

ANTON OGORELC, Ph.D.
 E-mail: anton.ogorelc@uni-mb.si
 University of Maribor, Faculty of Economics and Business
 Razlagova 14, SI-2000 Maribor, Republic of Slovenia

Transportation Economics
 Review
 Accepted: Oct. 10, 2005
 Approved: Oct. 5, 2007

OUTSOURCING OF TRANSPORT AND LOGISTICS SERVICES

ABSTRACT

The author presents the results of the research in five parts, which are interconnected. After the introduction, in part two, entitled A Framework for Logistics Outsourcing Decisions, theoretical characteristics of outsourcing are presented. Part three, Core Competences and Outsourcing, describes the logistics competences. Part 4, Transport and Logistics Outsourcing in Europe, discusses the trends in logistics development and outsourcing. The paper will assist managers responsible for the development of logistics strategies. The paper offers a unique buyer-supplier partnership framework by proposing that the logistics outsourcing will increase the competitive advantage of manufacturing firms.

KEY WORDS

logistics outsourcing, logistics providers (TPL providers), core competences, transport and logistics outsourcing in Europe

1. INTRODUCTION

Outsourcing is the delegation of one or more business processes or functions to an external provider who, in turn, owns, administers and manages the selected process(es) or functions based upon defined and measurable performance metrics. It is an agreement in which one company contracts-out a part of their existing internal activity to another company.

Outsourcing has become increasingly popular in recent years, and is often quoted as a means of coping with rapid changes in technology and in the business environment. With outsourcing firms want to increase their long-term competitiveness. As today's global markets continue to increase in complexity, leading companies are challenged to manage their logistics network while delivering operational excellence and high customer service levels.

Why has outsourcing become such an important factor in the present time? The concept of outsourcing is not new. What is relatively new is the concept of strategic outsourcing. In most companies, outsourcing has moved from tactical and immediate to strategic decisions (e. g. long-term production of entire product lines).

Rothery and Robertson (1996) have given a wider and general definition of outsourcing:

“Outsourcing really means finding new suppliers and new ways to secure the delivery of raw materials, goods, components and services. (It means that you) use the knowledge, experience and creativity of new suppliers which you did not use previously.”

Outsourcing has been one of the most important forms of organisational change in the last two decades. The concept is not new - contractual relationships dominated economic organisations prior to and during the industrial revolution.

In the 1990s the general idea of outsourcing gathered pace. An AT Kearney study 60% of corporations had outsourced some functions and this had grown to 90% by 1996 (see Burdon 2005). As the digital age gathers pace, an increasing trend to outsource services with digitised components or functions (Robinson 2004) is apparent.

Table 1 - History of outsourcing

1980s: tactical OUTSOURCING
Outsourcing of support services A response to a specific problem
1990s: STRATEGIC OUTSOURCING
Outsourcing gives wider control over all functions Focus shifted from 'supplier' to 'business partner'
2000s: TRANSFORMATIONAL OUTSOURCING
Using outsourcing to redefine the business Emphasis on the innovation and scale in cooperation with external partner

An additional concept is the term in-sourcing. We can distinguish three different angles of in-sourcing. At first, in-sourcing is the opposite of outsourcing through “sourcing in-house” - a company is supplied by internally produced goods and services. The company can also “insource something”, which means take-over of one or more activities previously carried out by the external (outsourcing) company. A third definition of in-sourcing is to describe what the supplier is actually

working with or what it carries out on behalf of the outsourced company (Augustsson and Bergstedt Sten, 1999, after Andersson and Thoresson, 2002).

Logistics outsourcing means transferring a firm's logistics functions and associated capabilities to specialised external services providers (ESL). Outsourcing transport and other logistics activities means that it is more rational to buy external logistics services than to operate in-house.

This study aims to present: 1) the holistic view of outsourcing logistics services; 2) the importance of logistics competences; and 3) the current status of logistics outsourcing in Europe.

The hypothesis can be defined as follows: outsourcing of transport and other logistics activities is a critical determinant of competitiveness which has an impact on a firm's market share, its total logistics costs and ultimately its profitability.

2. A FRAMEWORK FOR LOGISTICS OUTSOURCING DECISIONS

2.1 Business environment and logistics

Globalization, lead time reductions, customer orientation and outsourcing are some major changes contributing to this interest in logistics. Supply chain integration and the outsourcing of logistics services have become an important way for companies in their strive to develop competitive advantages.

Business networks are growing in importance and in networks the meaning of logistics as a factor of competitiveness continues to increase. Logistics activities have a major impact on the capabilities and profitability of the supply chain and its member firms. Logistics functions are key operating components of a company that require design and management consistent with corporate strategy and changing competitive environments.

