

## LOGISTICS OUTSOURCING – RESULTS OF THE RESEARCH

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**Abstract** The purpose of this article is to analyse logistics outsourcing and assess its influence on the results of contemporary companies on the basis of the selected Polish manufacturing and trading enterprises. The theoretical part constitutes an introduction to the issue of logistics outsourcing in manufacturing and trading enterprises – it shows the concept, essence and determinants of outsourcing the logistics processes in contemporary companies. The analytical part of the study presents the most important issues associated with logistics outsourcing in the surveyed enterprises and also includes an attempt to assess its influence on the performance of the surveyed companies. The results of empirical research presented in this study come from a more extensive study conducted in 2014 through a direct interview concerning logistics processes of Polish manufacturing and trading enterprises.

**Paper type:** Research Paper

**Published online:** 31 January 2015

Vol. 5, No. 1, pp. 33-41

ISSN 2083-4942 (Print)

ISSN 2083-4950 (Online)

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**Keywords:** *logistics outsourcing, logistics processes, manufacturing enterprises, trading enterprises*

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## **1. INTRODUCTION**

Logistics processes include processes of flows of materials and information that are executed by the logistics system which in each economic entity is built differently, usually without possibility of imitation. The globalisation, fluctuations in demand, pressure to cut costs, increasing customer expectations, sharpening competitive struggle, increase of transport costs and increased business risk create a need of professionalization of logistics processes of contemporary enterprises. The efficient and effective flow of materials and information can significantly contribute to the creation of a unique customer value, which translates into a competitive advantage.

Logistics processes are associated with the market; their optimisation requires cooperation of all organizations that are related to each other by suppliers and customers. Nowadays, enterprises strive to create and deliver the highest value to a customer, which in turn translates into increased sales, market share and profitability. Using resources from many sources, domestic and foreign, is one of the ways to create a competitive advantage. Outsourcing is a method that allows enterprises to obtain external resources. The purpose of this article is to analyse logistics outsourcing and assess its influence on the performance of contemporary enterprises on the basis of the selected Polish manufacturing and trading enterprises.

## **2. LOGISTICS OUTSOURCING IN CONTEMPORARY ENTERPRISES**

Outsourcing is a management concept consisting in separating from the parent enterprise's organisational structure realised functions and transferring them to be implemented by other economic entities (Trocki, 2001, p. 13). To outsourcing most often subject those functions which add the least value and constitute competencies supporting the key competencies. In literature, there is a universally shared view that an enterprise should not release any key skills which result from combination of knowledge, expertise, technology, information and specific methods of action thanks to which the company generates income.

Logistics outsourcing consists in relocating resources and using logistics services offered by specialized external entities that at their own risk and usually using their own resources take over the managerial and executive functions of the enterprise. Widely interpreted logistics outsourcing also includes the purchase of a variety of logistics services from external entities without meeting conditions of resources transformation (Witkowski, 2008, p. 79).

In practice, the most commonly used are two types of outsourcing – contractual and capital. The contractual outsourcing arises when an enterprise resigns the realisation of the function in its structure and passes it to an independent economic entity under a contract, that is, an agreement or contract. In contrast, the capital out-

sourcing consists in the fact that an enterprise creates an independent subsidiary, working at its own risk and account, which provides determined services for the enterprise. The capital outsourcing is associated with a change of command and organisational influence on the subordination of the capital and the influence on the ownership. This solution guarantees the security of implementation of dedicated functions (Zimmiewicz, 2008, p. 47), (Jeszka, 2010, p. 221). The selection of one of two types of outsourcing depends also on the value of the products being the subject of the logistics service and the level of technical and organisational development of warehouse and transport technology within the company (Golembaska, 2009, p. 23).

Contemporary enterprises aim to achieve benefits associated with the access to the global market through offshoring, which consists in separating production, services, business processes or their parts outside the country. Making decision about offshoring, logistics managers should take into account all costs associated with the relocation of logistics processes to another country. Hidden costs of offshoring include: management time, lost sales, lost flexibility, reaction time, adjustment costs (Hines, 2004, p. 146). It should be emphasised that logistics processes must be appropriate to the changing wishes and expectations of customers. Changing customer preferences may result in no economic justification of offshoring (Christopher, Lowson & Peck, 2004, p. 371).

