon as the customer realizes that the cost savings from outsourcing is not in line with their expectations, or if the service providers fail to deliver projected cost savings. In order to test this proposition, the author has taken up this question as the first hypothesis.

2.2 Hypothesis Two: Outsourcing organizations have unclear expectations about outsourcing.

Quite often the logistics outsourcing fails due to unclear goals and unclear expectations of the outsourcing company (Ackerman, 1996 [167] ; Greco, 1997[168]). According to Ackerman one of the reasons for the failure of logistics outsourcing is, "The buyer and seller have not reached a realistic understanding about the job to be done." (pp. 35-7)

Many organizations tend to rush to jump on the bandwagon of strategic alliances, but very few succeed (Soursac, 1996[169]; Michelet and Remacle, 1992[170]). Due to hype created in the market place about outsourcing non-core activities, most organisations jump in without clear-cut expectations about outsourcing deliverables backed by outsourcing strategy. This leads to dissolution and outsourcing failures. I will test this theory through my survey findings.

2.3 Hypothesis Three: Outsourcing is a short-term solution to address operational inefficiencies and increase cost savings.

One can classify outsourcing into two categories. One is transactional outsourcing where no long-term relationships are established. The transaction could be a one-time affair or repeat purchases without any long-term relationship. The second category is a strategic alliance with a third party organisation in order to gain a competitive advantage.

Many studies emphasize that outsourcing would flourish if it is considered a long-term solution where companies form strategic partnerships. According to Elmuti et al. (1998)[171] US companies look at quick gains and aim at short-term contracts, whereas Japanese companies view outsourcing as a long-term strategy to improve quality and efficiency, and aim at long-term strategic alliances.

A study conducted by H. S. Jaafar and M. Rafiq (2005)[172] in the UK revealed that long-term contracts (more than five years) are no longer preferred, with medium range contracts being the trend in 2003.

If service contracts are terminated frequently and service providers are changed periodically, it could lead to operational disasters as well as customer dissatisfaction. I have raised this question to understand the length of outsourcing contracts. Hence, the third hypothesis tests whether outsourcing is a short term solution to save costs and improve operational efficiencies or a long term strategic alliance.

2.4 Hypothesis Four: Logistics outsourcing is an innovative solution if the concept is handled with care and joint participation in project management and implementation; otherwise, it is a logistical nightmare.

In the 21st century, global companies aim to retain today's highly demanding customer by enhancing the perceived value of products through improved customer service. Optimizing supply chains and adding value through customization allow this goal to be reached.

Because organizations cannot handle all of these activities aimed at customer retention around the globe, they engage actively with strategic and tactical partners in the supply chain to meet customer expectations.

As today's supply chain depends heavily upon global forces, customer service stems from logistics efficiency and the seamless flow of information and products all along supply chains. Some of the leading edge companies add value to their product through an effective logistics model and integrated supply chain management approach in order to provide their customers with the best class services at the lowest price (Christopher, 1998; Pollit, 1998[173]).

Mason-Jones and Towill (1998)[174] explain that in global marketplaces, in many industries, "most companies are competing with relatively similar machines, technology, and expertise. Consequently time compression strategies are becoming the cornerstone to establishing the world class enterprise." An excellent example in support of this statement would be DELL Computers. DELL Computers' supply chain model is uniquely successful, and is supported by several logistical partners.

Not all partnerships are so successful, and many of them fail without meeting their objectives. It is suspected that a failure of a true meeting of the minds is the most frequent cause for the collapse of logistics partnerships. There could be several reasons for this, accidental or deliberate.

The failure could start with the buyer not describing properly the job that must be done. In some cases, the buyer may deliberately overstate the workload and understate the activities, with the aim of achieving more favorable pricing. Other possible reasons could include absence of joint participation, poor implementation plans, 3PL inefficiency and absence of a robust performance measurement process. There are many implementation problems that lead to strategic alliances failure. The failure rate of strategic alliances is projected to be as high as 70 percent (Kalmbach and Roussel, 1999[175]). This failure rate is extensively discussed in leading business periodicals, and is also my research topic.

Kenneth B. Ackerman (1996)[176] has indicated that intolerable service failures are one of the reasons for outsourcing failures. It is common practice to blame the buyer for terminating outsourcing contracts. It is time to find out to what extent service providers are responsible for outsourcing failures and identify all possible reasons for outsourcing failure. This will enable the identification of key elements for success and the development of processes and methodology to make logistics outsourcing an innovative solution to meet global challenges. This is the logic behind hypothesis four.

3. Research Methodology

In order to find answers to the questions raised through my hypotheses, a questionnaire has been developed addressing those issues that needs further examination. The electronic survey form was designed scientifically to extract the required answers while ensuring that respondents were free to answer some of the critical questions in their own words.

The survey form was sent to 3PL companies in New Zealand, Asia Pacific Head Office, Europe Head Office and US Head Office. A conscious decision was taken to approach top 3PL companies in the Asia Pacific, Europe and the US in order to ascertain global views. The author spoke with each survey participant before sending them the electronic questionnaire. In view of ethical policies, the respondents' names and organizations are not published and are referred to by code number based on alphabetical order within the respective regions. The author clearly explained the objectives of the survey to each respondent.

While most surveys aim at ascertaining the success and quantum of outsourcing, this research seeks to discover reasons for outsourcing failure. It therefore runs contrary to the approach taken by several other research scholars in the area. Given the rate of failure in global outsourcing, the author strongly believes that identifying the main causes will enable businesses to avoid them in future.

The information gleaned from the written questionnaire and telephone interviews has produced a comprehensive set of data. The quantitative data generated by the questionnaire responses was processed with a statistical software package, and the qualitative data gathered during the interviews added further insights into the subject.

The qualitative data was deliberately collected in the respondents' own words in order to gather as much information as possible. There were three very important descriptive questions that produced qualitative information, and this was converted into data form based on rationalized answers. The coding of respondents' views with rationalized answers was taken up in order to avoid duplication. At the same time every care was taken to project the answers given by respondents in the form of tables that show the exact answer provided by the respondent and matching rationalized answers for all three descriptive questions.

In order to add depth to the research, the author used a qualitative approach, and a literature review to collect secondary data from the existing surveys conducted in this area. There can be no argument that existing data are a valuable addition to any research endeavor. After all, the literature from which you generate a theoretical framework is a resource of existing data (Page & Meyer, 2000[177]).

4. Research Findings

4.1 Survey Response

Eighty-five percent of the respondents answered the survey questionnaire; hence, this survey could be considered a success. An electronic survey questionnaire (Appendix 1) was sent to 21 invitees chosen from New Zealand, the Asia Pacific (Regional headquarters), Europe (Regional headquarters) and the US (Regional headquarters). Of those invited, 18 respondents answered the questionnaire, two refused to answer (citing company policy not to participate in any research) and one respondent (from the US) did not respond in spite of follow-up (see Figure 4.1).

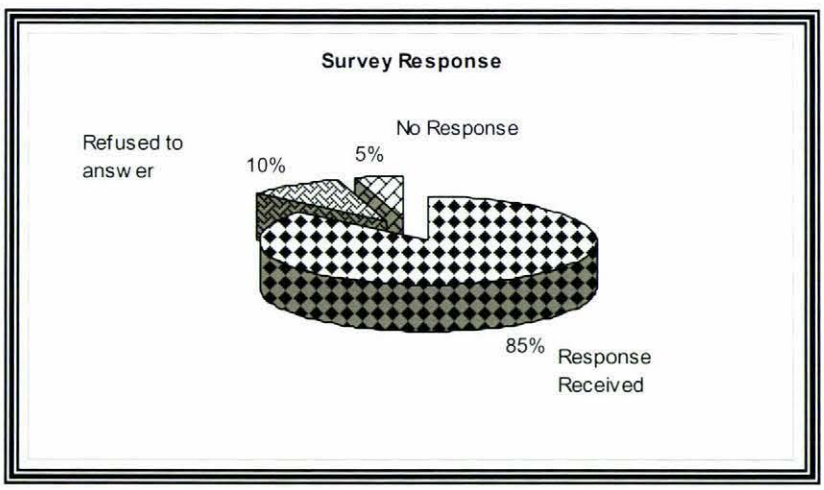


Figure 4.1 Survey Response

4.2 Survey Invitees' Profile

The primary objective of the survey was to ascertain the views and thoughts of NZ-based third party logistics service providers. However, in order ascertain global views, 3PL companies from the Asia Pacific (outside NZ), Europe and US regions were invited (see Figure 4.2). Out of the six invitees from three different regions outside NZ, five of the invitees responded. Care was taken to select the top 3PL companies in these regions who are global players in order to add global views to my research findings.

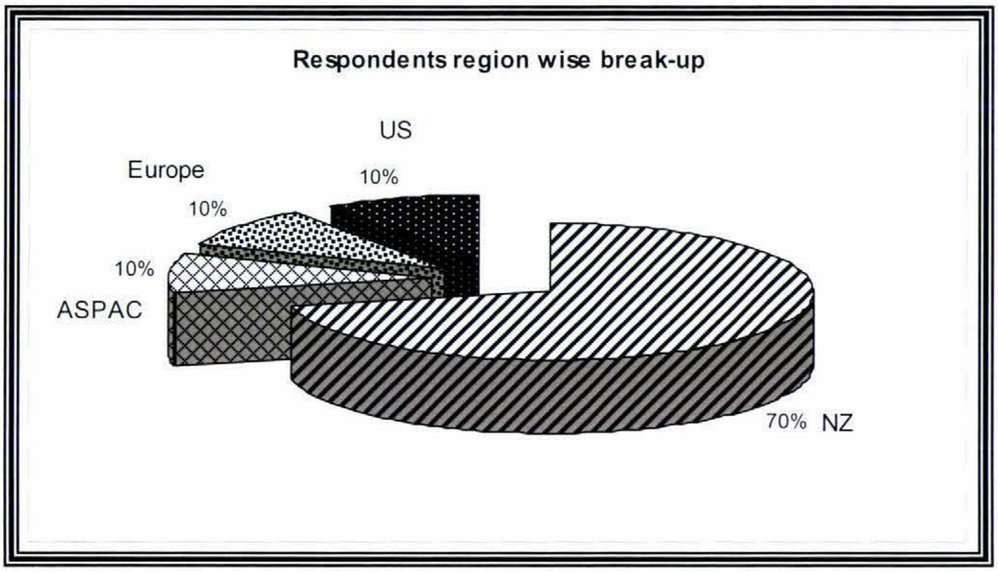


Figure 4.2 Invited Respondents by Region

Survey participant's size:

The participants in this survey are 3PL operators in different countries. The number of participants is low because of the small number of 3PL operators in each country. This survey is designed in line with surveys conducted by other researchers such as Dr. Robert Lieb; Professor of Supply Chain Management, College of Business Administration, Northeastern University, "The year 2004 survey: CEO perspectives on the current status and future prospects of the third party logistics industry In North America.