There are several trends that have hit the manufacturing in the past several years. The main changes taking place in business logistics are:

- changes in the demand for freight transport,
- closer relationships with fewer suppliers,
- consolidation of the carrier base,
- smaller, more frequent, more reliable deliveries,
- exploitation of synergies between supply chains for different products,
- outsourcing of logistics to third party logistics managers,
- centralization and relocation of plants and distribution centres,
- more varied delivery patterns and product customisation,

- extensive use of IT to minimise stocks and optimise delivery patterns,
- more use of recycling, which has resulted in additional back-haul cargoes.

Achieving synergies between supply chains leads to the sharing of logistics equipment and transport services with other companies. Outsourcing of logistics to third party logistics managers allows companies to share distribution facilities.

The Internet and advances in technology are taking the logistics outsourcing marketplace to new heights. New technologies, such as radio frequency identification (RFID) are creating significant change in logistics performance and inventory control. Companies have long embraced the outsourcing of logistics components, but now many companies are reevaluating their logistics functions in light of the Internet, lean manufacturing, and other new developments.

The importance of logistics and transport as an environmental factor is considerable. Sustainable development demands that future transportation distances of goods are not extended and that management systems are efficient enough to combine thinner material flows effectively. In the future, profitable growth can be based on solutions of continuing growth only.

The third party logistics (TPL) provider business is developing as a result of the emerging market of advanced logistics services. The content of logistics services is increasing, new types of services are added and developed and the services are getting more complex. New firms from different fields are entering the market and traditional transport and warehousing firms have to develop new skills and competences.

2.2 Theoretical background

Outsourcing is the common answer to the "make-it-or-buy-it" question being asked by the manufacturing industry and the "do-it-ourselves-or-buy-it-in" question being asked by service firms (Rothery and Robertson 1996). Also, firms can outsource wholly or partially, that is, they can outsource the entire distribution process or only certain parts of it. The concept's main idea is that a company should focus on production of goods and/or carry out those activities that make it competitive.

Transaction cost economics (Coase, 1937) has been very helpful in explaining the make-or-buy decision by pointing at the influence of asset specificity and uncertainty.

More recently there have also been resource-based explanations (Quinn and Hilmer, 1994). However, the performance implications of outsourcing and its opposite of vertical integration are unclear. Recent studies favour either vertical integration or outsourcing or are inconclusive (see e. g. Mol, 2001).

The foundation of international outsourcing comes from the economic theory of competitive advantage. It is usually used in the context of international trade between countries, but it can also be used in the economics of international outsourcing. In addition, corporate globalisation has also been a strong driver behind outsourcing.

The argument for choosing outsourcing is the following: if the external company carries out the activities more efficiently than the outsourcing company, it should be allowed to carry out its activities anywhere in the world. This enables the outsourcing company to focus on core competences. By focusing on core competences, the company will, at least theoretically, enjoy more success on individual markets. The idea of focusing on core competences has long been recognized in the literature as strategic critical success factor in the long-term survival of any firm (Prahalad and Hamel, 1990).

More recently, some authors have begun to argue that the decision to outsource is strategic and should account for contextual factors both inside and outside of the firm's environment. Traditional thinking that core activities or competences should not be outsourced is beginning to be re-evaluated. Further, the importance of cost minimisation as the rationale for outsourcing is also being challenged. To date, however, there has been limited empirical analysis of the importance of internal characteristics and resources along with external components of change as determinants of the outsourcing decision.

Decisions for outsourcing are some of the most difficult as well as strategically the most important to make. Figure 1 illustrates the basic framework that can be used to make a decision about logistics outsourcing.

Is logistics a critical success factor in this market?	Yes	Outsource functions, maintain control of process	Perform in-house
	No	Outsource	Spin off
		No	Yes
		Is logistics a core competency in the business?	

Figure 1 - A framework for logistics outsourcing decisions

Source: Christopher, 2002

The decision for outsourcing is based on consideration (1) how critical logistics performance is in a particular market and (2) if logistics represents core competency of a company. If the answer to both questions is "no" the decision for outsourcing is the best one.

However, when the logistics performance is a critical success factor in the market, and the organisation does not have a core logistics competence, then outsourcing with retention of control is necessary. This is important if the external provider can potentially build a direct relationship with the market. The risk of logistics outsourcing lies in the fact that the external provider could take over marketing functions.

When a company has a core logistics competency and the logistics is not a critical success factor, the company could use such an opportunity to gain larger economies of scale (spin-off). Furthermore, a company should perform in-house where logistics performance is critical.

