

Yet another outsourcing survey! By Gwynne Richards FCILT, Outsourcing & Procurement Forum Chairman

Recent surveys and articles have suggested that collaboration is on the increase as companies strive to improve supply chain performance and reduce cost.

So where does outsourcing logistics operations fit into this?

Getting the balance right between improving customer service and reducing inventory and overall cost needs focus and maybe a little assistance along the way. Outsourcing your logistics operations to an expert so that you can concentrate on your core competencies has to be right, surely?

The Chartered Institute of Logistics and Transport has recently completed its third annual survey of the outsourced logistics market in Europe.

Over 250 responses were received from a cross section of logistics providers, consultants and own account operators. 83% of the responses were from companies based in the UK.

The survey compares the results of 2010 with the surveys undertaken in 2008 and 2009.

There is no guarantee that the same companies have taken part in all three surveys however it is hoped that we have sufficient data to make informed judgements about the current marketplace.

Figures 1 and 2 show how outsourcing trends have changed over recent years with many companies increasing the amount of transport they outsource whilst warehousing remains reasonably static, although in this sample over 10% of the respondents have reduced the amount of warehousing outsourced to third parties.

Figure 1 – Transport

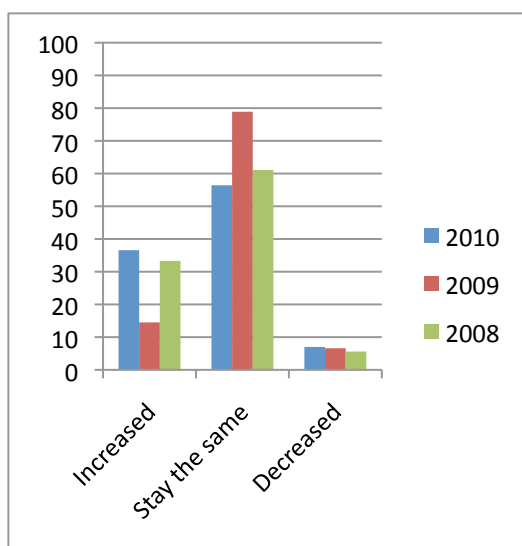
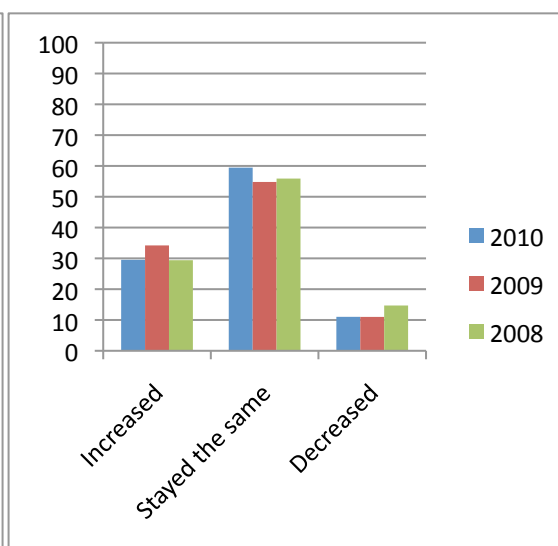


Figure 2 Warehousing



When asked about their future outsourcing plans 30% of companies surveyed were expected to increase the amount of outsourcing whilst 10% of companies were looking to decrease the amount of outsourcing.

This may well be a consequence of the relative maturity of the UK market with companies having achieved the savings and operational improvements expected and now feeling confident to take the business in-house. Many companies have also strengthened their supply chain teams and now see logistics as a core competence.

