Chapter 1
General Views of Logistics, Outsourcing, and Logistics Outsourcing

Leonidas Baziotopoulos
Logistics & Business Consultant, Greece

ABSTRACT

There seem to be a definitional confusion in the management literature about what is meant by the term "outsourcing." Several years ago, the control of the product development cycle from raw materials through delivery of product to the customer became important, and the typical examples of make or buy (internalize or externalize) and vertical integration appeared. A theoretical clarification of outsourcing, however, must essentially be grounded in an answer to the question of what is within the firm and what is outside? This chapter presents extensive literature review of definitions on logistics, outsourcing, and logistics outsourcing, as well as empirical evidence on outsourcing decisions. Nonetheless, the author believes that outsourcing must be regarded as a management strategy by which a firm hands over non-core business operations and/or services to efficient outside service specialists, in order to support the core strategy of the client organization.

INTRODUCTION: A GENERAL VIEW OF LOGISTICS

A particular definition of logistics is given by the Council of Supply Chain Management Professionals (2006, pg. 88) (formerly known as Council of Logistics Management), which states that logistics management is: "the process of planning, implementing, and controlling procedures for the efficient and effective transportation and storage of goods including services, and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements. This definition includes inbound, outbound, internal, and external movements."

The above definition entails the flow of goods, services and information in industry sectors, such as manufacturing and service sectors. Within the manufacturing sector there is the production of goods, such as consumer products, chemicals, elec-

DOI: 10.4018/978-1-4666-2008-7.ch001

tronics, and so forth. The service sector includes firms, such as retailers and wholesalers who sell the goods to the final customer. After discussing the logistics concept in the previous sections, it is important at this stage to outline what outsourcing means, how it is considered by the organizations and what the outcomes might be when a company decides to deal with it. However, these critical issues will be examined with greater detail in the next chapters.

In that vein, a compilation of definitions regarding outsourcing can exemplify the above-mentioned questions. Deavers (1997, pg. 504) argued that outsourcing is used to "describe many different kinds of corporate action, all subcontracting relationships between firms…hiring of workers in non-traditional jobs, such as contract workers, and temporary and part-time workers, etc." However, it is "the process of transferring an existing business activity, including the relevant assets, to a third-party" (Lonsdale and Cox, 1998, pg. 31). "These activities are outsourced to companies that specialise therein, in other words for whom these activities are core competencies" (Lynch, 2000, pg. 35). Outsourcing, therefore, is a "strategic decision by which certain services that are not part of the core competencies essential to providing the operation are acquired outside the firm by means of agreements or contracts with companies more able to perform those services in order to improve the competitive advantage" (Espino-Rodriguez and Padron-Robaina, 2004, pg. 288).

The outsourcing decision is therefore a strategic concern (e.g. Quinn & Hilmer, 1994; Quelin & Duhamel, 2003; Espino-Rodriguez & Padron-Robaina, 2004) for the organization and any outsourcing scheme must be connected with the company's long-term strategies. Additionally, there are various reasons identified in the literature that affects a firms' decision to outsource its activities (e.g. Greaver, 1999; Hormozi et al., 2003), such as improvement driven reasons, cost driven reasons, employee driven reasons, financially driven reasons and so forth. However, the above reasons are better examined in the next sections.

On the other hand, the long-term results of outsourcing could be also negative, since outsourcing initiatives can also be connected with various difficulties. A problem, although, with regard to outsourcing is the degree in which exists real loss of control over the outsourced activity (e.g. packaging, transportation, order processing, etc). The third party that it is occupied by the enterprise it can also be incompetent to reduce costs or can offer poor knowledge and technology skills and fail to afford improvements in the service and a reduction in time towards the outsourced activity. It is important, therefore, for a firm that is considering an outsourcing strategy to occupy the necessary managers in the decision-making and actual outsourcing processes which must contain, for instance, the careful selection of the best likely service provider(s) for the outsourced activity. The company must also be careful that the appropriate relationship is decided upon a well-defined outsourcing agreement with a service provider.

A General View of Logistics Outsourcing

While many companies are seeking to manage their logistics operations strategically, they recognize that competitive advantage is not achieved at the extent they desired, as they lack the core competencies. Consequently, firms are seeking to outsource their logistics activities. Given the trend towards logistics outsourcing, the extent of its usage has been widely examined, particularly in developed nations, such as the US and UK (e.g. McKinnon, 1999; Lieb & Bentz, 2004; Langley et al. 2002; 2005; Langley, 2006; Sohail & Sohal, 2006).

Moreover, a growing awareness that competitive advantage comes from the delivery process as much as from the product has been influential in considering logistics from a strategic perspective, that is forming partnerships with third party providers. In order for companies to handle their