Chapter 19
Measuring Performance of Logistics Outsourcing Services

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ABSTRACT

As the business competition is becoming more intense, there has been a great pressure to the logistics service providers to demonstrate its contribution to the organizational performance. Consequently, there has been a tendency of studies focusing at measuring the logistics service performance within various perspectives. This chapter provides a review on several significant studies that measures the performance of logistics services followed by presenting an empirical study on measuring logistics performance as perceived by the customers in the UK context. The empirical results confirms the relationships and consequent effects of LSQ-satisfaction, relationship quality, and customer loyalty-by providing a process model that shows the process of how customers would stay loyal in the logistics outsourcing business relationships by using exit intention as the output variable. The model in this study can greatly assist the logistics outsourcing companies in measuring the performance of their services. It helps the logistics companies understand how their customers measure the quality of their relationship experiences in receiving the logistics services provided by the logistics companies.

INTRODUCTION

Logistics outsourcing has been widely accepted since in the mid 1980s followed by a series of deregulation of freight transportation industries (e.g. Bask, 2001; Laarhoven *et al,* 2000; Berglund et al, 1999; McKinnon, 1999). Consequently, the market for logistics outsourcing has experienced fast growth as the total revenue for outsourced logistics globally has reached US$501 billion in 2008 representing an average growth rate of 11.8% since 1997 (Armstrong and Armstrong, 2009). The European logistics outsourcing market, for example presented the highest revenue, i.e. US$171 billion followed by the North America, which showed an annual logistics outsourcing

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expenditures of US$148 billion, followed by the Asia Pacific global revenue of US$118 (Armstrong and Armstrong, 2009). Similarly, US gross revenue indicated US$127 billion in the same year signifying a growth rate of 12.5% since 1996. Many researchers and practitioners expect that the industry will experience a substantial growth in the coming years (e.g. Lieb and Bentz, 2005; Bask, 2001; Berglund et al, 1999; Coyle et al, 1996), reaching the stage of maturity, which leads to the emergence of market segmentation. Consequently, there is a tendency among the logistics service providers to focus their activities on one of the market segments (Berglund *et al,* 1999).

The significant factors influencing logistics outsourcing has been resulted from a wide recognition of outsourcing as a company's strategic approach to lowering costs and gaining competitive advantage (e.g. McKinnon, 2001; Elmuti *et al,* 1998). Since then, there has been a great pressure to the logistics service providers to demonstrate their contributions to the organizational performance (Rutner & Langley, 2000). Various attempts have been made by researchers to find various ways on how to associate the logistics service performance to superior organizational performance. Consequently, there has been a tendency of studies focusing at measuring the logistics service performance within various perspectives. This chapter provides a review on several significant studies that measures the performance of logistics services followed by presenting an empirical study on measuring logistics performance as perceived by the customers.

A REVIEW OF LOGISTICS SERVICE PERFORMANCE MEASURES

Since the early 2000s, practitioners and researchers realize that a priority should be given on measuring logistics service performance. This has resulted from the increasing awareness of the strategic implications of logistics service towards the organizational performance excellence (Fugate *et al,* 2010). As a result, various measures have been developed and empirically tested in producing most reliable and valid measures. Various approaches such as financial, strategic management, operations management and marketing have been used to measure the performance of logistics service.

The earlier approach measures the output of logistics service performance more directly, in which it measures the direct impact of logistics service performance on the organizational financial performance. These approaches were viewed from the financial perspective. Those measures include costs, profitability and return on assets or investments. Simultaneously, "hard" measures such as order cycle time, order accuracy, punctuality, etc were also quite significant (Brewer and Speh, 2000; Morash *et al,* 1996), in which Gronroos (1985) regard it as the technical quality. Fugate et al (2010) considered these two types of measures as the traditional logistics performance measures. In the area of management, several other researchers integrate corporate strategy into logistics service performance (Lambert & Pohlen, 2001; Zacharia & Mentzer, 2004) when using it as a tool to manage strategically. Mentzer and Konrad (1991) describe logistics performance as effectiveness and efficiency in performing logistics activities. This description was extended by Langley and Holcomb (1992) by injecting some marketing elements of logistics differentiation as the key element of logistics performance due to the duo function of logistics activities that is to provide customer value as well as to be the performance indicator of logistics service.

Logistics Service Performance Measures from Marketing Perspective

Various marketing theories have been used as the most common approach that lead to its establishment. Kent and Flint (1997) highlight that customer service and satisfaction has been one of