

## Not another outsourcing survey?

**By Gwynne Richards, Director, Apprise Consulting Ltd and Chairman of CILTUK Outsourcing and Procurement Forum.**

According to a recent Transport Intelligence report - Global Contract Logistics 2009 - "The global contract logistics market grew at 5% in 2008. This represents a significant weakening of the market after several years of growth of around 10%".

There can be many reasons for this slowdown:

According to Armstrong & Associates over 76% of companies within the Fortune 500 already outsource a significant percentage of their logistics and supply chain operations. There can be no surprise therefore that there is a slowdown in outsourcing if we believe a similar situation to be true in the UK.

Some retailers in the UK have also in-sourced parts of their logistics operations recently.

A recent CILT survey has also shown that the trend to outsource logistics services has begun to slow down.

The CILT Outsourcing and Procurement Forum commissioned a survey to look at the current trend for outsourcing in the UK. The same survey was also carried out in 2008.

When asked what percentage of their current supply chain activities were outsourced it can be seen from the figure 1 below that the percentage of companies who outsource over 80% of their transport services is 66% compared to 68% in 2008. However 93% of the respondents in 2009 said they outsourced at least some of their transport compared to 84% in 2008.

In terms of warehousing the trend is somewhat different with a greater % remaining in house.

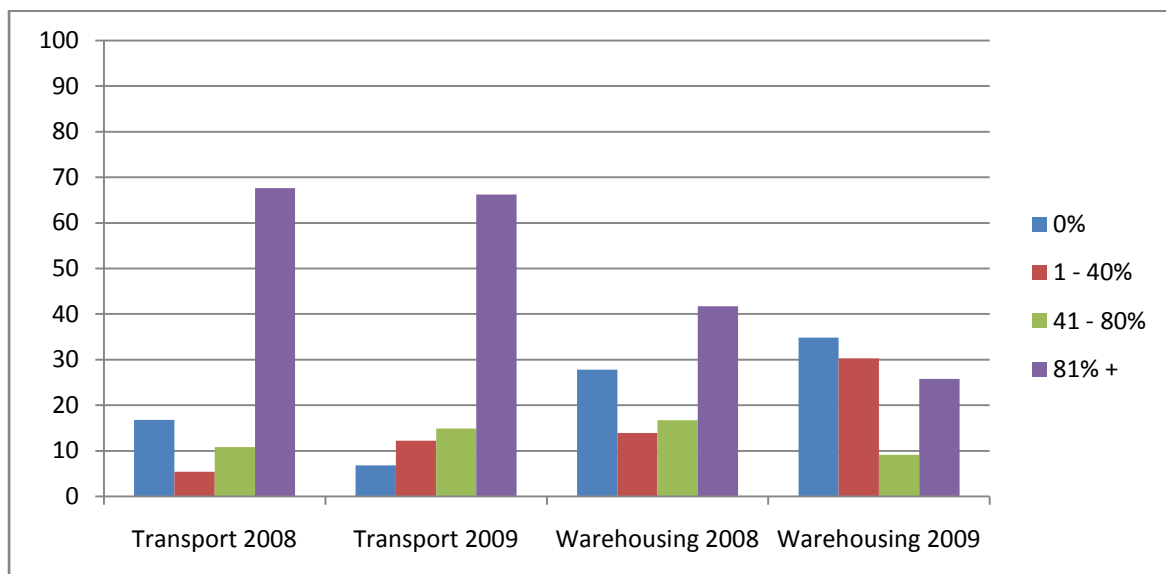


Figure 1 – levels of outsourcing transport and warehousing

In terms of other supply chain services, apart from order processing the trend seems to be a reduction in outsourcing although some companies seem to be tentatively putting their toe in the water.