4.3 Survey Findings Discussion

4.3.1 <u>Hypothesis One Testing</u> The primary objective of Logistics outsourcing is to save costs.

According to Ford et al. (1993)[178] the majority of companies are outsourcing with a view to short-term objectives such as cost reduction, and very few companies have taken a strategic view of their outsourcing decisions. In order to test this statement, I have raised the question to find out whether customers follow a structured process in outsourcing. A structured process allows outsourcing organizations to establish clearly the strengths and weaknesses of outsourcing in order to take a balanced view. A structured process goes beyond short-term gains such as cost savings.

Arlbjørn et al. (2004)[179] pointed out that outsourcing implies going through a process that includes: determining what should be outsourced, selecting a supplier, completing a project and managing a supplier. To be successful in outsourcing, one should follow a structured process. The survey conducted by this author revealed that sixty-one percent of the respondents agree that the customers follow a structured process in outsourcing their logistics activities. Even though the majority of respondents agreed that customers follow a structured process, some of the major 3PL operators in New Zealand answered in the negative, and this was supported by one of the 3PL companies from the Asia Pacific region (see Figure 4.3). However, based on the results, one can conclude that customers do follow a structured process in outsourcing.

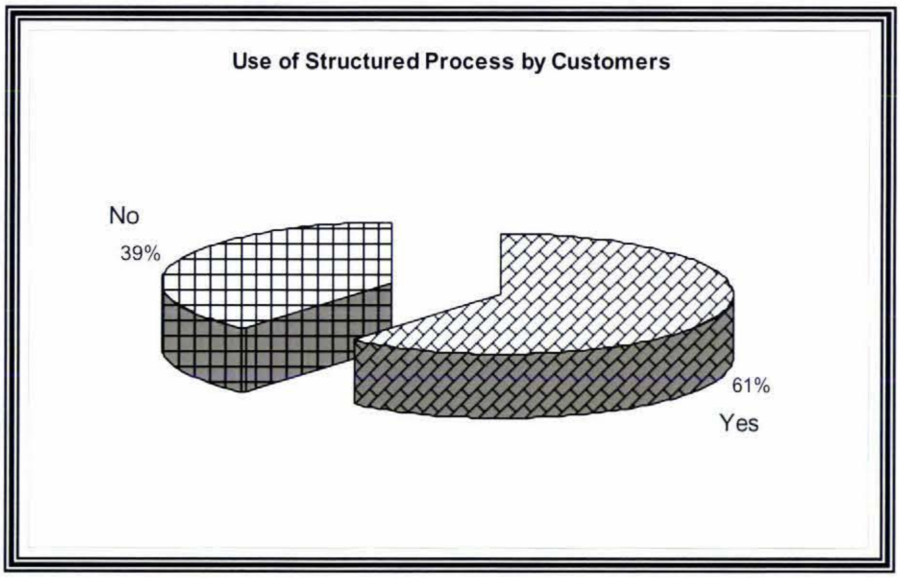


Figure 4.3 Structured Process Adapted by the Customers

A more recent study by Steven Simonson (2007)[180] revealed that "80% of respondents indicated that their company has a formal process for outsourcing". The findings of this survey are in line with current survey findings. The author has examined this point from the 3PL perspective, whereas Simonson examined the same point from the outsourcing community's perspective.

What is interesting to note is that, in spite of following a structured process, cost savings remains the prime objective of outsourcing for many organizations based on current study as well as existing survey findings. Firms evaluate benefits of outsourcing to determine whether current operating costs can be reduced and if saved resources can be reinvested in core areas of business.

As a majority of research findings pointed out that the main objective of logistics outsourcing is cost savings, one of the questions in the survey asked the 3PL companies to identify three main objectives of outsourcing (see Figure 4.4). The survey findings are in line with other surveys conducted in this area.

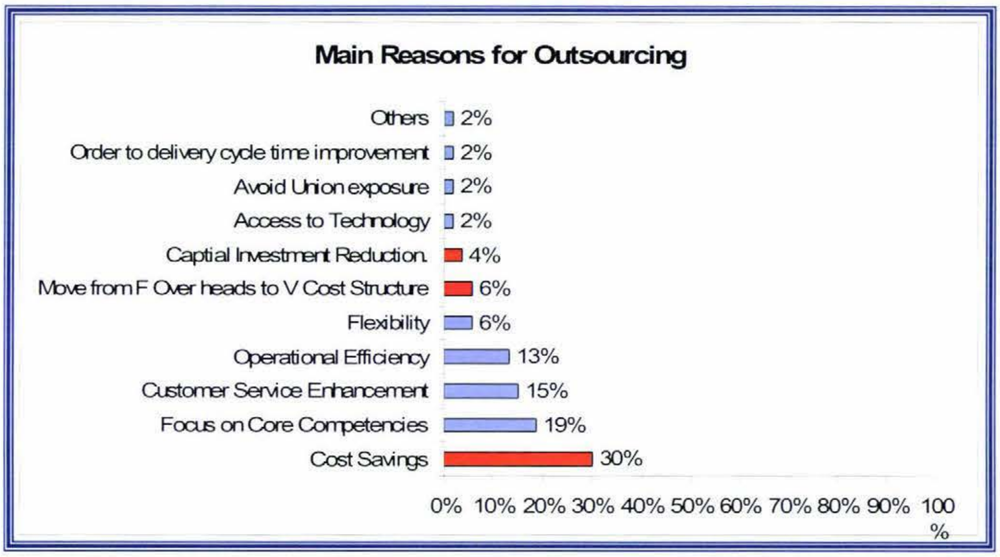


Figure 4.4 Main Reasons for Outsourcing

Nearly one-third of the responses (30%) indicated that cost savings is the main objective of outsourcing. Apart from cost savings, 5.66% respondents indicated that switching over from fixed to variable overheads is the objective of outsourcing. This indirectly refers to cost savings. And finally, 3.77% responses indicated that capital investment reduction is the reason for outsourcing. If we consolidate all these responses under one broad objective of "Cost savings", it would be around 40%.

Other major surveys conducted in this area have strikingly similar results. The question asked in all these surveys was "What is the reason for outsourcing logistics activities?" The answers were as follows:

1. P.E. International (1994) – "Reduce Costs" is given as the third reason for logistics outsourcing.[181]
2. Kant Rao and Richard R Young (1994) – Survey indicated that more than 80% of the shippers identified Cost/Service is the main reason for outsourcing Logistics activities.[182]
3. Boyson et al. (1999) – "Cost Savings and Revenue Enhancement" is given as the top reason for outsourcing.[183]
4. Penske Logistics (1999) – "Reduce Costs" is given as top reason for logistics outsourcing.[184]
5. Fernie (1999) – "Tends to be more cost efficient" (Reason No: 5) and "allows financial resources to be concentrated on mainstream business" (Reason No: 2)[185]
6. van Laarhoven et al (2000) – "Cost reduction" is given as number one reason for outsourcing logistics activities.[186]
7. Mark Kadar (2002) – MERCER consulting survey revealed that 33% of the respondents indicated that cost savings is the main reason for outsourcing logistics activities.[187]
8. Survey Conducted by Sydney Business School (2004) revealed that outsourcing companies ranked "cost savings" as number four reason for outsourcing whereas in the same survey the service providers ranked "cost savings" as no. 2.[188]

9. Kwok Hung Lau (2006)[189] concluded that "economic factor is a strong motivation for outsourcing in China, of which cost reduction, cost saving, and capital investment reduction are the main concerns". Kwok Hung Lau identified other researcher's work in this area in support of his statement, as shown in Table 4.1.

Table 4.1 Outcomes of Outsourcing

	Objectives or anticipated outcomes	Authors
Economic factors		
Cost reduction	To improve profitability To improve operating efficiency To add value to product	Trunick (1989), Richardson (1990) and Gonzalez *et al.* (2005)
Cost saving	To improve cash flow To increase efficiency	Embleton and Wright (1998) and Claver *et al.* (2002)
Capital investment reduction	To make capital funds more available for core areas To improve return on assets	Corbett (1998), Razzaque and Sheng (1998), Trunick (1989) and Lynch (2004)

Source: Adapted from Kwok Hung Lau (2006) work[189]

10. B.S. Sahay and Ramneesh Mohan's (2006) survey conducted in India revealed that over three-quarters of the users rated reduction in logistics cost at 4.39 on a scale of 1 to 5 (1 being not important and 5 being very important).

Outsourcing is done for various reasons, but the traditional driver has been generating cost reductions and downsizing. The above data and information prove beyond doubt that the prime reason for outsourcing is "Cost Savings" or factors related to economics. The cost savings could result from operational cost reduction, converting fixed costs into variable costs, or capital investment reduction. Recently the author has noticed that cost savings is also possible through outsourcing inventory ownership through inventory financing.