Contemporary enterprises compete through supply chains. The essence of contemporary supply chain management is the decision-making process associated with synchronizing the physical, informational and financial flows of supply and demand flowing between its participants in order to achieve by them the competitive advantage and create the value added with the benefit for all its links, customers and other stakeholders (Witkowski, 2010, p. 36). One of the directions of development of outsourcing in logistics is an outsourcing of the supply chain in which the logistics provider is responsible for all logistics processes entrusted to him or her by the ordering party (Jeszka, 2011, pp. 73-74).

In the literature of the subject, universally is shared a view that an essential premise of implementation of the concept of outsourcing is the opportunity to reduce costs of the enterprise. The scope of logistics outsourcing is to a large extent determined by the amount of prices of logistics services, which in turn determine the logistics costs of the enterprise and prices of manufactured and / or sold products. Outsourcing of logistics processes is associated not only with the prices of logistics services, but also with the strategic areas of logistics activities of the enterprise such as (Długosz, 2006, pp. 34-35):

- creating a logistics system of the enterprise,
- forming logistics processes in the enterprise,
- logistics strategies of the enterprise,
- supply chain management of which the enterprise is a participant.

The need to cope with the growing and varying expectations of customers requires enterprises to use the latest technological solutions. Contemporary enterprises replace the costs of inventory, transportation and other logistics costs with cheaper infor-

mation assets (Światowiec, 2006, p. 15). Implementation and maintenance of modern technology in the vast majority of enterprises are entrusted to specialized external entities. Personal motives and ambitions of logistics managers may be a determinant of selecting the logistics service model of the enterprise. The decision to outsource logistics processes leads to changes in the organisational structure, thus disrupts the hierarchy of power and causes reduction in job positions (Rinsler, 2010, pp. 166-168).

The decision to outsource logistics processes is also affected by external conditions. The globalization, growing and changing needs of customers, global economic crisis, pressure to reduce prices and improve customer service, increase in fuel prices, growing competition and growing business risks affect the scale and scope of outsourcing of logistics processes. The literature of the subject emphasises that more and more often determining factors of outsourcing the logistics activities are: access to qualified personnel, strategy development, competitive pressure and improvement in the level of services (Poznańska, 2011, p. 165).

Enterprises expect specific, measurable benefits associated with entrusting the implementation of logistics processes to specialized external service providers. The results of collaboration with a logistics service provider may be benefits such as: increase of customer satisfaction, improvement in flexibility, reduction in economic risk, optimisation of logistics processes, usage of high competencies of logistics companies to improve the competitive position, usage of modern technologies, reduction in engaged capital, usage of licenses and permits owned by a logistics operator, focusing on the core business activities, and better supply chain management. (McIvor, 2008, pp. 24-34), (Schwarz, 2014, pp. 152-164).

The efficiency and effectiveness of logistics processes increasingly influence results of contemporary enterprises. As a result, the risk associated with making decisions about relocating logistics processes outside the company grows. The decision about outsourcing should be connected with analysis of all costs and expected results. If the expected effects are small comparing with the risk, transferring the major but not basic actions outside could undermine the reputation of the company on the market if the logistics service provider fails to meet the terms of the contract (Brdulak, 2002, p. 17), (Krawczyk, 2011, pp. 218-221). Effective cooperation with the provider of logistics services is conditioned by the correct definition of requirements, shared vision of cooperation, flow of information between the provider and the recipient, supplier relationship management, course of the buyer-supplier cooperation and meeting determined requirements (Yang, Wacker & Sheu 2012, pp. 4462-4476 ).

### **3. RESEARCH METHODOLOGY**

Presented in this article results of own empirical research come from a more extensive study concerning logistics processes of Polish manufacturing and trading enterprises. Among objectives of the conducted research was to analyze areas of

application of outsourcing in the enterprise, types of logistics outsourcing, factors influencing the relocation of logistics processes outside the enterprise, criteria for selecting providers of logistics services, benefits of logistics outsourcing, problems arising as a result of relocating logistics processes outside the enterprise. The research was conducted in 2014; to carry it out a direct interview method was used with people responsible for the management of logistics processes in the surveyed companies based on the developed questionnaire. The research concerned the years 2011-2013.

