

traditional logistics outsourcing, intelligent outsourcing, innovations, mutual relationship, trust, knowledge sharing

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THE NEXT BIG OPPORTUNITY TO BUILD COMPETITIVENESS: INTELLIGENT LOGISTICS OUTSOURCING

Summary. The cost savings and efficiencies associated with outsourcing have been a major factor in corporation's ability to control costs and maintain profitability. There is no question, outsourcing has worked. But new challenges are emerging and high expectations associated with outsourcing are increasingly hard to meet. How can we move forward? The way forward requires a new approach that goes beyond traditional outsourcing and has matured beyond cost reduction to become a way for organisations to better access talent and capabilities, gain more flexibility, reinvent their business model and drive innovation. Thus, business leaders are presented with a unique opportunity – intelligent logistics outsourcing to recast their organizations for the next wave of growth. This new intelligent outsourcing recognizes that the real power of outsourcing is in the innovations, mutual deeper relationship between a provider and its client, measurement and governance. To implement it, a new operating model must be adopted.

NASTĘPNA WIELKA SZANSA DLA BUDOWANIA KONKURENCYJNOŚCI: INTELIĞENTNY LOGISTYCZNY OUTSOURCING

Streszczenie. Oszczędności kosztów oraz skuteczność outsourcingu są głównymi czynnikami, które pomagają korporacji kontrolować koszty i utrzymać opłacalność. Bezsprzecznie outsourcing się sprawdza. Pojawiające się nowe wyzwania oraz wysokie wymagania związane z outsourcingiem sprawiają, że trudno im sprostać. Jak więc można zrobić krok naprzód w tej kwestii? Potrzebne jest nowe podejście do tematu, które wychodzi poza ramy tradycyjnego outsourcingu, takie, które przekroczyło poziom samego obniżania kosztów i stało się sposobem, dzięki któremu organizacja ma większe szanse na sukces, ma więcej możliwości, więcej elastyczności, może na nowo odkryć swój model funkcjonowania i wdrożyć innowacje. Zatem liderzy biznesu dostają nową unikalną szansę – inteligentny logistyczny outsourcing, który pomoże im zreorganizować ich organizacje i da im nowe możliwości rozwoju. Ten nowy inteligentny rodzaj outsourcingu rozpoznaje realną moc innowacji outsourcingowych, wzajemne pogłębione relacje pomiędzy dostawcą usług i beneficjentem, dostrzega istotę pomiarów i zarządzania. Aby go wdrożyć, należy przyjąć nowy model operacyjny.

1. INTRODUCTION

Outsourcing has long been regarded as a successful way for organizations to cut costs and focus on their core business while gaining access to world-class capabilities. Although these drivers are still valid, and even compelling in many situations, they do not represent the full scope of the advantages to be gained by outsourcing.

Traditional outsourcing focused primarily on the tactical advantages gained by transferring an existing function or process to a 3PL (third party logistics) that leverage economies of scale and technology to reduce the costs of the function or process. The objective was to do the same things a bit better, a bit faster, and a bit cheaper. Although these are definitive advantage for a company to have, they are inherently tactical in nature and lack the radical moves driven by rethinking the way we accomplish a process. The value traditional outsourcing can add is limited by its tactical nature and is no longer enough to create a real competitive advantage.

The objective of intelligent logistics outsourcing is to transform the business on an enterprise-wide basis to achieve a strategic competitive advantage and improve processes. This is not simply process re-engineering, rather collaborative outsourcing relationship entered into with 3PL in order to realize strategic business outcome.

This paper includes a brief description of the evolving intelligent logistics outsourcing market and present an analysis of the opportunities it offers, the associated challenges, and the key drivers associated with the move from traditional logistics outsourcing approaches to intelligent logistics outsourcing. The paper concludes with a discussion of differences between traditional and intelligent logistics outsourcing.

The overall aim of this paper is to frame challenges of intelligent logistics outsourcing and to describe how it can take organization beyond outsourcing to decrease obvious costs and substantially increase business process excellence and innovation through a collaborative partnership.