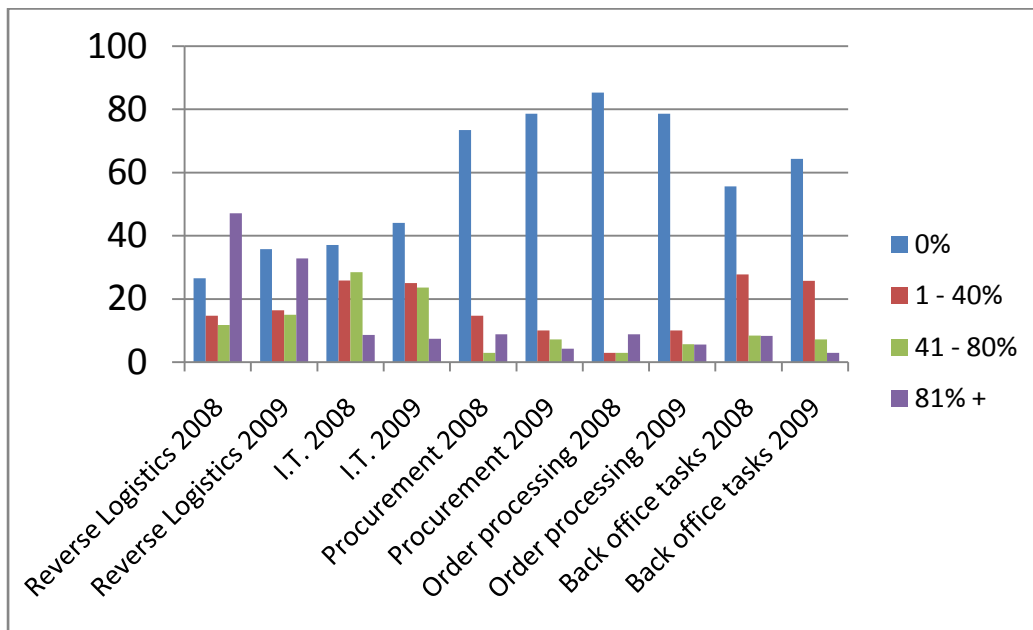


Figure 2 levels of outsourcing other supply chain activities

Respondents were also asked whether their position had changed over the past five years in relation to outsourcing. With regard to transport it was found that in the last year companies were less likely to increase their outsourcing activities.

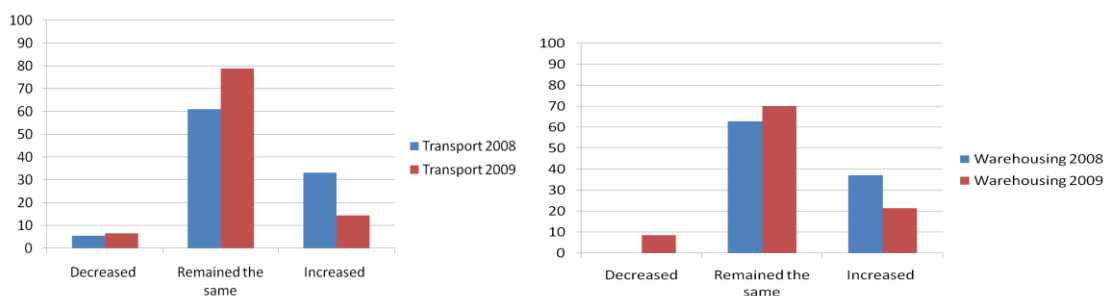


Figure 3 Status of outsourcing activities

A similar trend is seen with warehousing although 9% of the respondents said they had reduced their reliance on outsourcing.

Interestingly when asked how things are likely to change over the next five years there continued to be an expectation of growth in outsourcing although 10% of respondents still planned on reducing their reliance on logistics suppliers.