The annual survey conducted by CAPGEMINI et al. (2005)[145] revealed four major factors affecting their business, with pressure to reduce cost rated as the top factor. As corporations all over the world are competing in a highly dynamic market place, one can understand the reason behind the objective of reducing costs. Many organisations have adapted continuous re-engineering as a tool to improve operational efficiency and cost reduction. As more and more organizations are evaluating organizational performance on a continuous basis, more pressure is mounting on supply chain executives to reduce costs and outsource non-core activities. Reducing costs through economies of scale is proving to be a popular re-engineering outcome. Hence, it is very clearly established that cost savings is the primary objective of outsourcing.

4.3.2 **<u>Hypothesis Two Testing</u>** Outsourcing organizations have unclear expectations about outsourcing.

"The expectations of life depend upon diligence; the mechanic that would perfect his work must first sharpen his tools" - Confucius

It is critical to have a clear understanding of expectations before an agreement with regard to outsourcing logistics activities is signed. "Any number of outsourcing relationships failed because of a client's unrealistic or misunderstood expectations," Clifford F. Lynch (2004).[1]

The publicity created by outsourcing and the bait of quick gains thrown in by the service providers encourage many organizations to outsource first without thinking about what to expect out of outsourcing apart from cost savings. Taking the plunge into outsourcing strategic non-core functions without a robust outsourcing process will not only prevent an organisation from achieving the expected benefits, but will likely also result in a major setback for the organisation. It is very important for the executive team to develop a clear-cut understanding of the deliverables of outsourcing.

In order to test the second hypothesis, the author raised the question about customer's clarity on outsourcing outcomes (see Figure 4.5). Fifty percent of the respondents indicated that customers are not clear about outsourcing outcomes.

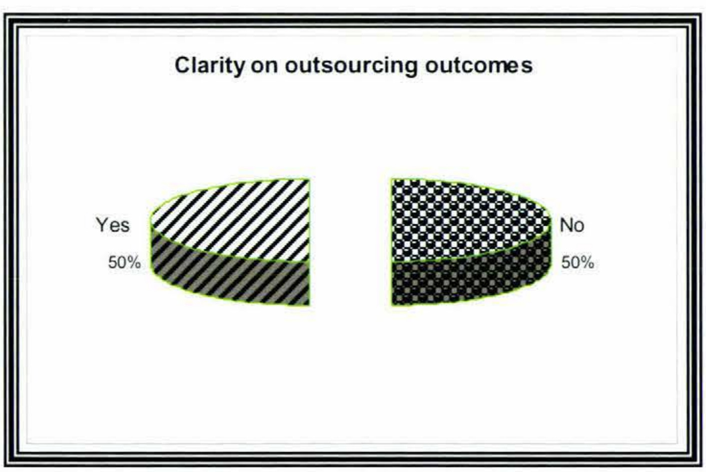


Figure 4.5 Clarity on Outsourcing Outcome

In the absence of internal expertise, some organizations have appointed outside consultants in order to help them in identifying outsourcing deliverables. This was established very clearly with 83% of the respondents answering that customers do use outside consultants in outsourcing process management (see Figure 4.6). This strongly suggests that outsourcing organizations lack expertise and use consultants in order to overcome this gap in understanding outsourcing outcomes. It is an unfortunate fact that 50% of the outsourcing community is confused about what to expect out of outsourcing beyond quick gains such as cost savings.. This has resulted in the need for companies to hire consultants to help them define outsourcing deliverables and develop a methodology for implementing outsourcing initiatives. This is a clear indication that customers do not have clarity of outsourcing outcomes, which is one of the likely reasons for outsourcing failures.

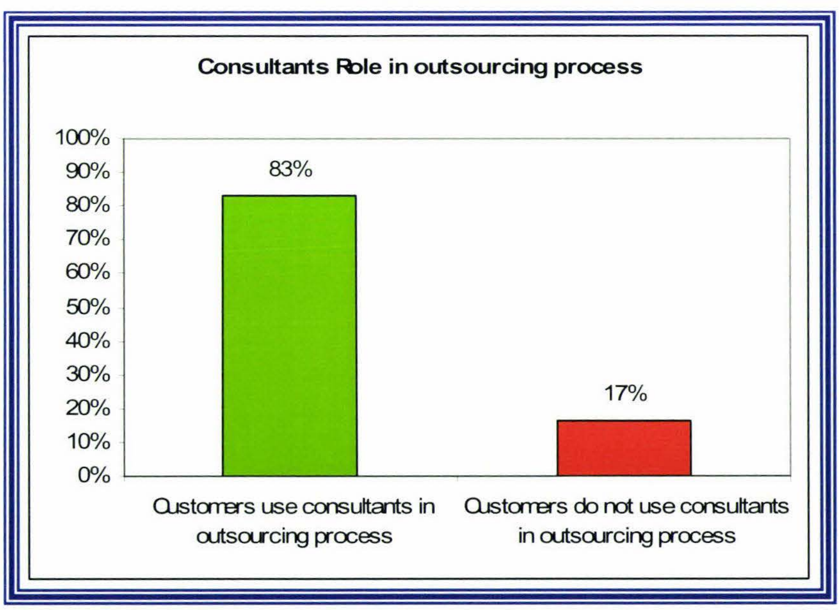


Figure 4.6 Role of Consultants in Outsourcing

Many organizations are actively re-engineering the supply chains in order to increase return on investment, and outsourcing is considered a short-cut for cost savings. "The institutional shareholders have declared that a corporation's principle, if not sole objective, is maximizing total shareholder return and profit. Other stakeholder interests – particularly those of employees have been outweighed". (Anfuso, c. 1996)[190].

Whether dealing with expectations or possible conflicts, clarity and honesty are the basic ingredients of a successful outsourcing relationship. Expectations must be clearly defined and agreed upon before launching into outsourcing in order to avoid possible friction and subsequent cancellation of contracts due to lack of clarity in understanding about what to expect from outsourcing.

A sure recipe for disaster is to embark on an outsourcing program that is not suitable, not clearly understood, or marred by unrealistic expectations.

4.3.3 <u>Hypothesis Three Testing</u> Outsourcing is a short-term solution to address operational inefficiencies and cost savings.

Logistics outsourcing will flourish if it is viewed as a vehicle to achieve long-term strategies rather than a short term solution for saving costs or improving supply chain performance.

In today's modern world outsourcing is considered a short term solution to save costs and not a long-term relationship. This was proved beyond doubt in the 2nd hypothesis. In response to a question on average life span of outsourcing contracts, nine participants indicated three years; three participants indicated two years and four participants indicated one year as length of the contract (two participants did not answer this question). On analyzing the results the outcome of the findings are listed in Table 4.2:

Table 4.2 Length of Outsourcing Contracts

Length of Contract as per Survey Participants	In Years
Average Length of the contract	2 Years
Maximum Length of the contract	3 Year
Minimum Length of the contract	1 Year

The above findings reveal that logistics outsourcing contracts are considered a short-term quick fix to address mounting pressure to reduce costs and improve supply chain efficiencies.

Researchers pointed out that short-term contract are more popular in the US, whereas the business community in Japan regards logistics outsourcing as a long-term strategy and establishes long-term relationships. In Australia, the survey conducted by Amrik S Sohal (2002)[191] is in line with the findings of the author. The findings are given in Table 4.3.

Table 4.3 Outsourcing Contract Length

Contract length (years)	Respondents 1999 (%)	Respondents 1995 (%)
< 1	4	0
1-3	55	83
3-5	33	17
> 5	8	0

Source: Amrik S Sohal (2002)

4.3.4 <u>Hypothesis Four Testing</u> Logistics outsourcing is an innovative solution if handled with care and joint participation in project management and implementation; otherwise, it is a logistical nightmare.

"Outsourcing is a management tool that shifts a company's organisational structure, but it is also a business transformation process that can create the opportunity for improved performance". (James A. Tompkins, 2005)[192]

Plunging into outsourcing logistics functions without a robust outsourcing strategy will not only prevent an organisation from achieving the benefits, but will likely result in a major setback for the business. Many organizations, in rush to gain a competitive edge over others, have outsourced logistics and supply chain related functions and ended up with broken relationships and business failures. According to the document titled "Third Party Logistics" (M-26), by Tompkins Associates, to understand what a 3PL provider may be able to offer, it is necessary to develop a strategic plan. Strategic planning is the process of deciding the firm's objectives, changes in the objectives, resources to attain these objectives, and policies that govern the acquisition, use, and disposition of these resources.[193]

In order to test this hypothesis, it would be ideal to analyze the reasons for logistics outsourcing failure before discussing how logistics outsourcing can be turned into an innovative solution.

4.3.4.1 Reasons for Logistics Outsourcing Failure

The author based on several years experience in outsourcing and as an employee of a 3PL operator in the Asia Pacific Region, classified the reasons for outsourcing failure into three categories: Strategic reasons, Tactical reasons and Operational reasons (see Figure 4.7). All of them are equally important and individually contribute to the downfall of outsourcing initiatives.