2.3 Motivations behind outsourcing

Why manufacturing companies outsource? A number of benefits of outsourcing logistics functions are discussed in literature. In general, an underlying assumption being made in almost all of the publications is that outsourcing can by itself reduce costs of service and/or improve efficiency. It has been established that the logistics outsourcing improves the competitive position of the firm by rationalizing business activities and synergic effects. Transferring the logistics activities to the outsource supplier enables the firm to concentrate on its core competences. External logistics providers also facilitate cooperation in the supply chain.

There have been several studies that have examined the motivations for and benefits of outsourcing. Authors (e. g. Kakabadse and Kakabadse, 2000) report that the main reasons for outsourcing are:

- (1) economic – greater specialization in the provision of services, as outsourcing allows economies of scale and the longevity of demand for the activity;
- (2) quality – access to skills, the competency and focus of potential suppliers and geographical coverage is increased; and
- (3) innovation – improvements in quality through innovation, and the development of new service products can lead to new demands.

Outsourcing provides certain power that is not available within a company's internal departments. This power can have many dimensions: economies of scale, process expertise, greater capacity for flexibility, access to capital, access to expensive technology, etc. The combination of these dimensions creates the cost savings inherent in outsourcing, because the external supplier has the economy of scale, the expertise and

the capital investments in leading technology to perform the same tasks more efficiently and effectively than the outsourcing company.

Table 2 - Make or buy decision in logistics

Reasons to Make:	Reasons to Buy:
Core competences	Acquire quality source of services
Competitive issues	Lack of capacity
Inadequate supply	Lack of logistics knowledge
No capable suppliers	Management focus
Lower production cost	Avoid major investments
Specialization	Reduce logistics costs

The literature review showed that costs are the single most common reason for outsourcing. Using external producers, the company can lower its operation costs. They offer a lower price for carrying out services or products due to the economy of scale or other advantages based on specialization. It should be pointed out that companies, which insist on in-house production have high research, and marketing costs in developing of new products.

A negative side to outsourcing results from companies doing so simply because "everybody is doing it." They may be surprised by accompanying factors such as unexpected costs and complications, as well.

2.4 Levels of logistics outsourcing

There are five levels of logistics outsourcing in the range from 1PL to 5PL.

In-house logistics (1PL), or in-sourcing logistics. In-sourcing logistics is any logistics activity owned, managed and executed by a company's own in-house resources. The company owns the transport, warehouses and handling equipment, including staff to provide the logistics activities. The majority of small companies, which usually operate in one location, produce logistics services in-house.

Table 3 - Influence of external logistics provider on action variables

TRANSIT TIME REDUCTION	ACCELERATION OF LOADING AND UNLOADING PROCESSES BETTER CO-ORDINATION OF ROAD TRANSPORT SHIPMENTS BY RAILWAY
Price reduction	Rebates on rail price because of larger transport volumes Economies of scales effects on warehousing at the terminals
Shortening of tracking delay	Own tracking system Better integration with the railway management systems
Frequency	Improved frequency with additional shipments
Reliability	Flexible transport mode choice

When the business expands, also in geographical sense, logistics boundaries of the company expand as well. The company uses external logistics provider.

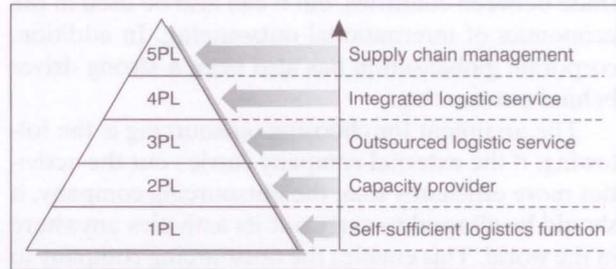


Figure 2 - Five levels of logistics outsourcing

Logistics service provider (LSP), or asset-based logistics (2PL) is the management of traditional logistics functions – transport, material handling, and warehousing.

Third party logistics (3PL/TPL), or forwarding logistics, or contract logistics. TPL in the original term means using external companies to perform logistics activities. External provider performs the entire logistics process or part of the corporate logistics activities on behalf of the shipper, such as transportation, warehousing, inventory management, etc.

3PL may be described as the same meaning as logistics alliance or strategic alliance, that is a close relationship between an outsourcing company and a logistics provider under long-period contract (Skjøtt-Larsen, 2000).

Fourth party logistics (4PL/FPL), or supply chain logistics, or lead logistics provider (LLP). This is a new business model, integrating resources, capabilities, and technology of the lead enterprise(s) to design, build, and run comprehensive supply chain solutions. 4PL is an evolutionary concept of 3PL for better service response, customisation, and flexibility.