The paper is structured as follows. Section 1 defines traditional logistics outsourcing and specifies its common issues and ailments. Section 2 explains intelligent logistics outsourcing, its present key drivers, success factors and main difference with traditional logistics outsourcing.

2. TRADITIONAL LOGISTICS OUTSOURCING

Traditional outsourcing involves transferring an existing function or process to a logistics provider who either uses the current staff and assets to provide the service onshore, or its own staff and assets to provide the service offshore. It's a relationship between two parties or more which has standard or more customized offerings, encompasses a broader number of service functions and is characterized by a long-term beneficial relationship [1].

As Fig. 1 [10] depicts, the outsourcing of logistics activities can be defined in three levels, the transactional outsourcing, the tactical outsourcing and the strategic outsourcing.

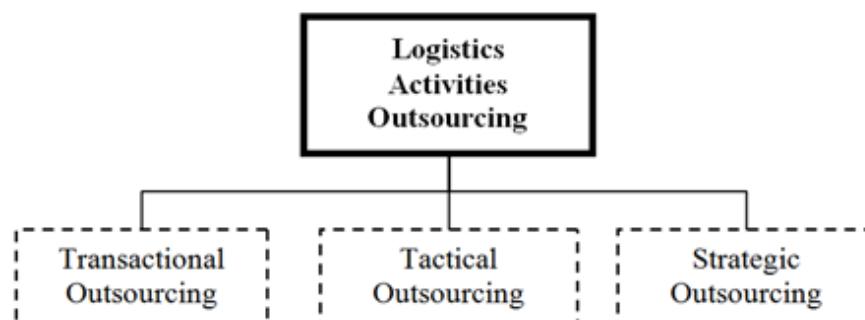


Fig. 1. Levels of logistics activities outsourcing

Rys. 1. Poziomy działań logistycznych w outsourcingu

The transactional outsourcing (2PL) is based on logistics transactions, with no long-term contracts and no bonding between the logistics service provider and the outsourcing company [10]. 2PL provider is generally asset-based logistics provider that manage traditional logistics functions like transport and warehousing [1]. It provides service for a single or a small number of functions in the supply chain. They face low returns, with high levels of asset intensity but low barriers of entry. While the increasing demand for one-stop solutions, many 2PLs have evolved into 3PLs by adding new logistics capabilities and integrating their operations.

The tactical outsourcing (3PL) is the logistics outsourcing on a long-term basis with negotiated contacts and integrated IT system to facilitate free information flow and create supply chain visibility [10]. The 3PL service provider aims to perform a large portion of a client's supply chain logistics activities that will lead to lower logistics costs for its customers and a considerable logistics-network improvement. Its value adding is based on information and knowledge versus a non differentiated transportations service at the lowest cost [34]. 3PL logistics provider ensures one-stop shopping for customers who retain the strategic control over the basic supply chain concept used. In other words, 3PL provider improves the operational effectiveness of chains [35]. What a 3PL logistics provider lacks is the essential involvement in strategic decisions concerning the basic logistic concept and management of information within the logistics network. For this reason the activities covered by a 3PL provider cannot achieve ongoing logistics-network savings and efficiency and cannot develop a superior expertise in transportation, warehousing and other logistics fields [10].

The strategic outsourcing (4PL) is the most advanced and difficult form. It is emerging as a breakthrough solution to modern supply chain challenges, to provide maximum overall benefit [11]. It's based on long-term relationships with successful outcomes where logistics service provider business entities become partners with their clients in the logistics-network management and establish transactional transparency. The 4PL is a supply chain integrator that assembles and manages the resources, capabilities, and technology of its own organization with those of complementary service providers to deliver a comprehensive supply chain [7]. It involves a high integration with the customer often in the form of taking over its whole logistics operations. The possibilities to coordinate customer's logistics rather lie in the know-how, the methods, the knowledge development, and the design of the supply chain [13].