Figure 3 – Future Transport outsourcing

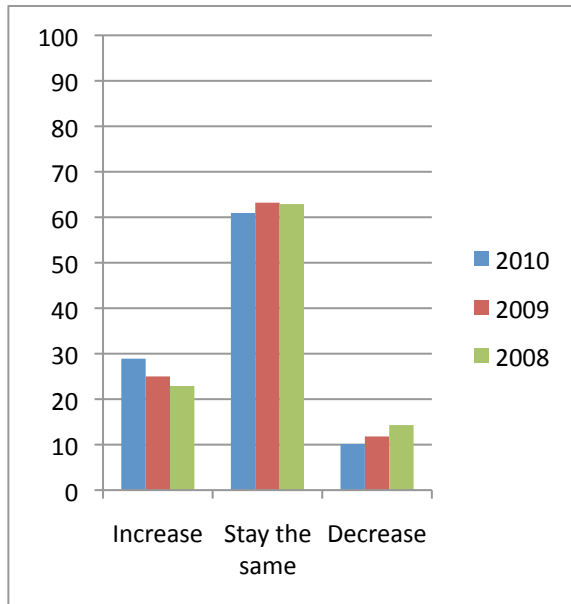
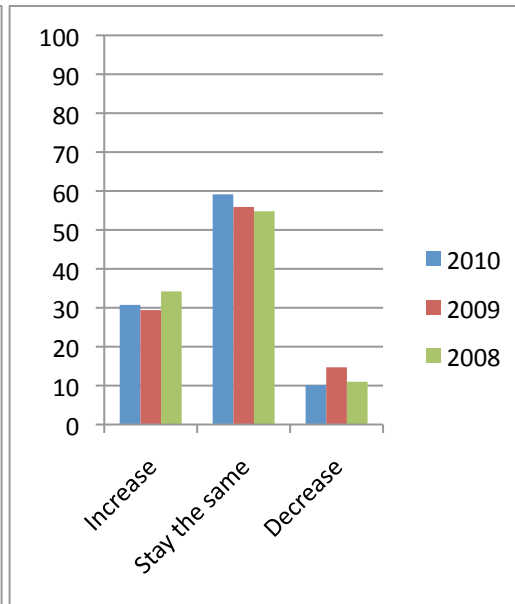


Figure 4 – Future Warehouse outsourcing



When asked which elements of their supply chain did companies outsource we find that transport and distribution is by far the largest logistics activity which is outsourced whilst back office operations are mainly run in-house.