The primary strength of a 4PL is the delivery of complex solutions on behalf of clients, who themselves may be part of the joint venture/management company. The buyer-supplier relationship is based on a detailed contractual agreement with a customised solution to a specific supply chain issue(s), and for best

results involves equity-based commercial arrangements.

Fifth party logistics (5PL) is developed to serve the e-business market. Those 3PL and 4PL providers manage all the parties in the supply chain on e-commerce. The key to success in this area is the information technology and system (see e. g. Bade et al., 1999).

3. CORE COMPETENCES AND OUTSOURCING

There is a large number of reasons and drivers behind the outsourcing process and why a manager or company should consider outsourcing one or several functions. Outsourcing creates opportunities for positive synergy by bringing the core competences of two companies together. In addition, corporate globalisation has also been a strong driver behind outsourcing.

To reduce the cost, which always accompanies complex procedures, the manufacturing industry continues to focus more intensely on their core competences. Most companies define their core business as the conceptual design, production, marketing/distribution and service. The manufacturers are interested in identifying the real value-added activities of their production process.

3.1 Core competences

A company's core competency is the one thing that it can do better than its competitors. A core competency can be anything from product development to employee dedication. If a core competency yields a long term advantage to the company, it is said to be a sustainable competitive advantage. Modern business theories suggest that most activities that are not part of a company's core competency should be outsourced.

The issue of competitive advantage is the core to the field of strategic management (Porter, 1985). However, most strategic management studies are concerned with obtaining competitive advantage through managing the output of the firm, e. g. its market position (Porter, 1980) or throughputs, for instance the knowledge stock of the firm (Grant, 1996).

The concept of core competences was developed in the management field. Prahalad and Hamel introduced the concept in a Harvard Business Review article (1990): a core competency is "an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity." Non-core competences can be defined as activities which, although important for running operations, are not an essential segment of production.

There are differences between individual competences or capabilities and core competences. Individual capabilities stand alone and are generally considered in isolation.

The relationship between developing core competences and outsourcing is critical —outsourcing is the tool that allows companies to focus on their core competences, enhancing productivity and delivering greater value to their customers. However, not all activities are candidates for outsourcing, and certain criteria must be considered when determining which activities to outsource.

According to Prahalad and Hamel a core competence has three characteristics:

- it provides potential access to a wide variety of markets,
- it increases perceived customer benefits, and
- it is hard for competitors to imitate.

Core competences are "skills" or "knowledge sets", not products or functions. Focus is on the intellectual skills that create a maintainable, yet temporary, competitive advantage. A core competence should also make a significant contribution to the perceived benefits as experienced by the customer of the product.

They do not "overlap" with production or business units and can be found in various areas. They connect the activities in the company (Rebernik 1998). Core competences can be found in the knowledge and experience of the staff. It is of vital importance for the company to keep such employees. This can be reached by ensuring appropriate possibilities for promotion and work conditions for the employees.

Core competences or processes have to be defined carefully. Those companies which have such core competences and skills that separate them from their competition are successful.

Companies must continually monitor their position relative to their core competences, and those of their competitors, as the value of their competences can be eroded by time and competition. Companies constantly benchmark, validate, and test their core competences. They need to continually invest in their competences to effectively compete in changing business environments.

The company's competitive strategy depends on the originality of a particular source or capability, which also has to be maintained. There are three possible approaches (Deloitte Touche Tohmatsu, 2005):

- regulatory framework for protecting the company's core competences;
- permanent investment into the company's core competences (e. g. securing higher budgets for R&D);

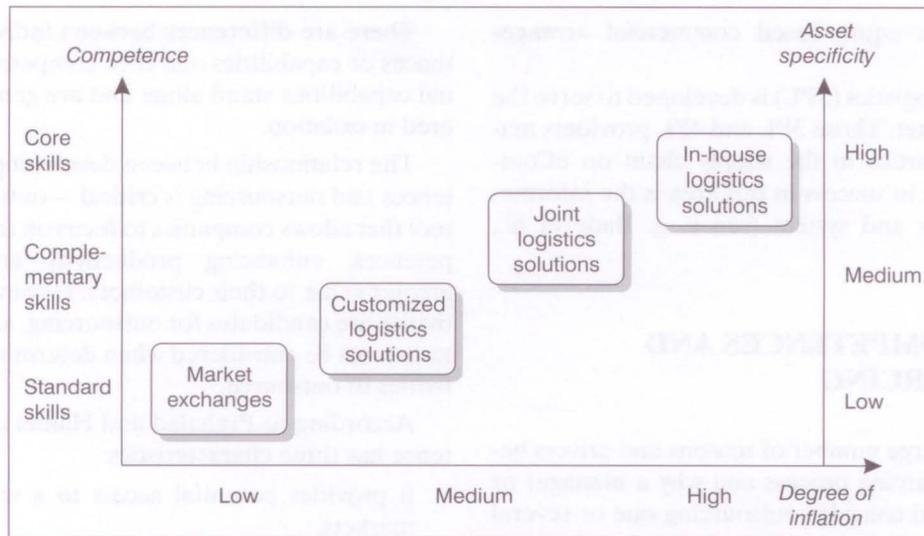


Figure 3 - Problem-solving abilities – logistics provider position

- leverage the effects of path dependency and the experience curve (undertaking activities repeatedly and learning how to do them better).