2.1. Benefits of traditional outsourcing

One of the advantages of using outsourcing result from economies of scale and economies of scope, which encourages companies to increase net value by reducing costs. By outsourcing logistics activities, companies can save on capital investments, and thus reduce financial risk. Furthermore, the logistics provider can spread the risk by outsourcing to sub-contractors. Outsourcing also allows saving time mainly due to the outsourcing the logistics functions that can free up resources to focus on core competencies of the company instead on secondary ones. Logistics service providers are also experts of logistics business therefore even if the companies have resources available, a logistics provider may be able to do it better, simply because of its relative position in the supply chain, supply chain expertise and economies of scale [34].

Some advanced logistics service provider (3PL) can also share responsibility for managing global supply chain and are also advantageous when re-engineering distribution networks to meet global market demands and gain a competitive advantage [34]. But 4PL can take things a step further, and look at the supply chain with the customer and redesign it to make it more efficient. They also add higher value to standard services in terms of technological expertise, higher levels of adaptation and customized solutions. 4PLs make sure more agile response is achieved even in complex networks [23].

2.2. Ailments of traditional outsourcing

Although there are several advantages of using outsourcing, some drawbacks also exist. Whether the service is onshore or offshore, the end result is that the traditional outsourcing client company receives a very similar service back from the provider. There must be some cost savings, but not dramatic and there are rarely substantial service improvements in sense of value-added capabilities and differentiation.

If a firm outsources its logistics services, its logistics innovative ability may be impaired. External sourcing doesn't guarantee innovation. During outsourcing contract periods, the logistics providers may not recognize an opportunity to innovate as its focus may be primarily on costs [38]. Outsourcing often provides solid one-time cost reduction, but it does not deliver the continuous ongoing savings that businesses desires, with the exception of 4PL outsourcing [7].

Logistics service providers usually focus solely on lower costs, failing to consider the broader strategic role of collaboration. First, they don't organize effectively for collaboration, believing that innovation can be managed much like production and partners treated like »supplier«. Second, they don't invest in building collaborative capabilities, assuming that their existing people and processes are already equipped for the challenge [16].

Experience and research made by Vitasek, Ledyrd and Manrodt (2010) has found that most of partners in traditional outsourcing really want to enhance and push their own self-interest. This is often known as win-lose or a what's-in-it-for-me approach.

Another ailment that bedevils many outsourcing agreements is the absence or too much complexity of performance measurement system, which directly contribute to the downfall of outsourcing initiative. Even the best performing firms fail to realize their productivity and service potential available from logistics performance measurement [28]. Those firms that do have performance measurement system often create too much metrics and just few of them have the diligence to actively manage all of the metrics they have created [36]. Cohen, Young and Gartner (4) further suggest, that measures shall not be focused just on price and service level, but also on second generation of service measures – relationship measures.

3. INTELLIGENT LOGISTICS OUTSOURCING: KEY DRIVERS AND ENABLERS

As companies no longer see price and reliability as the principle drivers behind outsourcing deals, a more mature and wiser outsourcing market – intelligent outsourcing, has emerged. More and more companies view outsourcing as a way to add value to their organisations as well as gaining additional domain and technology expertise. In this context, the importance of innovation ability (Fig. 2 [33]) within logistics outsourcing increases significantly [16].

Intelligent outsourcing combines three influential business concepts: outsourcing, collaboration (trust and commitment) and innovation (knowledge sharing) and goes well beyond applying Lean principles, as it pushes the companies involved in an outsource relationship to innovate collaboratively to find the optimized solution. The golden rule of intelligent outsourcing is that a company outsourcing should not win at the expense of its service provider and vice versa [36]. Intelligent outsourcing effects continuous strategic change and ties the result of the outsourcing initiative to strategic business outcomes. It aims to re-engineer a process or logistics function so that both the performance improvements and the cost decreases. But the economic advantages for all parties involved are a beneficial result rather than an objective. Those innovative and economics need requires some management and behavioral changes.