Figure 5 – Outsourcing of supply chain activities

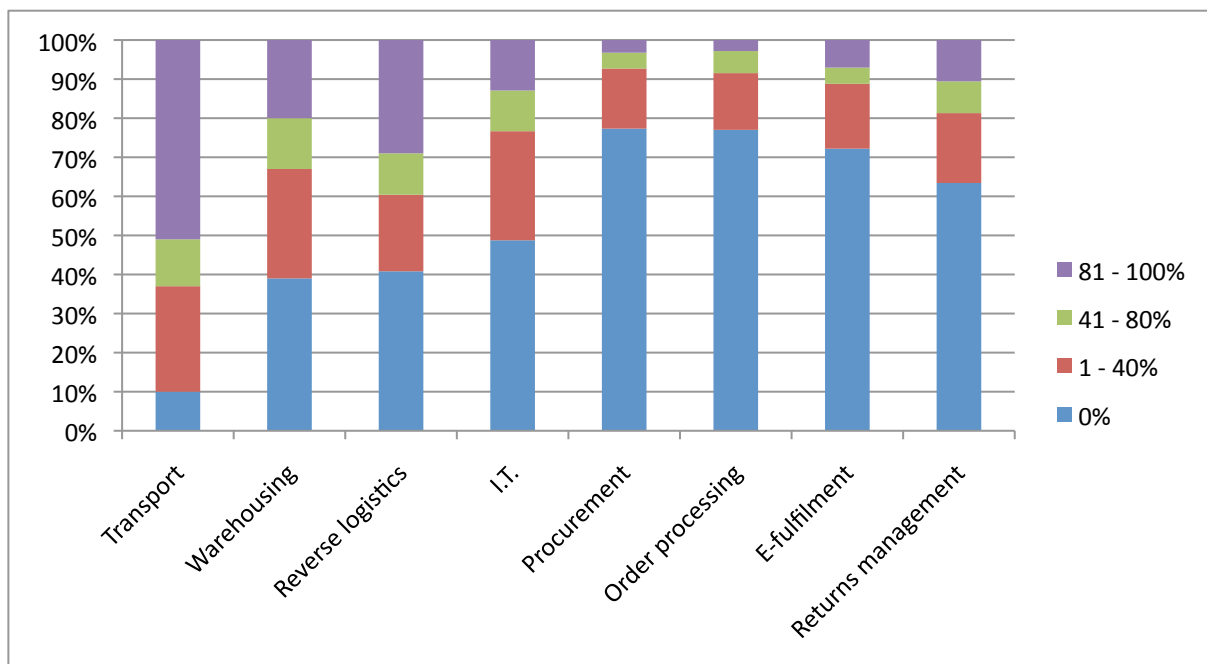
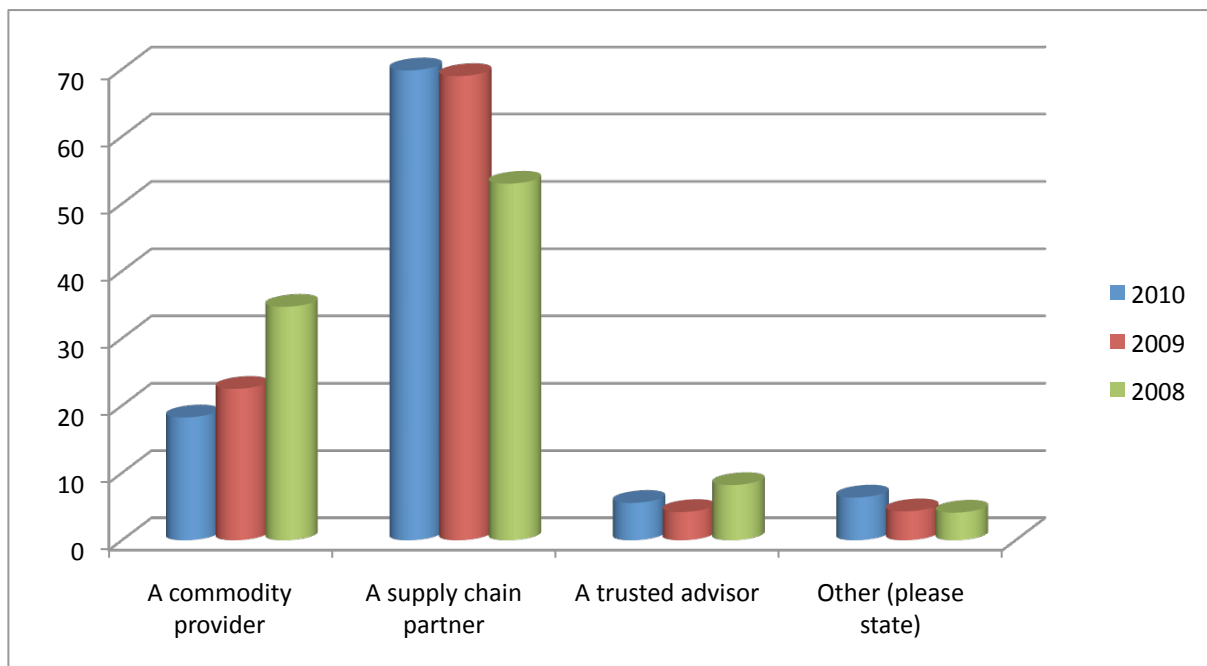


Figure 6 below shows how companies see their logistics provider today. 76% of the respondents see their logistics provider as either a supply chain partner or trusted provider, compared to 61% in 2008. This is a significant change and adds credence to the idea that there is greater collaboration and that companies are moving away from traditional, adversarial relationships with their logistics suppliers. The growth in 4PL[®] companies could also be a factor here.

One respondent did say however, that they would only use a 3PL if there was no other option!