Enforcing core competences assists companies in realizing their development strategy. The companies have to respond to larger structural changes within the branch and the possible change of their business strategy.

3.2 Buyer-supplier relationships in logistics

Cox (1996) constructed a special external contractual relationship typology. The author uses it for classifying different buyer-supplier relationships. We adjusted Cox's typology to show TPL relationships in business logistics (Figure 3). According to the author, the core skills should always be controlled through internal contracts. Complementary skills will be outsourced. Skills of medium asset specificity will be outsourced through close external contracts based on various forms of alliance, and low asset specificity skills through arm's length contracts.

On the lowest level of collaboration, we can find companies which buy transport and other logistics services on the market. The relationships between the logistics service providers and their customers are short-term. Price of services is an important outsourcing factor. Transport and logistics services provided by the external logistics suppliers required standard skills.

In-house logistics solutions are on level four. Here logistics is considered as a core skill in the company. The asset specificity is high, and specialized logistics know-how among of staff is needed. This coincides with the competence theory, which says that core competences should be kept within the company and non-core competences should be provided by external providers. But it also applies to the transaction costs

theory, which recommends hierarchy as the most efficient governance structure in situations with high asset specificity (Halldórsson and Skjøtt-Larsen, 2004, 195).

Due to specialization, external logistic providers can offer a quality logistics service. Their competences are the result of investments into logistics technology and staff expertise. External providers also have the expertise in providing services, which they have gained in cooperation with other companies. The expertise includes experience, skills, knowledge of techniques and technologies.

Companies have achieved different rates of success in logistics outsourcing. In most cases, outsourcing was successful due to the improvement of supply services, increase of the company's competitiveness, and decrease of logistics cost. The success is largely dependant on the skills of the management as well as the staff in the company. In some cases external supply was disappointing. The main causes were poorly defined objectives, unrealistic expectations of the company or in the management's resistance.

Experts find that the concept of outsourcing demands a close collaboration between the external provider and the company as well as collaboration during the various stages of logistics supply. We have to consider the fact that the incorporation of an external provider causes major changes of information flows.

4. TRANSPORT AND LOGISTICS OUTSOURCING IN EUROPE

4.1 Factors influencing the logistics outsourcing decision

Experts have carried out a research - the Delphi survey 2005 - for identifying the main factors that in-

fluence the decision about logistics outsourcing (see Table 4). However, the mean scores fail to differentiate various factors. Average ratings within the range 3.7-4.0 suggest that the respondents will all exert a reasonably strong influence on the outsourcing decision.

Table 4 - Factors influencing the logistics outsourcing decision (2005)

Factor	Mean Score
1. Need for greater operational flexibility	4.0
2. Geographical expansion	4.0
3. Pressure to cut operating costs	3.9
4. Desire to improve service quality	3.8
5. Access to greater logistics expertise	3.7
6. Access to wider IT experience	3.7
7. More innovative logistics solutions	3.7
8. Avoiding the need for capital investment	3.6

Source: Delphi 2005 Survey.

Earlier surveys have identified cost reductions, improved service quality and flexibility as the three main outsourcing factors. The Delphi survey 2005 suggested that the ability of logistics providers to extend the geographical reach of companies' operations will rank alongside these dominant factors.

The survey also foresees that the majority of large companies will collaborate with one of the leading logistics companies. For large companies operating at a European level, the comparable proportion was 53% and for global corporations it was 35%.

According to the survey, the logistics activities most frequently outsourced to external logistic providers are outbound transport (86% in Western Europe, 68% in North America), warehousing (70%, 65%), inbound transport (70%, 52%), freight bill auditing and payment (11%, 48%), customs brokerage (33%, 44%), freight forwarding (41%, 43%), and customs clearance (33%, 41%).

The results indicate that outsourcing in Europe is predominately used in activities relating to outbound and inbound transport and warehousing. This may be because European companies have been more involved historically in the use of outsourced logistics services than companies in North America.