When considering a transformational outsourcing solution, it is essential to follow new operating model, which implies development of the logistics service innovation process and another level of the buyer/provider relationship. It is more of a partnership in which an outsourcing provider can demonstrate flair in thought leadership, pro-activity, domain expertise and an ability to adapt and respond to the end user's business requirements. The difference in intelligent outsourcing being that the provider must be trusted absolutely to know the end user's business, the systems that are used and the operations and processes that are to be transformed [18]. It is a collaborative risk – and gain – sharing relationship among the organisations and its service providers to drive enterprise transformation and achieve significant business process improvement. By harnessing the outsourcing process, and working in tandem with the supplier towards the same goals, intelligent outsourcing can have a strategic effect on achieving company goals.

3.1. Innovation development as a key driver

In a globally connected economy, where standing still almost certainly leads to vulnerability and obsolescence, innovation has become a top priority. Coupled with increasing rate of change and technology adoption in the business marketplace, innovation is reinventing even the most sacrosanct

business model. It's enabling organizations to improve current processes, increasing agility and reduce costs.

Companies can achieve competitive advantage through act of innovation, and they can approach innovation in its broadest sense, including both new technologies and new ways of doing things. While the areas of core innovative competency may be the source of top-line growth, is is often the non-core areas that consume the largest percentage of companies resources and management time, but on the other hand starve the innovation [30]. As logistics and logistics management has become an important source of competitive advantage, one of the keys to effective supply chain management is to make the logistics function more efficiently. This is the reason that many logistics providers in addition to transportation and warehousing functions offer other value-added services and try to improve their operation efficiency. It is important for logistics service providers to accumulate and use their skills and knowledge efficiently and consistently to make them become innovation-based logistics service providers [24]. They began to emphasize the need to continuously drive innovation with customers and remain focused on increasing the value created for customer in order to compete effectively [9]. Intelligent logistics outsourcing enables company to focus on its core competency while its logistics provider takes responsibility for innovating change and cost control in non-core operations.

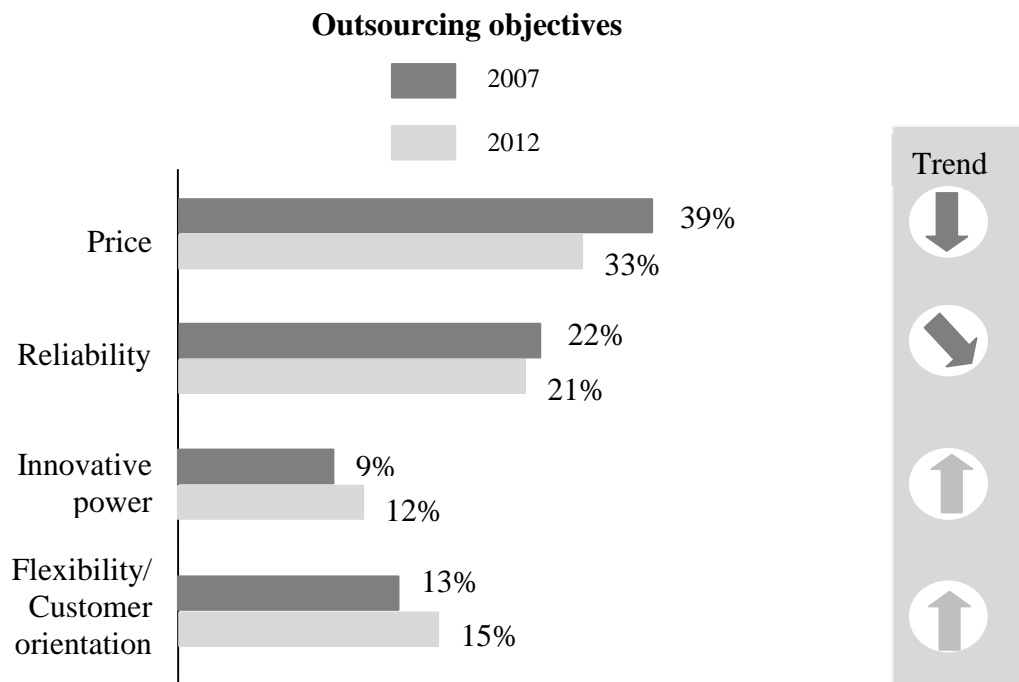


Fig. 2. Outsourcing objectives
Rys. 2. Cele outsourcingu

Several innovations have been developed to advance the logistics systems. These innovations can be classified broadly into innovations to improve individual processes of logistics, and innovations to improve the logistics system totally [34]. But the global marketplace, with ever changing technological and relational options, has driven businesses to look for new ways to innovate [9]. The reduction of costs and the modularization of services are no longer the most important objectives for innovation in logistics (Fig. 3 [16]). Modularization of logistics services refers to the breakdown of the logistics service chain into single activities and subsequent re-bundling into meaningful service modules.