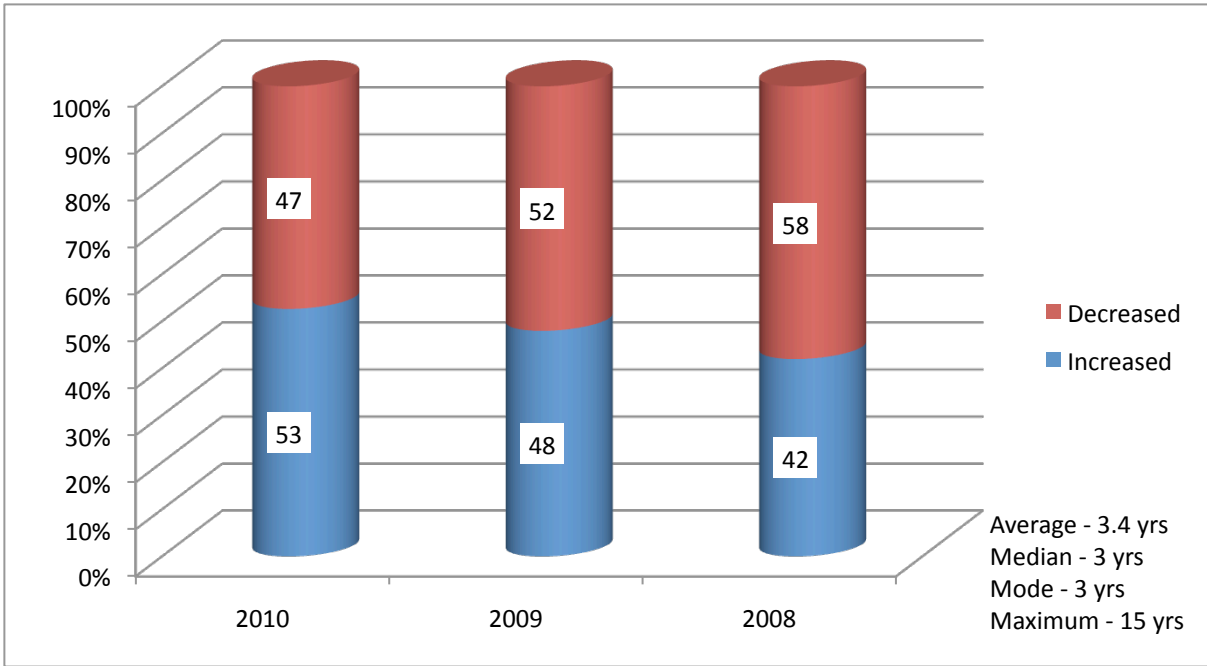
Figure 6 – How do you see your logistics provider?



The length of outsourced contracts has also changed over the last year according to our survey with 53% of our respondents seeing an increase in the length of contract.

The most favoured length of contract remains at 3 years with an overall average of 3.4 years. The longest contract in the survey was 15 years with an increasing number of one year rolling contracts.

Figure 7 – Contract length



When asked what changes companies have seen over the past three years in relation to outsourcing we received the following replies.

These answers tend to bear out our data in figure 6 where companies see their logistics suppliers as partners and advisors. Interestingly we found a dichotomy of views in terms of contract length and the types of charging methods used.

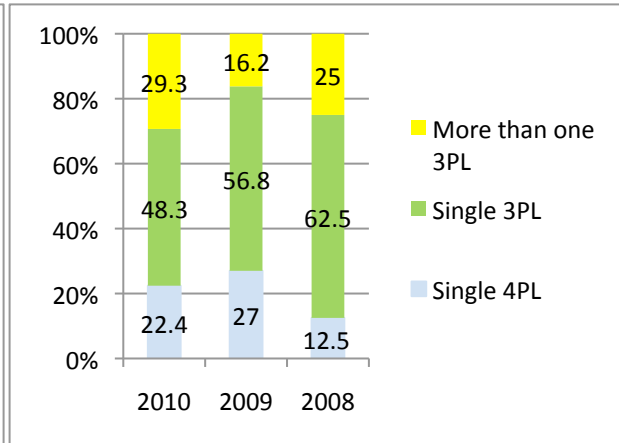
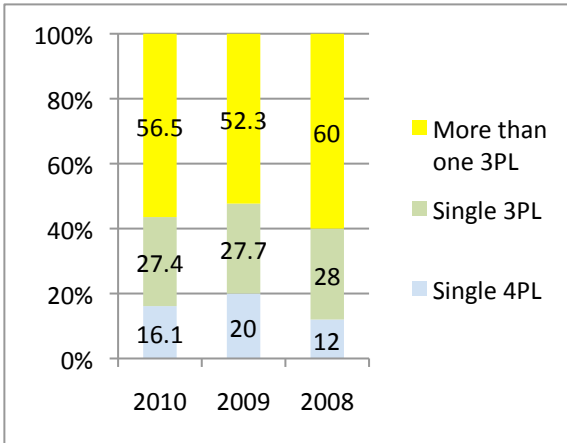
Table 1 - What changes have you seen in the past 3 years in relation to logistics outsourcing?

• Closer relationships	78 replies
• Contracts are shorter	24
• More collaboration and integration	20
• Contracts are longer	19
• Innovative thinking	19
• Open book contracts	19
• Transactional costing	17
• More Outsourcing	16
• New value added services	14
• Greater transparency	14
• 4PL/LLP increasing	10
• Key performance indicators are tighter	10

Company preferences have also changed over the past couple of years as can be seen in the following figures. Figures 8 and 9 show the respondents' preferences for single or multiple relationships with respect to their outsourcing. There does seem to be a movement away from single sourcing to multiple sourcing, significantly in warehousing which coincides with the growth in shared-user operations as can be seen in figure 11 below.