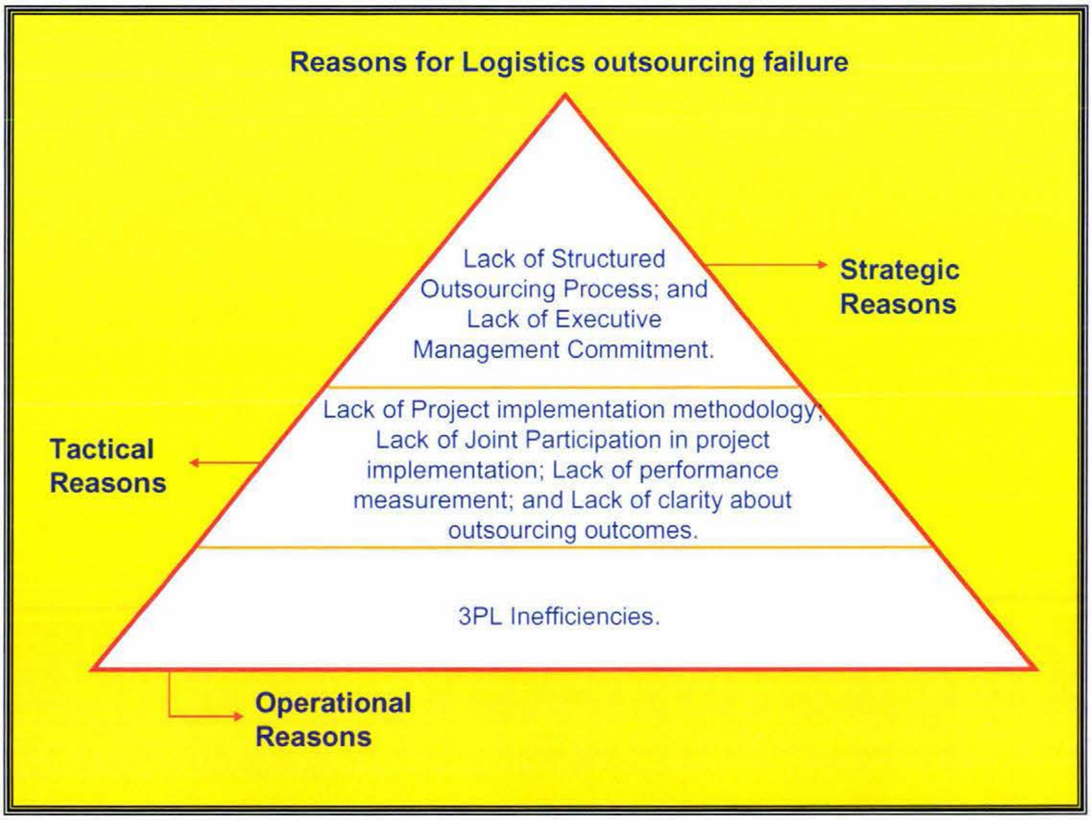


Figure 4.7 Reasons for Logistics Outsourcing Failure

4.3.4.2 Strategic Reasons

A lack of strategy on outsourcing and driving outsourcing initiatives as a quick fix solution without a structured outsourcing process will almost certainly lead to outsourcing failure. In addition to outsourcing strategy, executive management commitment and support is required to make outsourcing a success. In its absence, outsourcing initiatives are sure to fail.

4.3.4.2.1 Structured Outsourcing Process

A structured outsourcing process always lays strong foundations for a long and fruitful relationship for both parties involved in an outsourcing activity, Bagchi, Prabir K. & Virum, Helge.(1998)[194]:

> Companies should define their most aggressive logistics management goals and then attempt to visualize what the firm will look like after achieving those goals. Firms must clearly articulate where they want to go before they develop a plan that will take them to a higher performance level.

A structured outsourcing process will enable the organisation to clearly define what to expect from outsourcing. Hypothesis two clearly establishes that outsourcing companies are not clear about what they want, due to lack of an outsourcing strategy and a structured outsourcing process.

In response to the first question of the logistics questionnaire on this subject, 39% of survey participants indicated that outsourcing companies do not have a structured outsourcing process (see Figure 4.8).

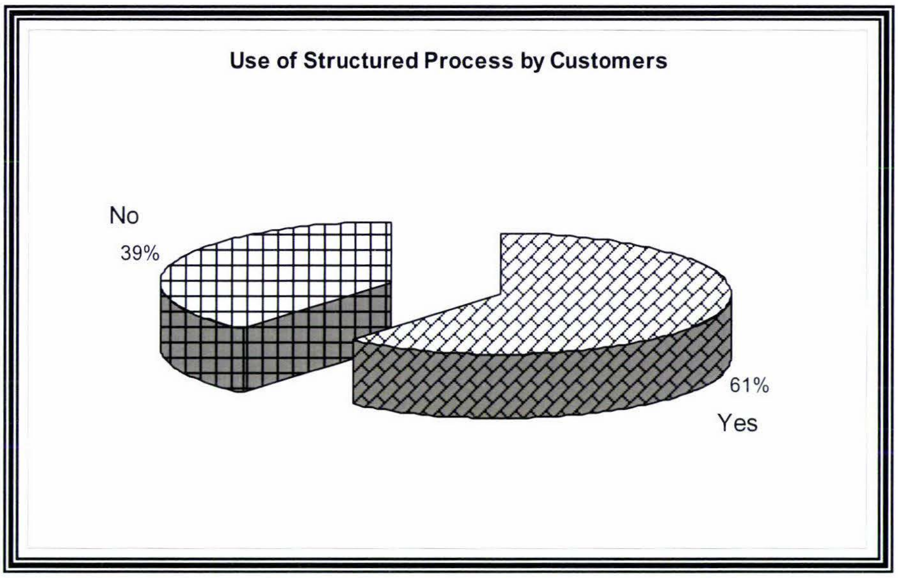


Figure 4.8 Outsourcing through a Structured Process

Many organizations get caught up in the hype of the outsourcing craze and forget that it is a complex business strategy. This was substantiated by Jim Tompkins in his article titled "Top 40 Risks in outsourcing". [195] To be successful, organizations must identify, establish and implement proven methodologies and industry best practices. Many organizations fail to admit or even recognize that their knowledge of the outsourcing life cycle and management discipline is minimal. How many organizations really have people, processes, procedures and tools to guide them through the outsourcing lifecycle (including strategy formulation, requests for proposal, vendor identification and selection, contract negotiation, project transition and outsourcing governance)? The majority of organizations operate in an ad hoc fashion, hoping that things will turn out as planned.

Mature organizations, serious about making their outsourcing initiatives successful, seek out industry best practices and benchmark successful outsourcing initiatives.

Based on many years of experience the author has developed an outsourcing process that should help organizations in making outsourcing decisions more effectively (see Figure 4.9).

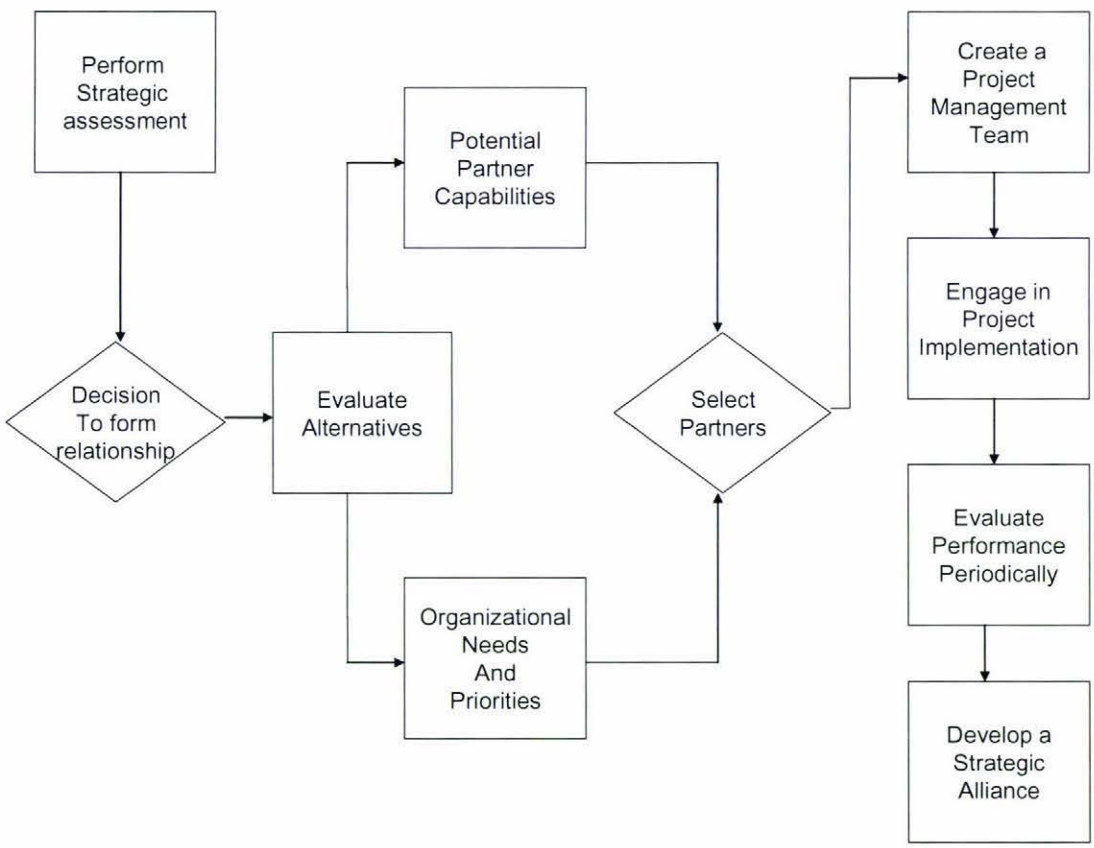


Figure 4.9 Suggested Logistics Outsourcing Business Process

4.3.4.2.2 Executive Management participation

Executive management may believes outsourcing is a short term solution for core problems bothering their businesses, from bloated cost structures, substandard quality, insufficient internal skills, extended product development life cycles to a lack of business focus. Sometimes an inaccurate understanding of outsourcing impacts on the organisation results in very little commitment from executive management. They tend to believe that outsourcing is a magical solution for converting fixed overheads into a variable cost structure, and they fail to recognize the strategic value of the outsourcing decision. The current survey reveals that only 24% of the participants indicated that executive management was involved in outsourcing decisions (see Table 4.4).

Table 4.4 Logistics Outsourcing Decision-making Authority

Authority	Count	%
Executive Management	12	24%
Others	10	20%
Supply Chain & Logistics	10	20%
Finance & Accounts	8	16%
Procurement	5	10%
Consultants	3	6%
Customer Service	3	6%
Total responses	51	

When management attempts to lead outsourcing initiatives without understanding the long-term ramifications to their overall business strategy, they cannot articulate an execution strategy that can be driven down to all levels of the organisation. This results in ambiguous contracts, milestones and deliverables, and creates conflict between the outsourcing company and the service provider. As companies race to outsource larger pieces of their business, a majority of executives tend to minimize the scope, time, cost and resources required to formulate successful outsourcing strategies. These deficiencies are magnified in the execution stages of the outsourcing initiative and usually result in unfulfilled expectations.