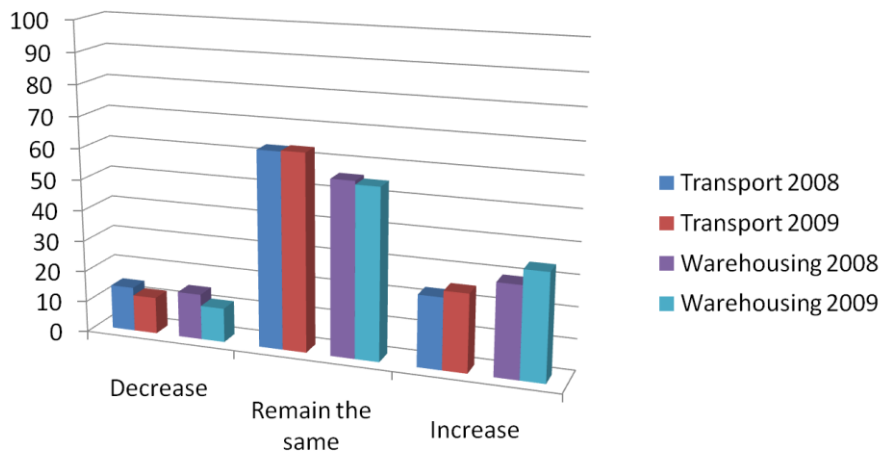


Figure 4 – Future outsourcing plans

When asked how the respondents see their logistics supplier there was an increase in the number of people who saw their 3PLs and 4PLs as supply chain partners as opposed to commodity providers however this was tempered by the fact that some respondents saw their providers as:

- “a necessary evil”
- “companies who deliver a poorer service for disputed financial advantage”
- “companies who are only interested in their own profits and have little care for the impact that their late deliveries have on the supply chain”.

One respondent suggested that their providers were only “in it for the money” which is interesting from the point of view that even 3PLs have to make a profit. I’m sure that what they mean is that their 3PL has become very risk averse and are reluctant to invest further in the operation.

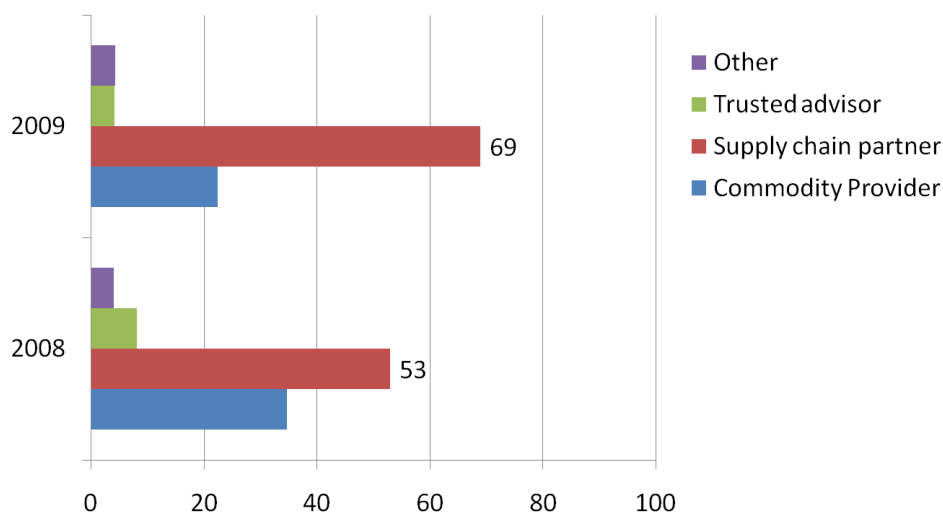


Figure 5 – How do you see your logistics providers?

When asked about changes in contract length it was found that the average contract duration had increased marginally over the year.

In 2008 the maximum contract length noted was 7 years with an average of 2.65 years and a median of 3 years. In 2009 the maximum contract length noted was 10 years with an average of 3.57 years but the median remained the same at 3 years. The most popular contract lengths remain at 3 and 5 years.