Figure 8 Supplier preference – transport

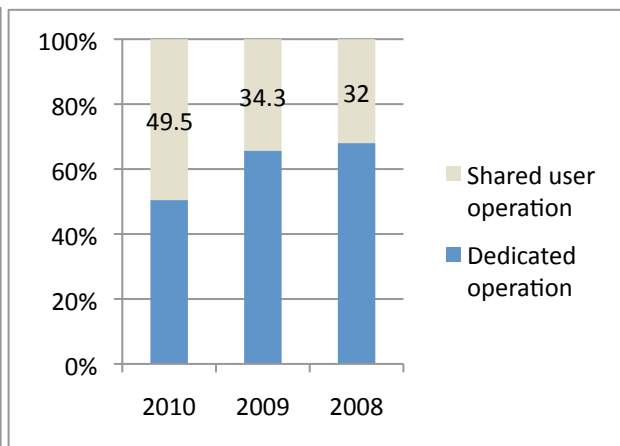
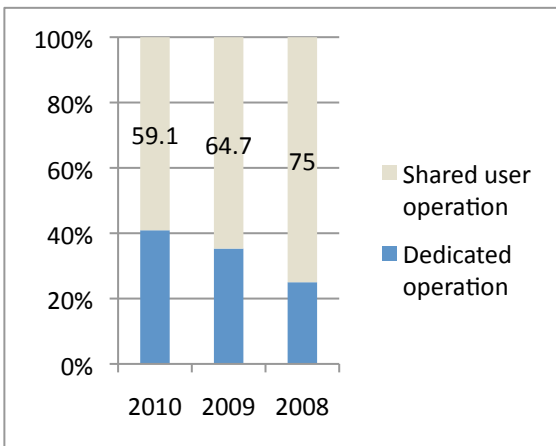
Figure 9 – supplier preference - warehouse



As can be seen in figures 10 and 11 below there is a move towards dedicated operations in terms of transport but a significant move away from dedicated warehousing in favour of shared use.

Figure 10 Dedicated v shared use – transport

Figure 11 – Dedicated v shared use - warehouse

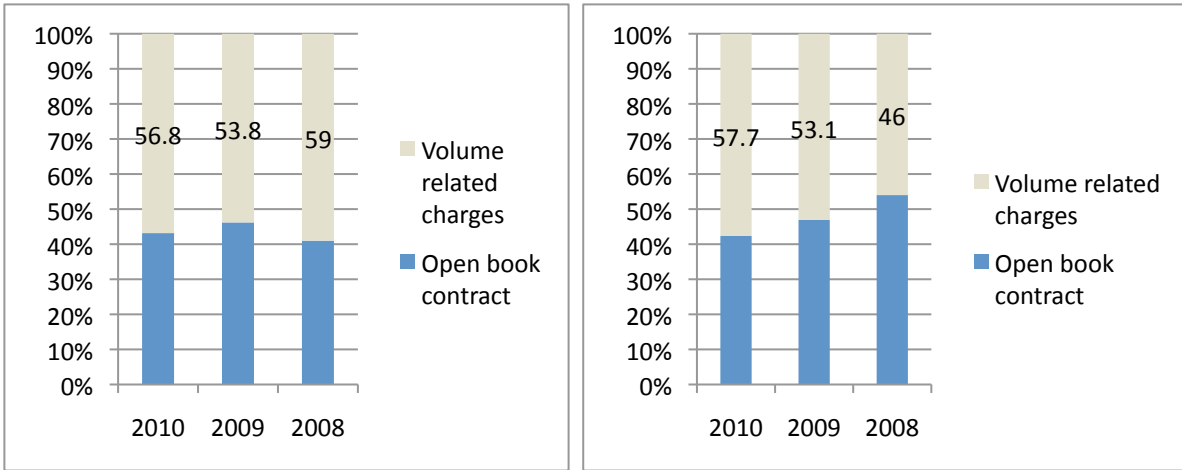


As can be seen in figures 12 and 13 below there is a move towards more transactional based costing which, from a warehousing point of view corroborates the move towards shared use facilities.