150 small, medium and large enterprises of north-eastern Poland were examined. Medium enterprises constituted 34,7% of the surveyed sample of the enterprises. Large enterprises had a close percentage in the sample (34,0%). The study included 47 small enterprises, which constituted 31,3% of the surveyed population. The study was conducted among manufacturing and trading enterprises. Manufacturing companies constituted 56,7% of the surveyed companies (14,0% small manufacturing enterprises, 22,0% medium manufacturing enterprises, 20,7% large manufacturing companies). Trading enterprises constituted 43,3% of the surveyed population (17,3% small trading enterprises, 12,7% medium trading enterprises, 13,3% large trading enterprises).

Presented in this article results relate to certain aspects of logistics outsourcing in the surveyed enterprises in 2011-2013.

#### **4. LOGISTICS OUTSOURCING IN THE SURVEYED ENTERPRISES – SELECTED ASPECTS**

In order to identify areas of outsourcing in the surveyed enterprises, respondents were asked to indicate which functions had been relocated outside in the surveyed enterprises in 2011-2013. Analysis of the results allowed for the conclusion that in 2011-2013 in the surveyed enterprises the following areas of business activity were relocated outside: execution of procurement transportation (32,0%), repairs of own means of transportation (26,0%), selection of a carrier (24,0%), deliveries of finished products in the country (23,3%), information technology (22,0%), deliveries of finished products outside the country (18,0%), storage (17,3%), advertisement (16,7%), production (14,0%), service of own means of transportation (9,3%), customer acquisition (8,7%), reverse logistics - repairs, refunds, recycling (8,7%), packaging (6,7%), inventory management (3,3%), logistics information acquisition (2,0%). In 2011-2013 29,4% of the surveyed enterprises did not use outsourcing (23 small enterprises, 16 medium enterprise and 5 large enterprises). Logistics managers of medium and large enterprises in which logistics processes were not relocated outside the enterprise underlined that logistics is a key success factor in the line of business and one of the core competencies of the enterprise. The surveyed enterprises using the concept of outsourcing most often relocated outside the enterprise logistics processes related to transportation, creation of the information system, storage, and customer service.

Participants of the research were asked to define the type of logistics outsourcing used in their enterprises. The majority of the surveyed enterprises (55,3%) used the contractual outsourcing. A significant influence on the effects of logistics outsourcing in these enterprises had: appropriate terms of contracts, measures of logistics processes and management of relationship with providers of logistics services. The capital outsourcing was used by 12,0% of the surveyed companies. Managers of enterprises using capital logistics outsourcing emphasized that it is very important to be able to control logistic processes that have a significant influence on the performance of the enterprise. The smallest percentage of the examined population consisted enterprises using offshoring (3,3%). The vast majority of the surveyed enterprises did not use the possibility of relocating logistics processes to another country.

The author analysed factors determining the relocation of logistics processes outside in the surveyed enterprises in 2011-2013. Most participants of the research indicated that in the analysed period a significant influence on the decision about logistics outsourcing had the following factors: desire to reduce costs (64,2%), possibility to focus on their core business activities (61,3%), desire to increase customer satisfaction (50,9%), possibility to reduce the economic risk (31,1%), changing customer requirements, desire to increase flexibility of the enterprise (30,2%). Subsequently, the respondents mentioned the following factors determining logistics outsourcing: possibility to reduce engaged capital (29,2%), reduction in investments (28,3%), possibility to use the licenses and permits owned by a logistics operator (27,4%), transition from fixed costs to variable costs (26,4%), high competencies of logistics companies (26,4%), simplifying the supply chain (25,5%), globalization of the economic activity (21,7%), revolution in information and communications technology supporting supply chain management (17,9%), and organisational changes (17,9%).

The author examined the criteria for selecting providers of logistics services in the surveyed enterprises in 2011-2013. The most often criteria for selecting logistics operators mentioned by the respondents were: price (59,4%), service quality (52,8%), service punctuality (51,9%), flexibility (44,3%), a range of services provided (38,6%). Further, the participants of the research mentioned the following criteria for selecting providers of logistics services: reputation (27,3%), experience in the sector (25,5%), high key competencies (23,6%), usage of modern logistics technologies (12,3%), possibility of technical service of cargoes (3,8%), cultural fit (2,6%). Currently, market conditions cause that enterprises require from logistics service providers higher quality at lower and lower costs. Great significance has also an ability of a logistics service provider to adjust to variable conditions.

