

# Chapter 24

## Loyalty and Disloyalty in Logistics Outsourcing Relationships

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### ABSTRACT

*The goal is to identify factors that lead to continuity as well as changes in logistics outsourcing relationships. This may entail an intention to change the service provider or alter the scope of an outsourcing arrangement. Service performance and facilitating factors, notably good inter-firm relationships, play a key role in predicting outsourcing relationship continuity. By contrast, it is the failure in personal service performance that is the critical factor behind the buyer's intention to switch the service provider. The buyer's intention to extend the scope of outsourcing does not show a significant relationship with any of the antecedent factors. The study is based on survey data of 235 industrial companies in Finland. Multivariate methods including factor analysis and regression equations are used to test the relationships between the antecedent factors and the various aspects of loyalty or disloyalty in logistics outsourcing arrangements.*

### INTRODUCTION

Consultancy surveys and academic studies generally show high levels of satisfaction among shippers towards logistics service providers (LSPs)

regarding service performance in outsourcing relationships (also known as third party logistics, 3PL). Theoretical and empirical research in service management also shows that customer satisfaction strongly correlates with loyalty (see e.g. Olsen, 2002). Customer loyalty is beneficial for the seller because it is more expensive to

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acquire new customers than to get a resale from existing ones. However, also buyers may benefit from long-term relationships through reduced bargaining costs and proven service.

In logistics, Cahill et al. (2010) found that the average length of relationship between the service buyer and an LSP is 5.5 years, indicating that customers stay loyal to the service providers in outsourcing arrangements. Similarly, Juga et al. (2010) observed that satisfied customers tend to continue the relationship with their logistics providers and are willing to recommend the service provider to their business partners. However, when it comes to extending the scope of an outsourcing relationship, there is no association between the buyer's satisfaction and its intention to outsource additional activities to the service provider it currently uses (Juga et al. 2010).

This study examines those aspects of loyalty in outsourcing relationships that have largely gone neglected in previous studies. The goal is to identify factors that lead to continuity as well as changes in outsourcing relationships: this may entail an intention to change the service provider or alter the scope of an outsourcing arrangement. Besides relationship continuity, it is also important for service providers and service buyers to recognize the reasons for changes in outsourcing relationships: why some buyers are willing to switch the service provider (disloyalty) – and, indeed, why some buyers are willing to outsource more with present and new service providers.

The empirical data was collected in 2008 from 235 industrial companies in Finland. The survey was administered over the Internet using the 'Webropol' tool for online surveys. The companies selected for the survey represented various industry sectors that consume logistics services, such as manufacturing, retail trade, construction and primary industries such as mining. The overall response rate was 22.5 percent. Numerical analyses were conducted using the SPSS statistical software package.

The paper is structured as follows. First, key concepts are introduced and their hypothesized relationships are presented based on extant literature in service management and logistics; thus providing an interdisciplinary approach to this study. The research method and empirical data collection techniques are then described, together with the operational measures of the theoretical constructs. Next, the empirical findings are presented, followed by discussion and conclusions together with further research suggestions.

## **THEORETICAL BACKGROUND**

Customer loyalty is a critical, yet elusive concept. It has an attitudinal and behavioural dimension (Dick & Basu, 1994) and involves different stages (Oliver, 1999) or commitment levels from retention to repurchase and referral (Michael, 2007). Loyal customers are less costly to the seller than acquiring new ones and also increase revenues through repeat sales and referrals (e.g. Reichheld et al., 2000). Besides sellers, however, loyalty may also involve advantages for customers through functional benefits such as time savings and convenience as well as social benefits such as good relationships with business partners (e.g. Reynolds & Beatty, 1999).

Customer loyalty is strongly associated with satisfaction (see e.g. Olsen, 2002; Bodet, 2008). This link is well established in different business contexts (e.g. Homburg & Giering, 2001; Homburg et al., 2003) and has been verified in numerous service quality studies (e.g. Johnson et al., 2001). Zeithaml et al. (1996) attributed various behavioral consequences to the buyer's satisfaction with perceived service quality; these include positive intentions (say positive things and recommend the company, remain loyal to the company, spend more with the company, pay price premium) as well as negative intentions (say negative things, switch to another company, complain to external agencies, do less business

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