A potential down side to this is the emergence of new outsourcing relationships such as Vested Outsourcing which suggest a movement away from transactional models to more open charging methods where the method of charging balances risks and rewards for both parties.

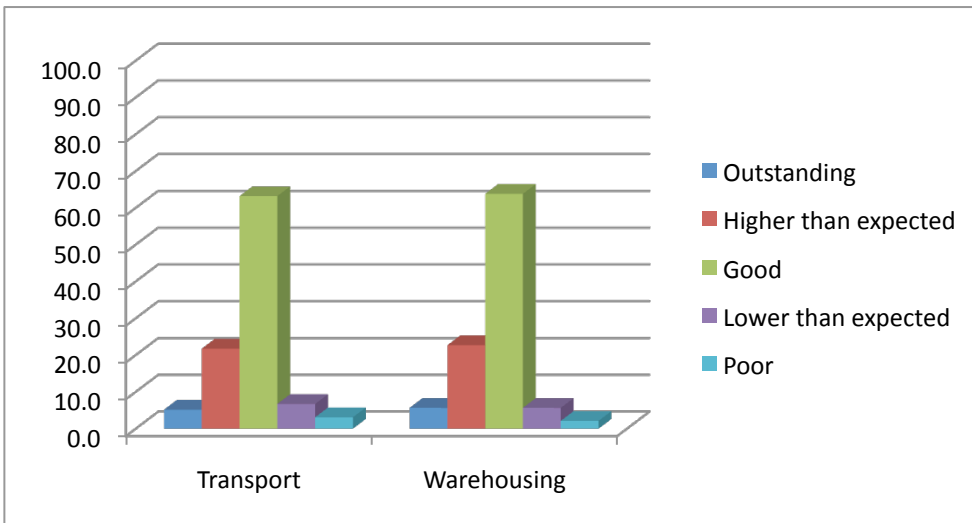
Figure 12 Transactional v open book – transport

Figure 13 – Transactional v open book – warehouse



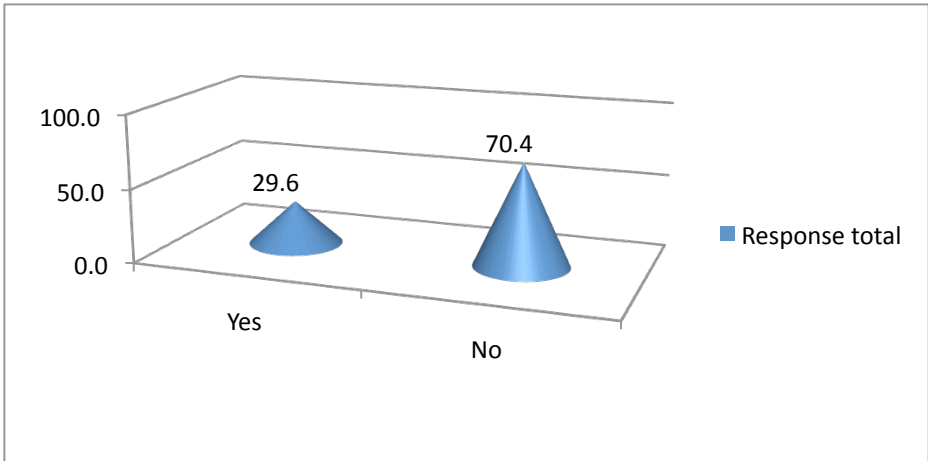
As for the current performance of both 3PLs and 4PLs the majority of the respondents were happy with the service they were getting with less than 10% receiving a poor or lower than expected rating as can be seen in Figure 14 below.

Figure 14 – How do you rate the performance of your 3/4PL?



Our next question related to the use of 4PL companies in providing logistics services. The figure was much higher than the team expected with approximately 30% of respondents using some form of 4PL supplier. Unfortunately we were unable to distinguish between the use of true, non-asset owning 4PLs and the use of large 3PLs who operated 4PL divisions. We will look to include the term lead logistics provider for our next survey alongside 3PL and 4PL to distinguish between all three.

Figure 15 – Do you use 4PL companies for your logistics services provision?



An additional question in this year's survey was how many times had the respondents changed service provider for contracts in excess of £1 Million per annum.