The aim is to re use these service modules for multiple customers. Cost-oriented innovations have been replaced by customer-centric innovations. The most important innovation objective is likely to be creating new services to cover existing customer requirements and stimulate new ones.

3.2. Knowledge sharing

The management of innovation is changing. Innovations are nowadays increasingly brought to the market by networks of firms, selected according to their comparative advantages, and operating in a coordinated manner. In this new model, organizations de-construct the innovation value chain and source pieces from partners that possess lower costs, better skills and/or access to knowledge that can provide a source of differentiation. Firms increasingly seek superior performance in innovation through collaboration [16].

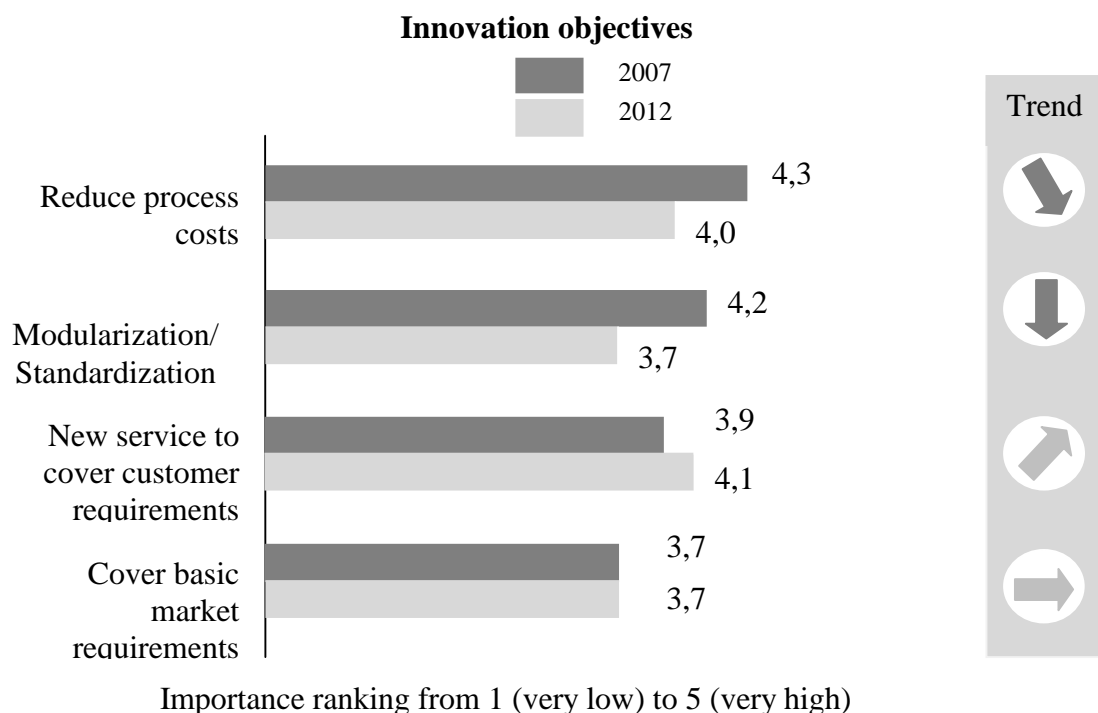


Fig. 3. Innovation objectives
Rys. 3. Cele innowacji

Also firms within intelligent logistics outsourcing began looking at outsourcing as a means of benefiting from skill-sets of outside providers. More and more outside logistics providers possess skills that are either not readily available within a firm. The external and internal team have to collaborate on the specifications of the product or service, the existing know-how about the technologies available, etc [2]. Such collaboration gives a company unique opportunity to offer high quality work, new or improved types of processes, services or products, that could attract premium prices and thus increase profit margin [5], that differentiate successful companies from players who offer cost-arbitrage and give them a sustainable place in the world markets [12].