The respondents were asked to determine benefits achieved by the surveyed enterprises through relocating logistics processes outside the enterprise. Most often logistics managers indicated the following benefits of logistics outsourcing: reduction in costs (65,1%), increase in customer satisfaction (47,2%), possibility to focus on the core business activities (47,2%), improvement of the flexibility of the enterprise (41,5%), service punctuality (39,6%). Further benefits of logistics outsourc-

ing indicated by the participants of the research were: usage of high competencies of logistics companies to create a competitive advantage (28,3%), optimisation of logistics processes (24,5%), reduction in employment (21,7%), economic risk reduction (18,9%), simplifying the supply chain (16,9%), reduction in engaged capital (16,0%), and better supply chain management (13,2%).

The enterprises using services of logistics operators verify the compliance of the offer with the results. The key problems related to logistics outsourcing have been analysed. Most often the respondents indicated the following key problems associated with relocating logistic processes outside the enterprise: dependence on the service provider (45,2%), higher costs than expected (34,9%), unfulfilled expectations (31,1%), lack of control over some important processes (27,4%). Subsequently, the participants of the research mentioned the following key issues related to logistics outsourcing: difficulties in maintaining the level of quality consistent with the requirements of the company (24,5%), organisational changes (23,6%), problems with coordination and communication (21,7%), demotivation and disorientation of own staff, fear of job loss (12,3%), differences in organisational culture between the ordering party and the contractor (11,3%), deterioration in the quality of customer service (6,6%), loss of key competencies (5,7%).

The analysis of the results of the conducted research allowed for the conclusion that logistics processes have a significant influence on the performance of the surveyed enterprises that result in a need of their professionalization. In the vast majority of the surveyed enterprises logistics did not belong to the core competencies. Logistics outsourcing in many surveyed companies contributed to reduction in costs, improvement of customer service, stimulation to develop key competencies of the enterprise, increase of flexibility, optimisation of logistics processes and, consequently, generation of more sales revenue and improvement of the financial liquidity, which translates into the creation of a strategic advantage. On the other hand, however, many logistics managers indicated that logistics outsourcing has caused negative consequences such as dependence on the service provider, higher costs than expected, unfulfilled expectations, and resulted in the loss of control of important processes. The research shows that the decision about logistics outsourcing and selection of an enterprise providing logistics services must be a subject of a detailed analysis in the enterprise.

## 5. CONCLUSION

The research confirmed that in the conditions of globalization, growing requirements of customers, great fluctuations in demand, retaining uncertainty, pressure to reduce costs and sharpening competition professional management by flow of materials and information significantly reduces logistics costs, achieves a high degree of certainty and flexibility in the course of processes, generates sales revenue

and improves financial liquidity, which translates into the creation of a strategic advantage. The tendency of enterprises to outsource logistics is determined by internal factors and changes occurring in the environment. In most of the surveyed enterprises decision about logistics outsourcing was primarily a result of the desire to reduce costs, focus on their core business activities and increase customer satisfaction.

Only those areas should subject to logistics outsourcing that do not constitute the core competencies of the enterprise. In the vast majority of the surveyed enterprises logistics did not belong to the core competencies. Most of the surveyed enterprises delegated the execution of logistics processes to logistics service providers. Most often relocated outside the enterprise were: logistics processes related to transportation, creation of an information system, storage and customer service. The research has confirmed that logistics outsourcing can result in many benefits. On the other hand, however, in current market conditions the risk associated with making decisions about relocating certain logistics processes outside the enterprise grows. An inappropriate selection of an enterprise providing logistics services could negatively affect the performance of the company. The decision about logistics outsourcing should be the subject of a detailed analysis in the enterprise: the logistics provider must be properly selected and effects of its activities monitored.

Thanks to logistics outsourcing the vast majority of the surveyed enterprises reduced costs. Many of the surveyed enterprises have improved the level of customer service, focused their activities on the core competencies and increased their ability to adapt to rapidly changing market conditions, which had a positive influence on profitability, financial liquidity and competitiveness. An appropriate selection and use of key competencies of logistics service providers contribute to enhancing the efficacy, efficiency and effectiveness of logistics processes of the enterprise, stimulating the development of its core competencies and, consequently, offering customers greater value and creating competitive advantage of the enterprise.

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