A worrying factor for logistics service providers was that 67 out of the 107 respondents said that they had changed supplier at least once, with 15 companies stating that they had changed supplier at least three times over the past five years.

The reasons for the non-renewal of these contracts are shown in table 2 below. As expected, service deterioration and cost increases are the main reasons, with changes in circumstances, such as lower volumes or a change in strategy also being a factor.

Other interesting comments include the 3PL overpromising, being complacent and lazy.

Figure 16 - Over the past 5 years how many times have you changed 3PL/4PL providers on contracts worth in excess of £1 million per annum?

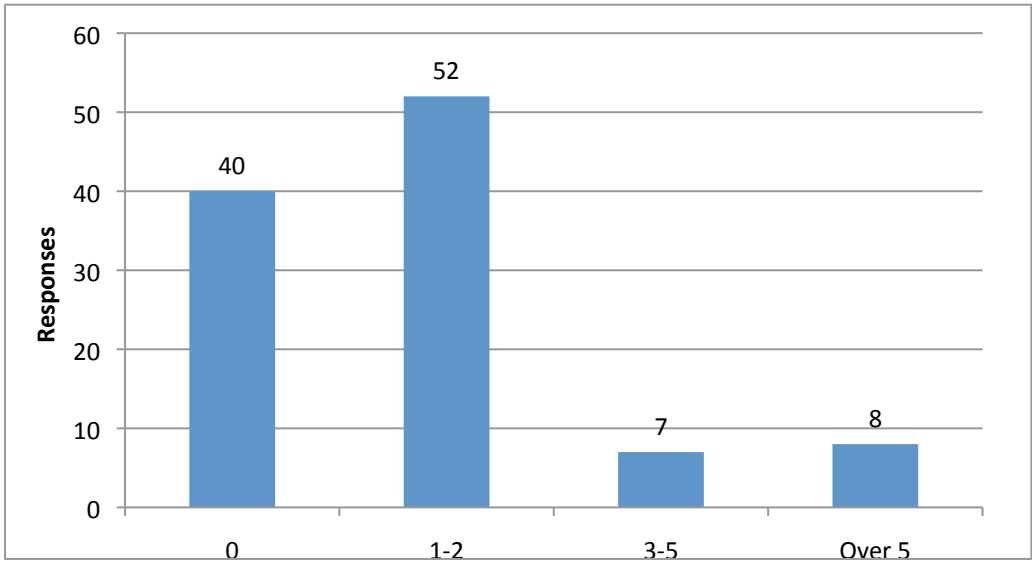


Table 2 – Reasons for contract non-renewal.

Reason	Responses
Service deterioration	12
Cost increases	9
Changes in volume and storage resulting in in-sourcing	7
Competitive alternative	3
Lack of knowledge	2
Lack of openness, flexibility and competitiveness during contract re-negotiations	2
Over-promising	2
Taken in-house to enable benchmarking with other suppliers	2
Lack of dedication	2
Complacent attitude of 3PL	2
Discipline and pilferage	2
Not keeping up with the changes and becoming lazy	2
Loss of management control, threat to security and confidentiality, quality problems, hidden costs, bad publicity, and ill will	1

The penultimate questions looked at the advantages of outsourcing and the barriers to outsourcing. The interesting point to note here is that the same reason can appear on both sides. Risk, cost and service quality can be both reasons to outsource and barriers.

The figures in brackets show the position of the benefit in the 2009 survey. As you can see there has been no change in the top five reasons for outsourcing.

Synergy and collaboration comes into the top 10 for the first time replacing access to new technology.

Concentration on core business remains in the top five however this definition needs to be clarified once and for all.

My interpretation is that logistics is core to the majority of businesses, getting the right product - to the right place in the right quantity and damage free, at the right cost – has to be important to any company or how can they survive. Delivering the perfect order consistently has to give a company a competitive edge.

If a company does not have a core competence in this area then this is an appropriate reason to outsource to an expert and thus enable staff to concentrate on their own strengths. Logistics is core to the business, it's just that you may not have experts in this area.

With regard to the barriers to outsourcing, cost can be a major factor. In a report by Aberdeen Group (2008) only 20% of “best in class” companies achieved a cost reduction through outsourcing with an average reduction of 3%, others saw a neutral to negative position on costs. However, the “best in class” companies also experienced improved customer service through outsourcing.