True commitment to a successful outsourcing initiative requires executive involvement and perseverance in resolving fundamental business problems prior to establishing an outsourcing initiative and the determination to resolve conflicts that might surface in the second and third stages of the relationship management process as explained above. Management needs to lead the charge, assess the business and ask some difficult questions:

1. Are we competitive in our marketplace, both locally and globally?
2. Do we know what our core competencies are?
3. Can our customers, suppliers and competitors validate our core competencies?
4. Do we really know our cost structure? Do we have the right strategies, management, people and processes to stay competitive?
5. Can outsourcing be a core piece of the business strategy that lets the organisation achieves its desired results?
6. Do we have the data to identify potential areas that may be candidates for outsourcing?

These basic questions must be asked and answered by the executive team in order to establish a strategy based on facts and on the needs of the organisation. Otherwise, decisions on outsourcing will have a high probability of failure. In the absence of executive management commitment and active participation, organizations may end up outsourcing problems instead of solutions.

4.3.4.3 Tactical Reasons

Tactical reasons for outsourcing failure are as important and as crucial as strategic reasons. The tactical reasons include: lack of a project implementation methodology, lack of joint participation in project implementation, lack of performance measurement and lack of clarity in outsourcing outcomes.

4.3.4.3.1 Project Implementation Methodology

Other than the ongoing management of the outsourced application, the most important operational aspect of the entire outsourcing process will be the implementation or startup process. Key to the success of outsourcing is implementing the project successfully within the targeted schedule and without sacrificing productivity during the start-up operations.

Several critical activities must be effectively coordinated at the start-up stage to ensure a harmonious partnership. As the business model of each company is different, the outsourcing project implementation process will be unique to every company. However, the key to the success of the project lies in partnering with the selected 3PL to develop a project implementation plan that will ensure smooth implementation and gainful partnership. The objective behind this activity is to minimize the learning curve and maximize the productivity during the start-up stage and to eliminate initial hiccups due to cultural differences between two organizations. Firms must develop and follow a detailed project implementation plan and conduct periodic reviews to make sure everything is on track. One thing to watch out for is changed expectations from either party. Even minor changes in the project plan could throw the whole project off track and even affect the customized solution being devised and offered by the 3PL.

Outsourcing is often described as a marriage of convenience between two organizations to achieve competitive advantage by focusing on core activities and outsourcing non-core activities. Many outsourcing companies believe that by outsourcing the project, their job is over and it is the responsibility of the service provider to make sure that the project is implemented successfully. In the current survey 44% of participants indicated that the customers do not actively participate in the project implementation (see Figure 4.10).

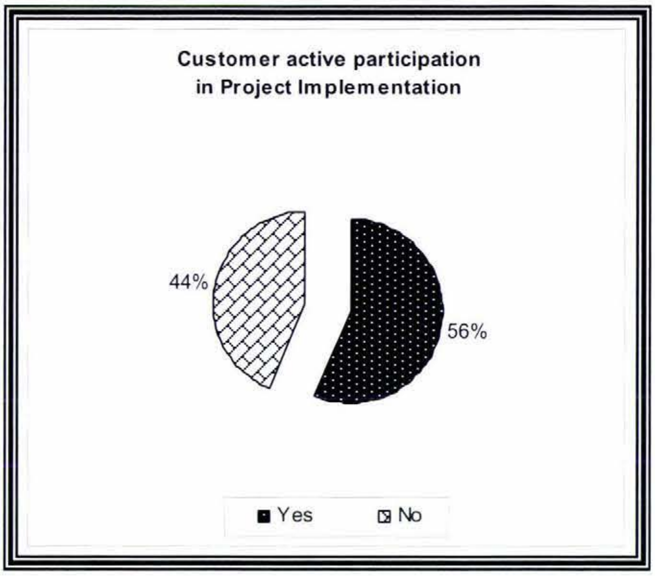


Figure 4.10 Customer participation in logistics outsourcing project implementation

In response to a question on reasons for logistics outsourcing failure, 6.94% (table 4.6) of survey participants indicated that lack of joint participation is one of the reasons for outsourcing failure. Lack of active participation at the project implementation stage could lead to a longer implementation period, lower levels of customer service, cost over-runs and lower productivity levels, inevitably leading to serious doubts about the merits of the outsourcing project.

4.3.4.3.2 Dedicated Team for Project Implementation

Ideally the project implementation should be handled by a group of individuals from the outsourcing company and the service provider to implement the outsourced project within the targeted schedule. In some organizations they are called the transition team. This team should be headed by executive sponsors from both sides to resolve potential friction points. As the project implementation stage is the most critical stage in the overall outsourcing process, it needs particular care and attention. Many outsourcing companies believe that the responsibility for implementing the project lies with the service provider. According to the current survey, participants indicated that only 34% (on average) of their customers deploy dedicated project implementation teams (see Table 4.5).

Table 4.5 Survey Participants' Response to Customer Participation in Project Implementation

Participants	%*
P 1	0%
P 4	0%
P 8	5%
P 13	5%
P 3	7%
P 6	10%
P 10	10%
P 2	15%
P 7	20%
P 16	25%
P 9	45%
P 14	50%
P 15	50%
P 5	60%
P 18	80%
P 17	90%
P 12	100%
P 11	No Answer

* Percentage of customers deploying dedicated Project implementation teams.

In response to question 7 of the questionnaire only three of the 18 participants said that more than 80% of their customers deploy dedicated project management teams. Eleven participants indicated less than 50% of customers deploy dedicated project management teams, with seven participants indicating that ≤10% of customers did so.

This shows that the majority of the outsourcing organizations do not deploy dedicated in-house team members for implementing projects. This could be a recipe for disaster, as lack of in-house knowledge at the time of project implementation could lead to outsourcing failure. 4.17% (Table 4.6) of the survey participants said as much, identifying lack of dedicated resources as a likely cause of outsourcing failure.

Outsourcing is a business tool which, like all tools, must be used properly to achieve the desired results. Managers that define the process as a one-dimensional strategy will inevitably fail. Effective implementation requires a tailored solution. One size does not fit all. Successful businesses convert solutions into results, with a dedicated team of professionals responsible for project implementation.

4.3.4.3.3 Continuous Performance Measurement

It is a proven fact that "what we measure is what we get". Today's management measures performance on a continuous basis to achieve sustainable competitive advantage through continuing improvements. It is very clear that unless one measures performance, it difficult to establish whether it is good, better, the best or even worse than before.

In order to determine whether outsourcing is a success or a failure, one has to continually measure the performance of the service provider on agreed terms (key performance indicators -- KPIs). Some organizations consider performance measurement as a critical task and measure the performance of the service provider on a daily basis. Some prefer to do it once a month, others once a quarter. The most popular method is known as quarterly business reviews (QBR). Some top Fortune 500 companies such as Microsoft (Software division) prefer to religiously measure performance on a daily basis. Ideally, outsourcing organisations should develop KPIs for all three categories (daily, monthly and quarterly).

In response to a question on reasons for outsourcing failure, 1.39% (table 4.6) of respondents indicated that lack of a scientific performance measurement system is one of the reasons for outsourcing failure. In response to another question the survey participants indicated that 50% of their customers measure performance on daily basis, 39% on a monthly basis and 11% on a quarterly basis (see Figure 4.11). This reflects the importance of performance measurement in an outsourced environment.

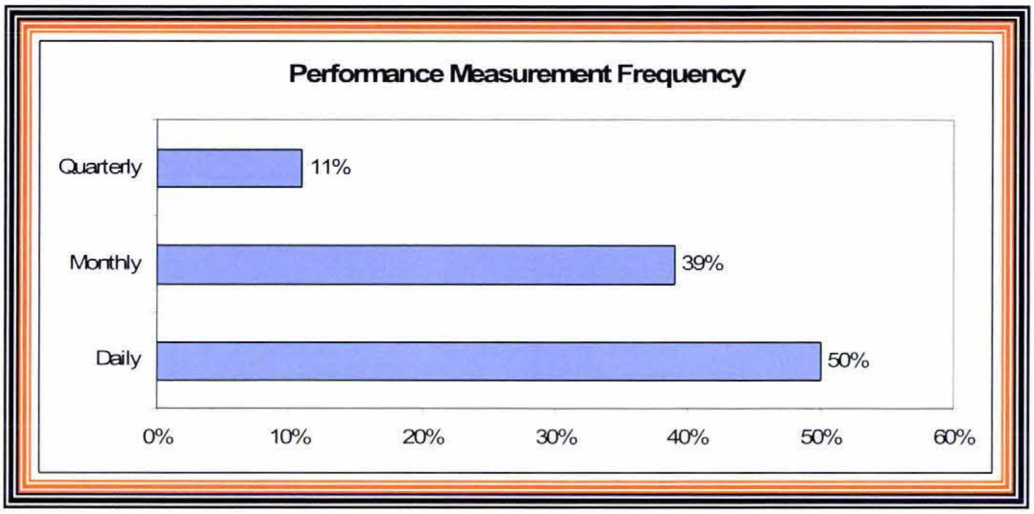


Figure 4.11 Performance Measurement Frequency

The most critical task during the start-up phase is developing performance measurements and reporting methods. The outsourcing organisation must take initiative to design measures that support the company's business goals for the outsourcing strategy. Absence of an efficient performance measurement system will also directly contribute to the downfall of outsourcing initiatives. The five studies published by the Council of Logistics Management on the subject of performance measurement in logistics had three significant findings in common.