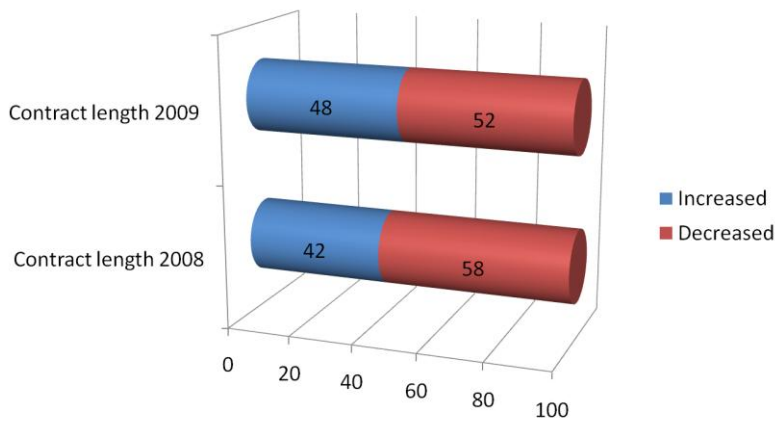


Figure 6 – Average contract lengths

Over the past few years we have witnessed a growth in 4PL activity with high profile contracts including Aggregate Industries and Corus. This growth is also seen in the respondents' replies where, both in warehousing and transport there is an increased preference for 4PL relationships.

### Which of the following do you prefer in your transport outsourcing relationship?

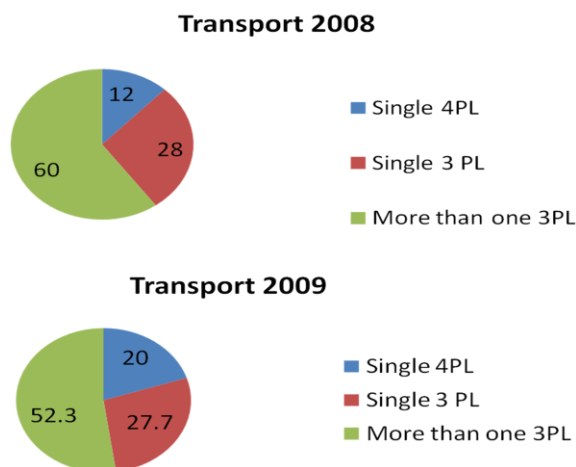


Figure 7 – Transport outsourcing relationships

Figure 7 – Transport outsourcing relationships

Which of the following do you prefer in your warehousing outsourcing relationship?

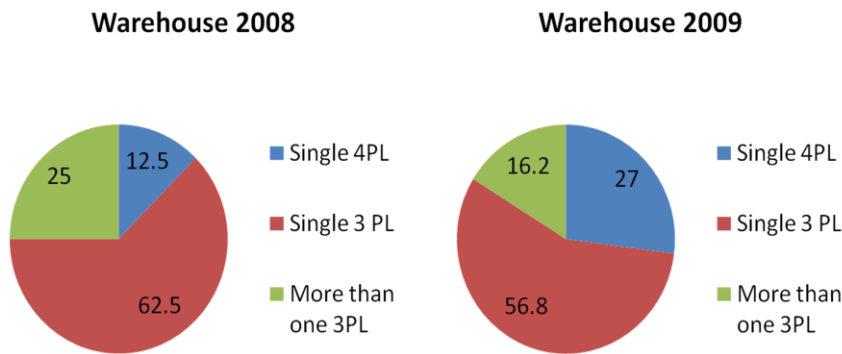


Figure 8 – Warehouse outsourcing relationships

As can be seen from both the above figures there has been a significant growth in the use of 4PLs over the past year.

In terms of the types of contracts preferred by customers, shared user were the most popular alongside volume related charging. This reflects the movement in importance of flexibility in the table (see table 1) as to the reasons for continuing to outsource.