3.3. Collaborative relationship

Innovation and transformation are the »keys to the kingdom«, but to achieving them requires the buyer and provider to establish a truly aligned relationship which should be based on communication, mutual trust, openness, shared risk and shared rewards that yield a competitive advantage resulting in better performance than it would be without the collaboration [15]. The firms that need to innovate should ensure the innovative partnership that allows them to acquire additional knowledge [29], leveraging outsourcing providers' technological know-how to launch marketable solutions that attack longstanding company problems [8] and helping to find the right balance between performance and price [32].

Innovation partnership is a natural extension of these new outsourcing relationships. It must be structured with a strong collaborative commitment. The client should be the lead participant in the process, sharing business requirements and industry insights and actively appraising researchers' ideas and logic to ensure that they support the client's desired visions. The provider brings to bear an enormous breadth of capabilities and assets, an understanding of what is possible. Together the client and provider seek the best solutions, independent of source, to the unique client challenges. Like providers, client must be willing to assign their best people to the innovation effort to impart knowledge, brainstorm and assess the worth of new ideas.

Innovation partnership gives client companies direct access to the outsourcing provider's extended capabilities, including research, development and consulting as well as the provider's own experience and best practices. The result are often life-changing for companies, enabling them to implement better business and technology solutions and to find new, more profitable ways of doing business they never could have done on their own [8].

3.4. Trust and commitment at central stage

The antecedent factors proposed for relationship quality are: interdependence of parties in the relationship, service quality, perceptions of strategic salience, perceptions of risk, trust and commitment [27]. Trust is a vital element of any relationship. It is predictor of positive performance within interorganizational relationships, which allows greater benefits of knowledge transfer, joint learning and the sharing of risks and costs associated with exploring and exploiting opportunities [17]. For innovative outsourcing a new level of trust and intimacy between organization and their outsourcing partners should be developed. It is inherently a trust-based process that demand a exceptional integrity of the participants. The role of the intelligent outsourcing partner is that of a trusted advisor and executive-level team member with shared values and shared integrity, rather than simply that of a contractor for-hire [30].

Also commitment is one of the factors that are often used to describe a good partnering relationship. Commitment means that both parties have been committed to the relationship, its needs and requirements, and are ready to do their best to fulfill them. It can be shown in different ways but maybe one of the clearest signal is win-win mentality [19].

3.5. How is intelligent outsourcing different from traditional outsourcing?

The greatest risk in traditional outsourcing is focusing exclusively on costs and ignoring innovation initiative – this is simply being shortsighted. While outsourcing will often deliver reduced costs, the focus of traditional outsourcing is too often replicating the status quo. Improving process excellence and promoting innovation are not prime objectives of the traditional outsourcing process [20].

Intelligent outsourcing on the other hand, is accompanied by a renewed attention on excellence and innovation among the organization's core process initiatives. From an innovation and long-term competitiveness perspective, the traditional cost concerns are far less important than the question of how to identify and to retain a company's competitive core and not to lose its future ability to compete in fast-moving and unpredictable markets [14].

Beside this intelligent outsourcing looks at how organizations will need to partner with service providers to integrate competencies in order to achieve substantial innovations [30]. Intelligent strategy creates a much more intimate trust-based relationship between the organization and its outsourcing partner (Table 1 [20]). This sort of partnership not only achieves cost savings, but also establishes pre-eminence and differentiation [20] and may result in higher levels of innovation in core as well as non-core processes. In addition, this sort of partnerships opens the doors to new opportunities for outsourcing processes that otherwise may not have been considered as candidates for outsourcing [30].

Intelligent outsourcing relationship leads to long-term value creation for both parties – a win-win scenario. It never loses sight of the fact that the relationships is a bilateral one. Just as the client company seek to save money, reduce risk, and/or enhance the quality of its operations, the service

provider seek to earn a profit, build on its service capabilities, and leverage its growing expertise for the future. Fortunately, these goals are complementary [3].