It is obvious that in Europe, in comparison with North America, financially related logistics services and logistics auditing (freight bill auditing, payment auditing) are less developed. However, there are some areas of logistics services in both regions where outsourcing is not often used. These are activities that are directly connected to customers (order fulfilment, customer service, and order entry/order processing), IT, and some "strategic services" (consulting and sup-

ply chain integrators). Also, in certain operational activities, such as shipment consolidation and distribution, cross-docking, selected manufacturing activities, product marking and labelling, the use of outsourcing is relatively modest.

The study also examines which 3PL services are "integrated" by the 3PL service providers: 56% of the European and 63% of the North American respondents indicated that the services were integrated to some extent. This supports the contention that considerable progress through integration remains to be experienced. On a positive note, North American external logistics users suggested their future goal is that 86% of the services are to be integrated, for European respondents, the figure was 100%.

Experts suggest that companies which do not use outsourcing should recognise the advantages of outsourced logistics services. It is interesting that the reasons the respondents give for not using 3PL services are often the same as the reasons for using such services.

In the conclusion of the research, there are suggestions for improvements in individual strategically important areas. It is especially pointed out that some external logistics providers have to improve their strategic management, technology, and knowledge-based core skills.

4.2 Areas for improvement with logistics providers

A special research of external logistics providers (3PL, 2002) was carried out in North America and in Western Europe. The purpose of the research was to analyse the factors for choosing outsourcing in the future, as well as areas where additional efforts are needed for its improvement.

Respondents were asked if logistics providers reached the desired aims in individual logistics areas. Generally, the users of 3PL claimed that the aims in connection to supply chain improvement and the geographical coverage increase of the market were reached. Additional questions were included in the study to gain insight into areas of strengths and weaknesses. The logistics users were asked to state whether they felt that their 3PL providers were accomplishing the desired objectives. Generally, respondents felt that the desired objectives were being met with regard to supply chain improvement and geographical coverage.

Aside from the positive success ratings and the measurable benefits from external logistics use, the study respondents reported a number of "areas for improvement" in their relationships with logistics providers. Table 5 summarizes the results for the respondents from Europe and North America.

Table 5 - Areas for improvement with logistics providers

AREAS FOR IMPROVEMENT	EUROPE	N. AMERICA
Service level commitments not realized	63%	54%
No improvement opportunities within the last year	54%	15%
Lack of continuous, ongoing improvements in offerings	53%	38%
Lack of strategic management skills	42%	36%
Time and effort spent on logistics not reduced	42%	30%
Cost reductions have not been realized	37%	36%
Not keeping with advances in information technology	37%	29%
Lack of global capabilities	37%	28%
Technology available, but not being delivered to client	32%	26%
Price increases once the relationship commenced	26%	43%
Unsatisfactory transition during the implementation stage	26%	30%
Inability to form meaningful and trusting relationships	21%	28%
Lack of consultative/knowledge-based skills	21%	25%

Source: Adapted from 3 PL Study (2002)

Some main conclusions of the research, which illustrate a critical relationship of users in external logistics (3PL) practice, are:

The need to assure permanent improvements in the supply as well as reaching high-level services.

In some cases the expected lowering of cost does not occur; with some users (more in North America), an increase of cost is observed.

For some users the use of external providers did not decrease logistics problems as expected.

A number of logistics users feel that their control over the outsourced function may have lessened.

Some 3PL do not follow the trends of development in the area of information technology; in some cases, the technology is available, but not offered to the customers.

Some users ascertain that it is not possible to form a reasonable and trustworthy relationship with 3PL.

In the 3PL market there is a lack of global capabilities.

Some users are noticing that there is a lack of knowledge-based skills.

Generally, the data about the use of external logistics providers in Europe is compatible with the data for North America. However, there are still some differences. For example, in Europe the problems with the level of quality of service in IT are pointed out, whereas in North America the users are critical concerning possibilities for developing an effective relationship with their 3PL providers.

Areas needing improvement included solutions to international supply chain, supply chain integration, and IT-related issues. The results are similar for logistics users in Europe as well as North America.

Logistics providers should view this list as a starting point for continuous improvement. Overall, the study suggests a need to meet the service levels and cost objectives, and to avoid unnecessary increases in pricing once the customer relationship has commenced. Also, it suggests that some logistics firms need to improve their strategic management, knowledge-based skills, and technology.

4.3. Challenges and predicted evolution

Outsource logistics market is growing rapidly. Many of today's global companies have now made logistics management the most outsourced function along the global supply chain. This is significant when one takes into account the fact that the repertoire of logistics services ranges from freight-bill auditing to full transportation management.