The loss of control is the second largest barrier to outsourcing however this can be overcome by companies working much closer together and the client not abrogating responsibility for the logistics operation having outsourced to a third party expert!

Trust again remains high on the list of barriers. The business culture in the UK remains adversarial however these barriers need to be removed if companies are to increase collaboration and work together to reduce costs and improve service levels.

Culture is very important in outsourced relationships and one fundamental lesson I learnt very early on in my career is that “people buy people”. It’s people that make things work, not processes. Find a company you feel comfortable with, which has the same type of philosophy as yourselves and the relationship should blossom.

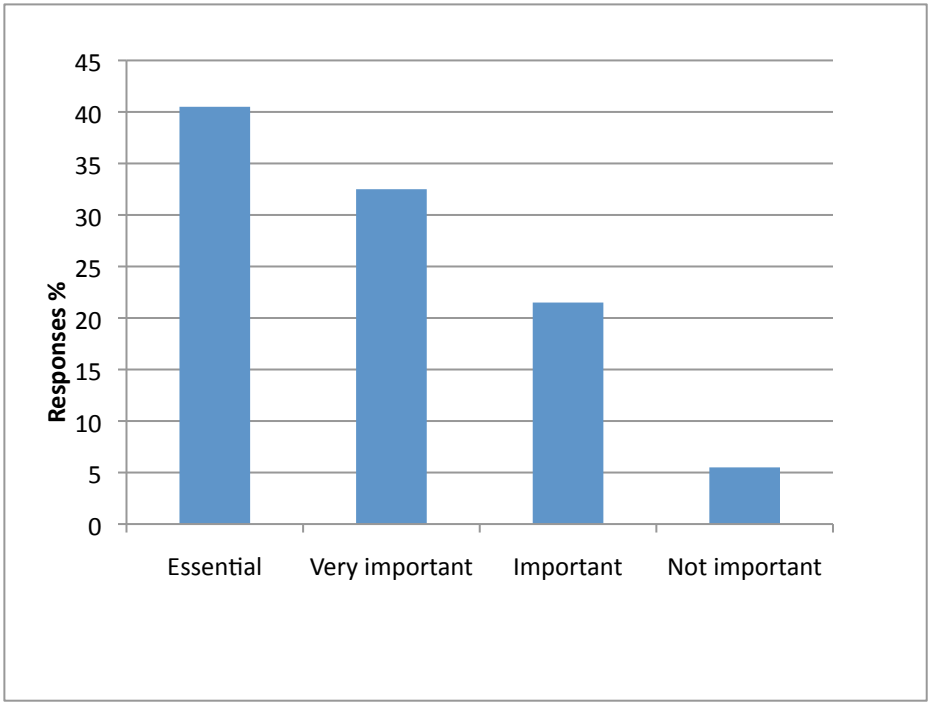
Benefits to outsourcing

- Expertise of 3PL (1)
- **Cost effectiveness (2)**
- Flexibility (3)
- Concentration on core business (4)
- No capital outlay (5)
- **Sharing of risk**
- **Customer service improvement**
- Operational improvements
- Wider access to services
- Cost control and visibility
- Synergy and collaboration
- Shared user opportunities

Barriers to outsourcing

- **Increased costs**
- Loss of control
- **Service quality**
- Trust
- Lack of knowledge
- Culture
- **Risk**
- Choice of supplier
- Terms and conditions
- Relationship management/communication
- 3PL management ability
- Conflicting interests

Our final question asked how important innovation from their logistics supplier is to companies. Not surprisingly, it rates very highly in today’s global market place with companies looking for competitive edge.



Conclusion

Outsourcing remains a viable option for companies in terms of their logistics operations. Over the past three years of our surveys there has been a significant change in attitude to logistics providers with collaboration and a sense of working together coming to the fore.

There is still work to be done however. When we asked what are the benefits of outsourcing a number of respondents still answered “none!” We also saw a number of companies take their logistics operations back in-house having realised all of the benefits of outsourcing.

The emergence of 4PLs and new types of outsourcing arrangements such as Vested Outsourcing and “win, win” agreements will make for an interesting next few years in the outsourcing market place.

About the Author

Gwynne Richards FCILT is a Director of Apprise Consulting Ltd, a supply chain consultancy and training company. He is Chairman of the CILTUK Outsourcing and Procurement Forum and a visiting lecturer at the University of Warwick.