1. Most firms do not comprehensively measure logistics performance.
2. Even the best performing firms fail to realize their productivity and service potential illustrated by logistics performance measurement.
3. Logistics competency will increasingly be viewed as a competitive differentiator and a key strategic resource for the firm. (Anonymous, 2001)[196]

4.3.4.3.4 Customers Not Clear About Outsourcing Outcomes

The second hypothesis clearly establishes that 50% of outsourcing companies are not clear about outsourcing outcomes. The lack of clarity with regard to deliverables creates a gap between expectations and performance, which leads to dissatisfaction and ultimately to outsourcing failure. It is essential to establish clarity with regard to outsourcing outcomes in order to develop a transparent outsourcing process that lasts for the targeted life cycle.

Outsourcing is a risky proposition, in some cases a leap of faith, as organizations move people, processes and functions to an outside agency hoping that everything will fall into place. In the absence of clarity on outsourcing outcomes, this can turn into a blind exercise. The current survey (Table 4.6) reveals that 6.94% of participants identify a lack of strategy and clear expectations of deliverables as one of the key reasons for outsourcing failures. Further, 5.56% of participants believed that unrealistic expectations would lead to outsourcing failures. Unrealistic expectations surface due to an unclear understanding of outsourcing outcomes. Sometimes a change of plan midway through the outsourcing process will also create a misunderstanding between the outsourcing company and the service provider and lead to outsourcing failure. 5.56% (Table 4.6) of participants in the survey felt this is one of the reasons for failure of outsourcing contracts.

4.3.4.4 Operational Reasons

The last but not least reason for outsourcing failure could be operational inefficiencies. In order to find out what difficulties affect the logistics outsourcing process the author asked the survey participants to state the reasons for outsourcing downfalls (answers shown in Table 4.6).

Any relationship will fail if it is not managed properly, and an outsourcing relationship is no different It was proved through this research that 3PL operators are as equally responsible as outsourcing companies for outsourcing failures. Problems are created when outsourcing companies enter into a relationship too quickly without fully understanding the issues at hand. But 3PL companies can also create unnecessary difficulties because they often want to close contracts hastily without understanding the customer expectations and business processes that are critical to success of any outsourcing contract. The research findings are in line with this argument.

Table 4.6 Reasons for Logistics Outsourcing Failure

Reasons for Logistics Outsourcing Failure	%
3PL Inefficiency	16.67%
Others	15.28%
Lack of Project Plan & Poor Project Implementation	9.72%
Lack of Current Business Process & documentation	8.33%
Cost reasons	6.94%
Lack of joint participation	6.94%
Lack of Outsourcing Strategy & Clear expectations of deliverables	6.94%
Change of Scope	5.56%
Unrealistic Expectations	5.56%
Lack of dedicated resources	4.17%
Poor Communication	4.17%
Lack of Executive Commitment	2.78%
Lack of trained staff	2.78%
Dispute - Rules of Engagement	1.39%
Lack of Scientific performance measurement system	1.39%
Loss of Control	1.39%

Thus, 3PL companies can be equally responsible for outsourcing contracts failure. From the outsourcing company's perspective, a lack of outsourcing strategy, a structured process, a project implementation methodology and active participation by the outsourcing company in project implementation are the reasons for a downfall.

The survey conducted by CAPGEMINI and Georgia Institute of Technology (2006)[138] has identified nine areas of improvement for 3PL companies, indicating that 3PL companies are equally responsible for outsourcing failure. The nine areas of improvements are listed in Table 4.7.

Table 4.7 Areas of improvement by third party logistics service providers

Areas for 3PL provider to improve	All Regions %
Service level commitments not realized.	51%
Lack of ongoing improvements and achievement in offerings	45%
Information Technology capabilities not sufficient.	38%
Cost reductions have not been realized.	36%
Lack of Project Management skills	36%
Unsatisfactory transition during implementation stage.	28%
Lack of consultative/knowledge based skills	24%
Inability to form meaningful and trusting relationships.	16%
Lack of global capabilities	16%

Source: CAPGEMINI and Georgia Institute of Technology survey 2006 [138]

Logistics outsourcing is very prevalent in China. The findings of a survey conducted by Kwok Hung Lau (2006)[197] with regard to major obstacles of logistics outsourcing is no different from that of CAPGEMINI and the survey findings of this author. Two of the major grievances common to participants in both surveys (indicated in Table 4.8 below) are dissatisfaction over service levels provided by the 3PL operators and a failure to realize the projected cost reductions. Other grievances include a lack of ongoing improvements, a lack of project management skills, poor IT capabilities and a lack of other infrastructure strengths.

Table 4.8 Reasons for Outsourcing Failure in China

Major obstacles and problems	Challenges
Lack of capable service providers	Less than expected service quality Failure in realizing expected cost reduction or capital investment reduction Hindrance to further outsourcing of activities
Loss of control	Inconsistent service quality Inefficiency in communication
Poor transportation and IT infrastructure	Higher logistics costs Unreliability in pickup and delivery time Higher rate of loss and damage of goods Poor customer service
Local protection regulations	Higher logistics cost and damage rate Limitation in choices of suppliers
Lack of overall post-outsourcing review	Failure in knowing if the outsourcing process is working as planned Failure in identifying areas of improvements or changes

A survey conducted in Europe by Richard Wilding (2004)[198] revealed that the majority of respondents did not renew contracts with 3PL companies mainly due to service level failures and cost reasons, as indicated in Table 4.9.

Table 4.9 Reasons for Outsourcing Failure in Europe

Reasons	Citing per cent of companies
Service and quality issues: poor performance, poor service, customer service problems	68
Cost issues	52
Trust and communication problems: poor information flow, relationship breakdown, failure to reach an agreement, culture, inability to help in a crisis situation	10
Change management: inability to adapt with changes, lack of innovation	8
Strategic decisions: decision to go in-house, centralisation of distribution	4
Poor management	4
Competing offer	2
Financial instability	2
No value added	2
Acceptability of trade credit	2

If we analyze the responses provided by the current survey participants, it is evident that some of the main reasons for outsourcing downfall are poor customer service levels, lack of expertise and poor project management skills. Beyond all these factors, ineffective customer relationships and poor interface with customers lead to outsourcing downfall.

4.3.4.5 Beyond above reasons

Based on long years of work experience and research, the author has concluded that most of the 3PL relationships go through four critical stages: Courtship, Battleship, Hardship and finally Partnership as shown in Figure 4.12.

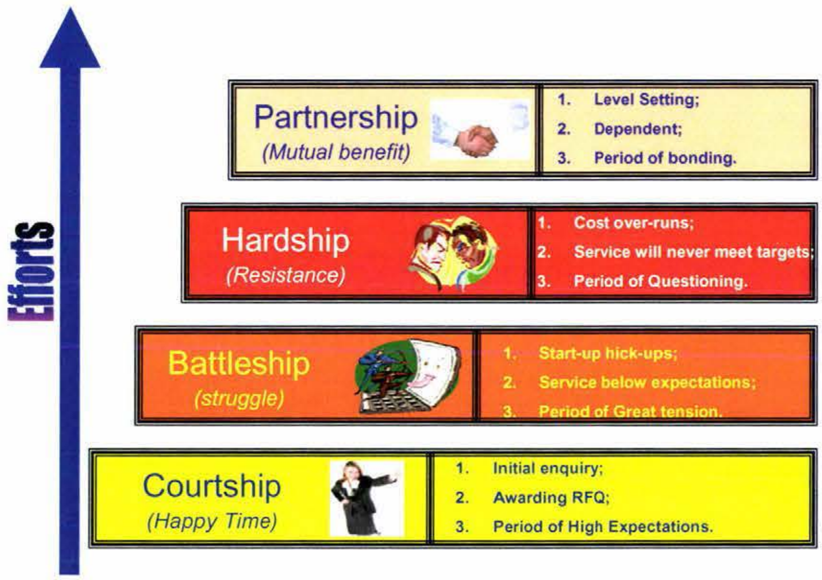


Figure 4.12 Incremental pathway to partnership

Courtship is the happiest time. During this period, activities such as the initial enquiry, RFQ, site visits and award of contracts happen, and both sides tend to have high expectations. As and when the relationship enters the second stage, battle, the real struggle starts with tensions caused by start-up hiccups and service levels that are below expectations. The next stage, hardship, can be a period of resistance and questioning due to cost overruns and service related challenges. At this stage both parties involved in the process have to make extraordinary efforts to convert the relationship into a partnership. However, very few organizations have the foresight and strategic objectives to make the extraordinary effort to convert the relationship into a partnership and thereby ensure the success of outsourcing initiatives.

4.3.4.6 Outsourcing an Innovative Solution

Beyond any doubt logistics outsourcing is an innovative solution that enables organizations to focus on their core competencies, contributes towards cost savings, cycle time improvement and productivity improvement, which fulfils organizational objectives of sustainable competitive advantage. There are several surveys published in support of this fact. However, for the purpose of this research, the results published by CAPGEMINI and Georgia Institute of Technology (2006)[138] will be used to establish that logistics outsourcing is an innovative and effective long-term solution.

Table 4.10 Outsourcing Outcomes

Quantifiable Measures of 3PL Success					
Cost/Benefit	All Regions	North America	Western Europe	Asia-Pacific	Latin America
Logistics cost reduction	11.5%	9.9%	11.4%	13.7%	11.7%
Fixed logistics asset reduction	20.0%	12.7%	21.9%	21.8%	36.6%
Average order-cycle length change (days)	From 12.7 to 9.7	From 11.0 to 8.4	From 10.2 to 6.5	From 15.7 to 13.9	From 15.9 to 10.0

Source: CAPGEMINI and Georgia Institute of Technology Survey (2006)[138]

It was clearly established through hypothesis one that the major objective of outsourcing is to save costs and reduce fixed assets. The above findings clearly establish that on average 11.5% in cost savings are achieved across all regions (from 9.9% in North America to 13.7% in the Asia Pacific region). As the Asia Pacific region is identified as a growth region by several researchers in the areas of logistics outsourcing, there is no surprise in the findings published by the above-mentioned survey.