There are some interesting conclusions about the practice of outsourcing in logistics in Europe (Ogorelc, 2004):

- (1) Logistics services providers (e. g. carriers, forwarding agents) are changing their service profile: a shift from the traditional services with emphasis on transportation towards a complex offer of the logistics services is perceived.
- (2) Enlarging the extent of outsourcing in logistics has led to a closer cooperation between manufacturers and logistics firms. In incoming as well as in outgoing logistics there is a growing number of permanent services of outsourcing.
- (3) Logistics firms often have a global expertise that is highly valuable. Thus, outsourcing can give a firm immediate access to resources, equipment,

and management expertise that would be too costly to develop in-house.

- (4) In some industries, the most important being the automotive industry, there is a trend towards single sourcing the result of which is in reducing the number of suppliers and more intensive cooperation with the selected logistics firms.
- (5) Optimistic anticipations prove that innovations in logistics sector will increase.

Logistics experts find that the concept of outsourcing demands a close collaboration between the external provider and the company as well as collaboration during the various stages of logistics supply. We have to consider the fact that the incorporation of an external provider causes major changes of information flows.

Extrapolating from the above observations we anticipate five major trends that will influence the manufacturing and logistics industry (see Booz Allen Hamilton, 2001, 19, Sangam, 2005):

- (1) Transport and logistics play a more important role in location of industries.
- (2) Towards total supply chain focus. Management of logistics will be less fragmented – within and across companies. Service level policies will recognize explicit service level versus cost trade-offs – at total cost level including freight, storage, handling, and inventory.
- (3) Increasing role by third party logistics service providers. The need to invest in more sophisticated tools to operate networks places greater demands on third party logistics providers.
- (4) Networking. Shift away from dedicated logistics operations controlled by single companies toward open networks, shared by supply chain partners within sectors or even across industries. Such a network would eliminate significant redundancy and cost. Furthermore, higher volumes with similar characteristics will enable investment in capabilities, e. g. en route configuration/aggregation.
- (5) Move towards longer-term customer-supplier relationship.
- (6) Appropriate use of technology. Technology will enable the broader supply chain focus by evolving from blind data collection to thoughtful information management and sophisticated decision support tools.

As the shared networks grow, supply chain optimization will need to be conducted more frequently. Configuration models will reach beyond route optimization to ensure optimization of the entire network.

The move towards longer-term customer-supplier relationship should help to regulate freight movements, encourage investment in more efficient vehicles and rolling stock and make it easier to consolidate

individual flows. It also allows logistics considerations to be incorporated into product design and marketing strategies.

Constantly increasing demands of third party logistics service users will result in the increase of the demand for technology based services. Those companies which will integrate their services and develop integral solutions for supply chains and users' logistics problems in the most efficient way will have the leading role. It is necessary to improve collaboration between 3PLs and clients. Therefore, a movement towards "hybrid" management practices is expected.

5. CONCLUSION

There are substantial changes in process in transport and logistics industry. Providers of logistics services and the range of their capacities are changing and with that, the expectations of logistics services users are increasing.

In the last decade, it has become more common for companies to focus on their core product, and outsource parts of their activities that are not considered as their core competence. A service that has often been outsourced, to some extent, is the transportation of goods. The traditional transport companies have also become the major actors in the third party logistics (TPL) market when companies outsource more parts of their logistical activities.

To be successful in outsourcing logistics, the company should learn and consider how to select a logistics provider carefully. The next step is working together. Both sides need support from top management and have to share information, risk and rewards, mutually trust, always update vision and goals, evaluate their performance regularly, and so forth. With the development of computer and information technology, it is useful for logistics providers to improve their performance and potentially save operations cost in the long run.

There are some signs to advise that outsourcing is still growing. Firstly, the logistics companies keep launching a new technology or a new service for logistics outsourcing. Secondly, there are many reports about logistics partnerships from time to time. Although logistics outsourcing is in trend, the companies that will use it should depend on whether they need it and whether it is worthwhile.

Expecting an increase of the logistics outsourcing trend in the future, it would be sensible to continue the research in the field of effective management. Analysis of the logistics industry development – third party logistics and fourth party logistics – is needed within the new EU member countries as well as in countries which are in the accession process.

Dr. ANTON OGORELC

E-mail: anton.ogorelc@uni-mb.si

Univerza v Mariboru, Ekonomsko-poslovna fakulteta
Razlagova 14, 2000 Maribor, Republika Slovenija

SAŽETAK

“OUTSOURCING” TRANSPORTNIH I LOGISTIČKIH USLUGA

Rezultate istraživanja autor je predstavio u pet međusobno povezanih dijelova. Nakon Uvoda, u drugom dijelu s naslovom Okvir za odluke u logističkom „outsourcingu“ predstavljene su teorijske značajke o „outsourcingu“. Logističke kompetencije i „outsourcing“ je naslov trećega dijela. U četvrtome dijelu, koji ima naslov Transportni i logistički „outsourcing“ u Europi, prikazani su trendovi razvoja logistike i „outsourcinga“. Ova znanstvena rasprava daje okvir za uspostavljanje jedinstvenog partnerstva između dobavljača i kupaca sa sugestijom, da logistički „outsourcing“ povećava kompetitivne prednosti industrijskih poduzeća. Rasprava će pomoći menadžerima u razvijanju logističkih strategija i koristiti istraživačima u istraživanju fenomena logističkog menadžmenta.