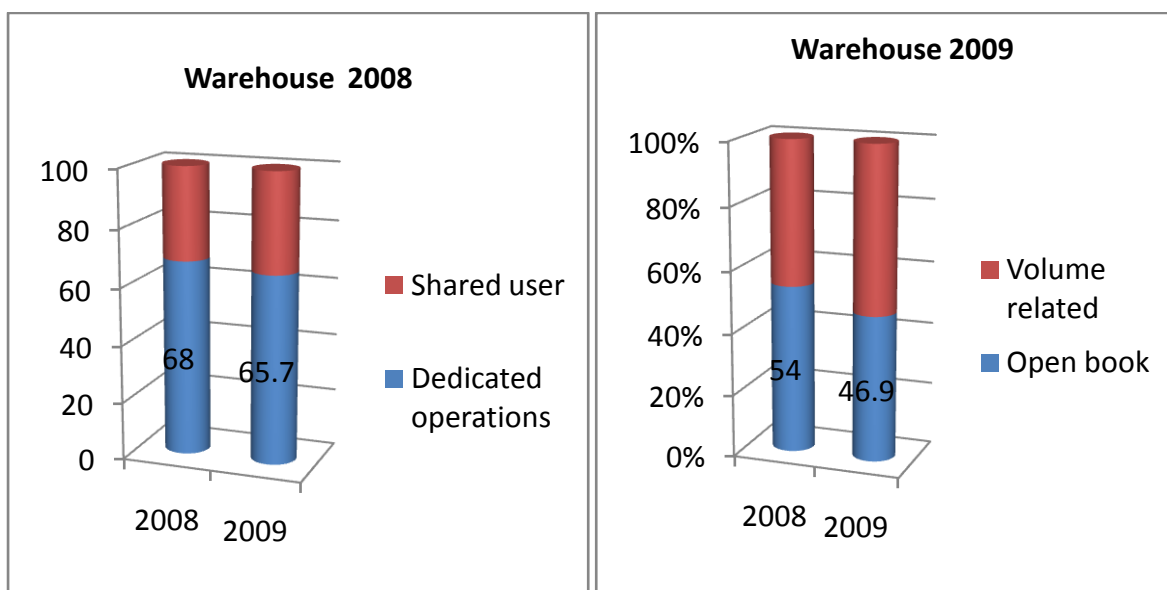


Figure 9 – Types of contracts

Finally when asked what respondents felt were the benefits of outsourcing the top four reasons were the same as in 2008 however the positions had changed slightly with access to greater expertise overtaking cost reduction into first place and flexibility overtaking concentration on core competence into third place. Not surprisingly in the current economic climate the opportunity to reduce capital expenditure appeared in the top five for the first time.

Benefits of outsourcing.

<b>Advantage</b>	<b>Position 2009 (2008)</b>	<b>%</b>	<b>%</b>
Cost reduction	2 (1)	21.5%	15.3%
Access to greater expertise	1 (2)	16.9%	16.8%
Concentration on core competencies	4 (3)	15.4%	8.4%
Flexibility	3 (4)	12.3%	11.6%
Less risk	7 (5)	4.6%	3.7%
Less capital expenditure	5 (-)	>3%	7.9%
Variable costs	6 (-)	>3%	5.3%
Consolidation	- (8)	3.1%	<3%
More professional	- (9)	3.1%	<3%
Effective resource management	8 (10)	3.1%	3.2%
Improved service	8 (-)	<3%	3.2%
Access to new technology etc	8 (-)	<3%	3.2%
Others e.g. 'One stop shop'; purchasing power		20%	<20.0%

Table 1 – Benefits of outsourcing

Finally a number of respondents suggested that they decided to outsource their logistics when they were facing problems. As stated by one of the survey respondents “It is easier to outsource than to define the problem and outsource it”.

This can lead to many problems further into the relationship where customers were expecting the logistics provider to not only solve the problem but also increase service levels and reduce costs. From experience this is a recipe for disaster.

This survey will be repeated again next year and we encourage as many people as possible to take part. Further details will be made available on the Outsourcing and Procurement page of the CILTUK web site.

## **Bibliography**

Armstrong and Associates (2009) 3PL Customers Report Identifies Service Trends, 3PL Market Segment Sizes and Growth Rates <http://blog.outsourced-logistics.com/press-room/?author=25>

CILT UK O & P Forum (2009) O & P survey for CILT UK [www.ciltuk.co.uk](http://www.ciltuk.co.uk)

Transport Intelligence 01/May/2009 by Staff Writer  
[//www.transportintelligence.com/briefs/new-report-finds-global-contract-logistics-market-grows-at-5-in-2008/1714/](http://www.transportintelligence.com/briefs/new-report-finds-global-contract-logistics-market-grows-at-5-in-2008/1714/)