Fixed asset reduction is the second biggest improvement achieved through logistics outsourcing. As outsourcing logistics activities eliminate investment in the areas of fixed assets for logistics activities (such as warehouses, equipment and technology) one could see a noticeable 20% reduction on average with a 36.6% reduction coming from Latin America.

One of the primary objectives of outsourcing is to focus on core functions and outsource non-core functions to specialists. This objective is translated into results by reducing the cycle time by three days across all regions on average. Almost six days' (5.9 days) savings are reported from Latin America. Reduction in cycle time results in improved customer satisfaction, which in turn is translated to an increase in sales and improved profitability.

Any innovation can be treated as a solution as long as it delivers improvements in the targeted areas. In the case of logistics outsourcing, areas of improvement targeted include cost savings, customer satisfaction improvement, top line revenue growth and bottom line profitability increase.

A worldwide increase in volume of logistics expenditure targeted toward outsourcing is an indication that logistics outsourcing is an effective solution that results in targeted improvements. Figure 4.13, published by the

CAPGEMINI (2006)[138] survey, establishes beyond doubt that more and more logistics activities are now outsourced worldwide than ever before.

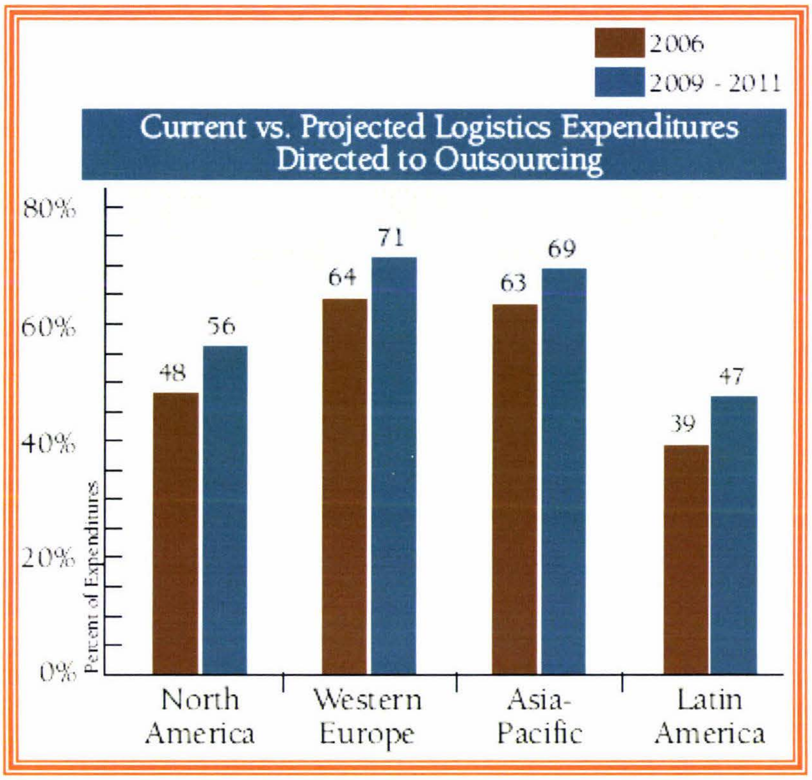


Figure 4.13 Logistics Outsourcing Project Growth

Source: CAPGEMINI (2006)[137]

4.4 Conclusions

Outsourcing logistics activities to a 3PL company has been a means of leveraging economies of scale and tapping into a logistics infrastructure which includes IT systems, human resources and knowledge base that deliver increased robustness to a company's logistics and supply chain operations. Logistics outsourcing has improved productivity and significantly reduced costs in many instances.

The success of partnerships with 3PLs requires a combination of trust and collaboration; thus strategic alliances are nowadays called collaborative alliances. Trust determines the level of flexibility an organization can allow the 3PL in managing the operations to a level which exceeds the outsourcing organization's abilities. In order to achieve the agreed performance and cost goals, it is necessary to have a partner who can deliver best of the breed solutions. Therefore, it would be wise for outsourcing companies to acknowledge the abilities of the 3PL, agree on a mutually beneficial business arrangement, and trust that the 3PL will do what is in their best interest.

The outsourcing solution reduces costs, creates value and offers strategic opportunities. Balancing these opportunities with associated costs and risks is the principal goal of outsourcing non-core activities to a third party logistics service provider.

In January 2005, *Eye for Transport* conducted a survey in North America on "Outsourcing Logistics – The latest trends in using 3PL providers"[199]. This reports that 65% of the respondents believe that the 3PL performance is good, 12% felt that the performance was higher than expected and 4% reported that it was outstanding.

On this optimistic note the author would like to conclude with a quote on outsourcing from Mr. Tom Peters, (U.S. management guru) "Do what you do best and outsource the rest." Anonymous (2005) [200]

5. Future Research

One can easily find articles and surveys in the areas of outsourcing benefits and outsourcing trends. It is very difficult to find research material in the area of reasons for outsourcing failures. As logistics outsourcing is becoming more and more popular worldwide, it is necessary to conduct more frequent research on the reasons for failure. This research is based on a survey conducted with service providers. It would be interesting to analyze the feedback of outsourcing companies on reasons for outsourcing failures.

The 4PL is an integrator that assembles the capital, technology and resources of its own organization and other organizations to design, build and run supply chains for outsourcing organizations. The typical 4PL would eliminate complexity, share benefits of scale and capital and can drive innovation due to its overall view. In other words, a 4PL manages other 3PLs. In the age of 4PL and 7PL, it would be interesting to investigate the outcomes of 4PL supervision of 3PL performance and examine it's impact on outsourcing contracts. It would be interesting to analyze outsourcing results in a controlled and supervised atmosphere where 4PL manages outsourcing operations on behalf of the customer. The role of 4PL is evolving because of 3PL failed to deliver successful outsourcing solutions to the business community. Next phase of research could focus on 4PL's role in outsourcing and outcomes of outsourcing through a 4PL operator.

Appendix 1: Logistics Outsourcing Questionnaire

Name:

Job Title:

Organisation Name:

1. Do you think customers use a structured process in driving the outsourcing decision?

   ☐ Yes ☐ No

2. Do you think that your customers are clear about what they want with regard to end result of outsourcing?

   ☐ Yes ☐ No

3. Have you come across any of your customers using external consultants in selecting 3PL service providers?

   ☐ Yes ☐ No

4. According to you who are involved in outsourcing decision making within your customer's Organisation?

   4.1.
   4.2.
   4.3.
   4.4.
   4.5.

5. What are the possible three reasons for outsourcing Logistics activities by your customers?

   5.1.
   5.2.
   5.3.

6. Do you think your customers engage actively in Project implementation activity?

   ☐ Yes ☐ No

7. What percentage of your customers deploys dedicated team to implement logistics outsourcing project?

8. Do you use any scientific methodology in estimating costing for the project?

   ☐ Yes ☐ No

   Methodology used:

   If your answer is "Yes", can you indicate the name of the methodology such as ABC etc.?

9. How important is legal documentation in managing customer relationship in a Logistics outsourcing environment?

   ☐Very important; ☐ Important; ☐ Not important

10. How often the project performance is measured by your customer?

    ☐ Daily; ☐ Monthly; ☐ Quarterly; ☐ Half Yearly; ☐ Yearly.

11. What could be the possible reasons for Logistics outsourcing downfall?

    11.1.
    11.2.
    11.3.
    11.4.
    11.5.

12. How often does your top management meet your customers to understand the project health?

    ☐ Very Often; ☐ Regularly ☐ Once a year; ☐ Not involved on regular basis.

13. What could be the average life span (in years) of Logistics outsourcing contract?

    One Year

Appendix 2: Answers to Logistics Questionnaire

1. Do you think customers use a structured process in driving the outsourcing decision?

% of Yes	61%
% of No	39%

2. Do you think that your customers are clear about what they want with regard to end result of outsourcing?

% of Yes	50%
% of No	50%

3. Have you come across any of your customers using external consultants in selecting 3PL service providers?

% of Yes	83%
% of No	17%

4. According to you who are involved in outsourcing decision making within your customer's Organisation?

Authority	Count	%
Executive Management	12	24%
Others	10	20%
Supply Chain & Logistics	10	20%
Finance & Accounts	8	16%
Procurement	5	10%
Consultants	3	6%
Customer Service	3	6%
Total responses	51	

5. What are the possible three reasons for outsourcing Logistics activities by your customers?

Outsourcing Objectives	%
Cost Savings	30.19%
Focus on Core Competencies	18.87%
Customer Service Enhancement	15.09%
Operational Efficiency	13.21%
Flexibility	5.66%
Move from F Over heads to V Cost Structure	5.66%
Capital Investment Reduction.	3.77%
Access to Technology	1.89%
Avoid Union exposure	1.89%
Order to delivery cycle time improvement	1.89%
Others	1.89%

6. Do you think your customers engage actively in Project implementation activity?

% of Yes	56%
% of No	44%

7. What percentage of your customers deploys dedicated team to implement logistics outsourcing project?

Average	34%
Min	0%
Max	100%

8. Do you use any scientific methodology in estimating costing for the project?

% of Yes	78%
% of No	22%

9. How important is legal documentation in managing customer relationship in a Logistics outsourcing environment?

Very Important	61%
Important	28%
Not Important	11%

10. How often the project performance is measured by your customer?

Daily	50%
Monthly	39%
Quarterly	11%

11. What could be the possible reasons for Logistics outsourcing downfall?

Reasons for Logistics Outsourcing Failure	%
3PL Inefficiency	16.67%
Others	15.28%
Lack of Project Plan & Poor Project Implementation	9.72%
Lack of Current Business Process & documentation	8.33%
Cost reasons	6.94%
Lack of joint participation	6.94%
Lack of Outsourcing Strategy & Clear expectations of deliverables	6.94%
Change of Scope	5.56%
Unrealistic Expectations	5.56%
Lack of dedicated resources	4.17%
Poor Communication	4.17%
Lack of Executive Commitment	2.78%
Lack of trained staff	2.78%
Dispute - Rules of Engagement	1.39%
Lack of Scientific performance measurement system	1.39%
Loss of Control	1.39%

12. How often does your top management meet your customers to understand the project health?

Very Often	22%
Regularly	67%
Yearly	11%

13. What could be the average life span (in years) of Logistics outsourcing contract?

Average	2 Years
Minimum	1 Year
Maximum	3 Years

9 Participants have indicated 3 Years; 3 Participants have indicated 2 years and 4 Participants have indicated 1 year as length of the contract and 2 participants have not answered this question.