4. CONCLUSION

Many companies have successfully used outsourcing to lower costs. But, unless the company's efforts are unusually good, true competitive advantages is fleeting when competitors begin outsourcing and achieving similar results. Traditional outsourcing doesn't support business growth too, like access to talent and capabilities, and can't generate incremental savings forever. Beside this singular focus on cost saving often penalizes business flexibility and innovation. Saving money is important, but so is access to talent, capabilities and business flexibility. From an innovation and long-term competitiveness perspective, the traditional cost concerns are far less important than the question of how to identify and to retain a company's competitive core and not to lose its ability to compete in fast-moving and unpredictable markets.

Table 1

Traditional outsourcing vs. intelligent outsourcing

TRADITIONAL OUTSOURCING	INTELLIGENT OUTSOURCING
CUT COSTS Focuses on cutting costs.	CUT COST + INCREASE INNOVATION Combines cost cutting with increased innovation.
STREAMLINE OPERATIONS Focuses on operational areas.	STREAMLINE THE VALUE CHAIN Consider the entire value chain.
PARTNER ON WHAT YOU KNOW Works well with defined processes.	PARTNER TO DEFINE WHAT YOU DON'T KNOW Helps to define all processes from major to obscure.
COMMODITIZE Create homogeneous processes that lack differentiation.	DIFFERENTIATE Inovates processes to increase differentiation.
TACTICAL IMPROVEMENT Used when markets are predictable.	STRATEGIC EXCELLENCE Used to align with shifting markets.
DISCONTINUOUS Changes in technologies and architecture are disruptive to the business processes.	CONTINUOUS Thoughtful leadership combined with constant innovation buffer the business processes from technology change.
ARM'S LENGTH PARTNERSHIP Creates yet another enterprise silo.	TRUST-BASED PARTNERSHIP Engenders trust and collaboration leading to greater value.

Some companies have discovered even greater returns are possible and are now using an advanced form of outsourcing – intelligent outsourcing, to reinvent their business model, drive new revenue and increase innovations. A greater focus on innovation also helps outsourcers differentiate themselves from competitors [21]. Effectively adopting this advanced approach requires adjustments to traditional outsourcing model. Intelligent outsourcing model is a promising win-win model that breaks the cycle of negative compromises associated with traditional outsourcing and forces enterprises to invest appropriately in accelerating innovations, improving business flexibility and driving additional value [25].

Driving additional value means moving towards a more sophisticated relationship in order to create value beyond simple cost cutting. It is a collaborative risk and gain sharing relationship among the organisation and its service providers to drive enterprise transformation and achieve significant business process improvements. By harnessing the outsourcing process, and working in tandem with

the provider towards the same goal, intelligent outsourcing can have a strategic effect on achieving company goals and identifying new business opportunities. Cooperation does play an adequate role in the partner effort to consolidate the mutual relationship that will last and contribute to their profitability. It's one of the most important factors for improving logistics outsourcing performance on two dimensions: goal achievement and goal exceedance. Although the result from in-depth interviews made by Križman (2009) shows that the effect of cooperation is stronger on goal achievement than it is on goal exceedance.

Also firms in the logistics service industry (logistics service providers) have to operate and survive in a competitive marketplace characterized by, for example, legislative changes, deregulation and consolidation, and shipper's demands for ever-higher levels of service. Their competitiveness increasingly depends on their ability to adopt innovations that add value to shipper bottom line. Logistics service provider can assist their client firms in two ways, by direct involvement in new product development and/or any of the chain of activities that the firm must perform in order to offer the new product/service [37].

This shift, from traditional outsourcing to intelligent outsourcing has become a competitive necessity for all. Innovative logistics service providers can reap first mover advantages, increase customer satisfaction and retention, and capture larger shares of the market. For organizations innovation represent not only the opportunity to grow and survive but also opportunity to significantly influence the direction of the industry. By setting the rules of the game in the industry companies takes a leadership position and play the game that favors them the most [6].

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