KLJUČNE RIJEČI

logistički „outsourcing“, logistički ponuđači, bitne kompetencije, transport i logistički „outsourcing“ u Europi

REFERENCES

- [1] Alfredsson, Monica and Hertz, Susanne. 2005. *Strategic development of TPL providers*. <http://www.bath.ac.uk/imp/pdf/28/AlfredssonHertz.pdf>.
- [2] Chase, R. B., Jacobs, F. R. and Aquilano, N. J. 2004. *Operations Management for Competitive Advantage*, 10th ed., Irwin/McGraw-Hill: Boston, MA.
- [3] Coase, Ronald Harry. 1937. *The nature of the firm*. In: Williamson, O. E., Winther, G. (Eds.), *The Nature of the Firm* (1991). Oxford University Press, Oxford.
- [4] Deloitte Touche Tohmatsu. 2005. *Core competences and strategic outsourcing: Achieving competitive advantage*.
- [5] Halldórsson, Arni and Skjøtt-Larsen, Tage. 2004. Developing logistics competences through third party logistics relationships. *International Journal of Operations & Production Management* 24, 2: 192-206.
- [6] Kakabadse, Nada and Kakabadse, Andrew. 2000. *Critical review—outsourcing: A paradigm shift*. In *Journal of Management Development* 19, 8: 670-728.
- [7] Langley, C. John, Allen, Gary R., and Tyndall, Gene R. 2002. *Third-Party Logistics Study*, Results and Findings of the 2002 Seventh Annual Study.
- [8] McKinnon, A. and Forster, M. 2000. *European Logistical and Supply Chain Trends: 1999-2005*. TRILOG – Europe: a project of Directorate-General VII (Transport) of the European Commission undertaken in support of the Organisation for Economic Co-operation and Development's (OECD) Trilateral Logistics study.
- [9] Mol, Michael J. 2001. *Outsourcing, Supplier Relations and Internationalization: Global Sourcing Strategy as a Chinese Puzzle*. Rotterdam School of Management, Erasmus University Rotterdam.
- [10] Ogorelc, Anton. 2002. *Logistics Services Providers and Managing Supply Chains*. In Jenček, P., Štrubelj, M. (eds.). *ICTS 2002: Proceedings*. Portorož: Fakulteta za pomorstvo in promet, 324-336.
- [11] Ogorelc, Anton. 2004. *Mednarodni transport in logistika*. Maribor: Ekonomsko-poslovna fakulteta.
- [12] Ogorelc, Anton and Zelenika, Ratko. 2002. *Towards Outsourcing of Logistics Activities in Manufacturing Firms*. In David, M. (ur.). *ICTS 2001: Proceedings*. Portorož: Fakulteta za pomorstvo in promet, 50-60.
- [13] Porter, Michael E. (1980). *Competitive Strategy*. New York: Free Press.
- [14] Prahalad, C. K. and Hamel, Gary. 1990. *The core competence of the corporation*. In *Harvard Business Review*, 68, 3: 79-92.
- [15] Quinn, James Brian and Hilmer, Frederick G. 1994. *Strategic Outsourcing*. In *Sloan Management Review* 35, 4: 43-55.
- [16] Rebernik, Miroslav. 1998. *Podjetništvo*. Maribor: Ekonomsko-poslovna fakulteta.
- [17] Robinson M., and Kalakota, R. 2004. *Offshore Outsourcing: Business Models, ROI and Best Practices*. New York: Mivar Press.
- [18] Rothery, Brian and Robertson, Ian. 1996. *The Truth about Outsourcing*, Gower: Aldershot.
- [19] Sangam VK - Massey University. 2005. *Challenges in Managing the 3PL Relationship*. http://logistics.about.com/od/thirdparty/a/uc041805_4.htm
- [20] Skjøtt-Larsen, Tage. 2000. *Third party logistics - from an interorganizational point of view*. In *International Journal of Physical Distribution & Logistics Management* 30, 2:112-127.
- [21] Wilding, R. and Juriado, R. 2004. *Customer perceptions on logistics outsourcing in the European consumer goods industry*. In *International Journal of Physical Distribution & Logistics Management* 34, 8: 628-644.