Appendix 3: Table showing the actual answers provided by the survey participants vs. Rationalized Answers

Survey Question 4 - According to you who are involved in outsourcing decision making within your customer's Organisation?

Participant Code	Reasons for outsourcing as indicated by survey participants	Rationalized Answers
P 1	MD Finance Sales & Marketing Purchasing Supply Chain / Warehouse / Logistics	Executive Management Finance & Accounts Others Procurement Supply Chain & Logistics
P 2	Accountants Supply Chain Managers Consultants	Finance & Accounts Supply Chain & Logistics Consultant
P 3	GM or Owner CFO/Financial controller Logistics or Purchasing Managers	Executive Management Finance & Accounts Supply Chain & Logistics
P 4	CEO or Business Manager of the Business Unit	Executive Management
P 5	Supply Chain Managers Procurement Finance General Managers	Supply Chain & Logistics Procurement Finance & Accounts Executive Management
P 6	Logistics managers Managing directors Consultants Operation managers General managers	Supply Chain & Logistics Executive Management Consultant
P 7	Overseas Parent Company General Management team Finance Section	Executive Management Finance & Accounts
P 8	Senior Management Logistics Staff Customer Services IT	Executive Management Supply Chain & Logistics Customer Service Others
P 9	Senior Management Supply Chain Manager Board of Directors	Executive Management Supply Chain & Logistics
P 10	Sales Staff	Others

	New Business Development IT Customer Services Account Managers	Others Others Customer Service Others
P 11	Client Customer Consultant Us	Consultant
P 12	CEO/MD Procurement Directors Operations Directors Sales Directors (lesser extent)	Executive Management Procurement Others
P 13	CEO Management	Executive Management
P 14	Finance HR Procurement Business Users Materials	Finance & Accounts Others Procurement Others Others
P 15	Supply Chain Manager Procurement Manager Warehouse Manager	Supply Chain & Logistics Procurement
P 16	Finance organisations Supply Chain organisations Executive management	Finance & Accounts Supply Chain & Logistics Executive Management
P 17	Senior Level Managers	Executive Management
P 18	SVP Supply Chain Chief Logistics Officer CFO SVP Operations SVP Customer Service/Sales	Supply Chain & Logistics Finance & Accounts Customer Service

Appendix 4: Table showing the actual answers provided by the survey participants vs. Rationalized Answers

Survey Question 5 - What are the possible three reasons for outsourcing Logistics activities by your customers?

Participant Code	Reasons for outsourcing as indicated by survey participants	Rationalized Answers
P 1	Cost savings Service levels Efficiency	Cost Savings Customer Service Enhancement Operational Efficiency
P 2	Costs per transaction Service offering Flexibility in solutions	Cost Savings Customer Service Enhancement Flexibility
P 3	CAPEX issues Core business focus Cost	Capital Investment Reduction. Focus on Core Competencies Cost Savings
P 4	Economics Improved reliability Reduced losses / damages	Cost Savings Customer Service Enhancement Operational Efficiency
P 5	Better service delivery - experts in the service Cost effectiveness Outsource the headaches - it vis not their core business - companies now focus more on brands and marketing	Customer Service Enhancement Cost Savings Focus on Core Competencies
P 6	Cost savings Service levels Strategic reasons	Cost Savings Customer Service Enhancement Focus on Core Competencies
P 7	Focus returning to core business activity Organisation has no competency in logistics and performs function poorly Profitability	Focus on Core Competencies Operational Efficiency Cost Savings
P 8	Cost Flexibility Capacity	Cost Savings Flexibility Operational Efficiency

P 9	Concentrate on their core business Cost efficiency Warehouse efficiency	Focus on Core Competencies Cost Savings Operational Efficiency
P 10	Visibility Space not available in offices Access to website ordering by reps	Others Operational Efficiency Access to Technology
P 11	Client concentrating more on selling their products Service Cost	Focus on Core Competencies Customer Service Enhancement Cost Savings
P 12	Reduce Union exposure Benefits of Multi purpose warehousing Reduced capital investment	Avoid Union exposure Move from F Over heads to V Cost Structure Capital Investment Reduction.
P 13	Reduce costs Improve service levels	Cost Savings Customer Service Enhancement
P 14	Improve cost of operations Focus on core competencies Improve customer satisfaction and experience	Cost Savings Focus on Core Competencies Customer Service Enhancement
P 15	Cost saving Improve resource efficiency Concentrate on core business	Cost Savings Operational Efficiency Focus on Core Competencies
P 16	Make the costs variable Reduce the costs Run an up-to-date supply chain model by benefiting of the LSP's knowledge over the market.	Move from F Over heads to V Cost Structure Cost Savings Focus on Core Competencies
P 17	Reduce Cost Lead time Reduction Flexibility	Cost Savings Order to delivery cycle time improvement Flexibility
P 18	Focus on core activities like product development/marketing/sales Move from fixed cost to variable cost structure Utilize cost efficiencies of multi-client networks	Focus on Core Competencies Move from F Over heads to V Cost Structure Cost savings

Appendix 5: Table showing the actual answers provided by the survey participants vs. Rationalized Answers

Survey Question 11 - What could be the possible reasons for Logistics outsourcing downfall?

Participant Code	Reasons for outsourcing as indicated by survey participants	Rationalized Answers
P 1	Communication break down Incorrect information and therefore assumptions Unrealistic service expectations The service level targets / goal posts get moved	Poor Communication Lack of Current Business Process & documentation Unrealistic Expectations Change of Scope
P 2	3PL lack of care 3PL lack of initiative	3PL Inefficiency 3PL Inefficiency
P 3	Misunderstanding of the offering from the LSP Customer disengagement from the activity Poor communication by the customer Poor tender or RFP data	Others Lack of joint participation Poor Communication Lack of Current Business Process & documentation
P 4	Unrealistic customer expectations Overly competitive market (opposition over promising) Poor performance (not in our case of course)	Unrealistic Expectations Others 3PL Inefficiency
P 5	Poor implementation Poor IT solution Poor management team running contract Ineffective customer relationship and interface Lack of innovation and continuous development	Lack of Project Plan & Poor Project Implementation Others 3PL Inefficiency 3PL Inefficiency 3PL Inefficiency
P 6	Lack of product knowledge Poor implementation Not enough information from client Lack of resource Not clearly defined SLA's	Lack of trained staff Lack of Project Plan & Poor Project Implementation Lack of Current Business Process & documentation Lack of dedicated resources Lack of Outsourcing Strategy & Clear expectations of deliverables

P 7	Poor implementation by 3PL provider Inadequate qualification of opportunity Rush to "market" to implement Unreal expectations from client Changing market conditions	Lack of Project Plan & Poor Project Implementation Lack of Current Business Process & documentation Lack of Outsourcing Strategy & Clear expectations of deliverables Unrealistic Expectations Change of Scope
P 8	Unclear deliverables and responsibilities Inaccurate initial data provision Poor communication	Lack of Outsourcing Strategy & Clear expectations of deliverables Lack of joint participation Poor Communication
P 9	Poor relationship management Poor work ethics by staff Training Lack of urgency Poor leadership in supply chain	Lack of joint participation Others Lack of trained staff Lack of Project Plan & Poor Project Implementation Lack of Executive Commitment
P 10	Service Failures FIFO Missing Stock Time Sensitivity Supplier let down - Courier	3PL Inefficiency Others 3PL Inefficiency Lack of Project Plan & Poor Project Implementation 3PL Inefficiency
P 11	Redundancy Competition	Others Others
P 12	Reduced controls Potential to factory gate price structure	Loss of Control Cost Reasons
P 13	Poor performance Lack of expertise No $'s in it for the supplier	3PL Inefficiency 3PL Inefficiency Cost reasons
P 14	Lack of executive sponsorship In definitive roadmap and timeline Dedicated resource for project implementation from client Outsourcing budget Change in scope during implementation or inability to foresee change in business trends that negatively impact implementation or business scope	Lack of Executive Commitment Lack of Project Plan & Poor Project Implementation Lack of dedicated resources Cost reasons Change of Scope

P 15	Withdraw the project by the customer Can not meet customer's target on cost saving System constraint Dispute on contract terms and conditions	Others Cost reasons Others Dispute - Rules of Engagement
P 16	Absence of a clear definition of the business requirements Absence of a very good knowledge of the business processes in the client's organisation No recognition of the need for: an implementation period + real tests (UAT) + a learning curve. Bad anticipation of the volumes No clear agreement on the IT solution (clear definition of the interfaces, clear definition of the reporting,...)	Lack of Outsourcing Strategy & Clear expectations of deliverables Lack of Current Business Process & documentation Lack of Project Plan & Poor Project Implementation Others Others
P 17	Lack of Customer Involvement Non Performance of 3PL Scope change from Original Agreement Insufficient Savings realized by Customer Unrealistic Customer Expectations	Lack of joint participation 3PL Inefficiency Change of Scope Cost reasons Unrealistic Expectations
P 18	Unclear goals of outsourcing - primary cost cutting focus Inability to work closely with 3PL to develop the solution Insufficient project management on customer side Poor understanding of existing business and processes Imposing existing processes on 3PL rather than measuring to the agreed upon KPIs.	Lack of Outsourcing Strategy & Clear expectations of deliverables Lack of joint participation Lack of dedicated resources Lack of Current Business Process & documentation Lack of scientific performance measurement system

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