

## **LOGISTICS OUTSOURCING IN MANAGEMENT STRATEGY IN SME – SURVEY RESULTS**

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**Abstract:** The implementation of logistic outsourcing in management strategies gives chance SME to transfer particular business activities to more specialized outsourcing providers. In this article, the author presents results of research on outsourcing role in management strategies in small and medium-sized enterprises functioning in Czestochowa district and surrounding. Presented analysis was focused on the selection criteria for outsourcing providers, cooperation between SMEs and outsourcing companies and outsourcing future development in the surveyed organizations.

**Key words:** logistics outsourcing, SME, outsourcing reasons.

### **1. Introduction**

Nowadays it is possible to distinguish at least three forms of the correct and effective realization of logistic services. They can be carried out as part of an enterprise, as well as through the assumption or the purchase of an enterprise carrying logistic processes out. The third possibility is the outsourcing of functions or services. So called outsourcing, according to the definition formulated at the end of the last century by M. F. Greaver, consists in handing over internal tasks repeating itself within an organization, as well as all employees, machines, devices, the equipment, the technology and other stores needed, and finally decision-making competence concerning using them, to outside contractors according to the provisions in the agreement (contract) [5].

The outsourcing quickly became widespread in various business domains, so as: administration, finances, marketing, personnel management, logistics, than includes the entire supply chain [7].

M. Trocki pointed that economic development as well as the competition accompanying inseparable on the market contributed for popularizing the phenomenon of the outsourcing. It extorted newer and consequently more effective forms of action in enterprises aimed on concentration of the organization on crucial activity [9]. Outsourcing of logistics services may take a variety of sizes and shapes. In its most extreme form it leads to total liquidation of own logistics system and taking on responsibility for logistics management by external operator [4].

R. C. Lieb considered that growing interest with logistic outsourcing can already be noticed for many years, also in small and medium-sized enterprises. It is also has a result in increasing number of works and scientific papers about this subject [6].

Small and medium-sized enterprises constituting the SME sector are dynamically developing companies with a growing importance for economy of particular countries. It is most of all showed by the number of already functioning businesses in this sector. The development of the SME sector triggers the development of particular regions as well as particular countries. Outsourcing is definitely among the concepts that develop the sector

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and stabilize its functioning. Introducing outsourcing in companies of the SME sector creates innovative ways to manage them [3].

Over the last few years the importance of outsourcing has grown, so it became a very common concept used by more and more organizations. Companies use outsourcing services to reduce logistics costs, mainly transport, warehousing, inventory carrying, customer service [8], then increase efficiency and to gain competitive market position. Currently there are many companies providing this type of service. They are trying to compete each other, mainly on price and quality of services. Consequently, small and medium-sized enterprises sign profitable contracts with their outsourcing providers.

Increased competition, globalization of markets, and other emerging characteristics of the contemporary world have forced small and medium-sized enterprises to use all their best resources and core competencies to exploit business opportunities and to succeed [2]. That is the reason why outsourcing becomes one of the most popular elements in management strategy in SMEs. Outsourcing give chance to transfer particular business activities to more specialized outsourcing providers enables innovative companies to reduce risk and produce products on a large scale. These changes have enabled companies to minimize fixed costs of production. Outsourcing become for SMEs a useful business tool to focus crucial resources on core competencies that are related to fostering innovation [1].

## **2. Outsourcing in SMEs – survey results**

The main purpose of the survey was to analyze outsourcing role in management strategies small and medium-sized enterprises functioning in Czestochowa district and surrounding.

The survey was conducted in autumn of 2012, among 68 small and medium-sized enterprises from different sectors in Czestochowa and nearby districts. Finally, the research sample consist of 50 enterprises those research response were enough precise to include into the consideration. The purpose of the survey was to determine and analyze information about the scope of cooperation of small and medium-sized enterprises with outsourcing companies and to measure the level of customers' satisfaction. The survey also allows obtaining information about outsourcing contracts, selection criteria for outsourcing providers or future of outsourcing in the organizations.

The sample consists of small and medium-sized enterprises. As can be seen from this table, production companies constitute 54% of respondents (27 enterprises). The second large group consists of trading companies, which comprises 26%, while the third are service companies (18 % of respondents). One enterprise belongs to other sector. Most of respondents are production companies which cooperate mainly with transportation companies.

The surveyed firms function various time on the market so they can have different experience in outsourcing implementation. Almost half of respondents (46% – 23 enterprises) conduct business activity for 5–10 years, 34% of them (17 enterprises ) over 10 years. The next and the smallest group are newly created enterprises operating on the market for 1–5 years (Figure 1). The data seems to suggest that enterprises conducting business activity since a few years more willingly decide to use outsourcing.

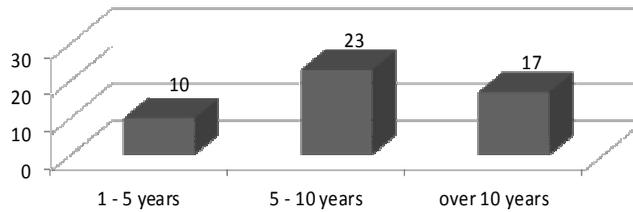


Figure 1. The period of company existence on the market  
Source: own study based on the survey

A significant majority of the surveyed firm, over 50%, are medium enterprises employing 51–250 employers. Small and micro enterprises account to 20% of the sample, each (Figure 2).

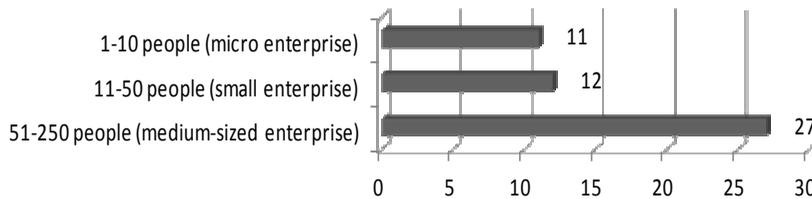


Figure 2. The volume of employment  
Source: own study based on the survey

Considering the period of outsourcing collaboration, the results show that, most of respondents (46%) have used outsourcing from 3 to 5 years. This group constitutes 23 enterprises. 30% of respondents (15 enterprises) outsourced services less than one year. The next, and also the smallest group were enterprises using outsourcing from 1 to 3 years (24%). Outsourcing is not a brand new strategy for SME, they have been using it since a few years, generally (Figure 3).

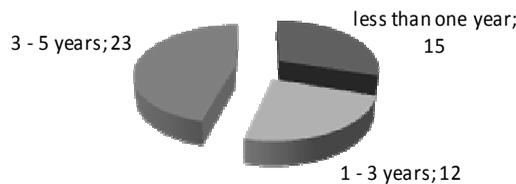


Figure 3. The period of cooperation with outsourcing company  
Source: own study based on the survey

The data reveal that for small and medium-sized enterprises, which decided to use outsourcing, the most important reasons were: responsibility reduction (22 respondents) and reduction of costs (20 respondents). Less important were such reasons as: risk-sharing (14 respondents) and acquiring the resources that company does not possess (13 respondents). The least important reason was releasing own sources for other purposes (9 respondents). Enterprises did not determine any other reasons (Table 1). More and more companies are

using the outsourcing services to reduce costs, increase efficiency and to gain competitive market position.

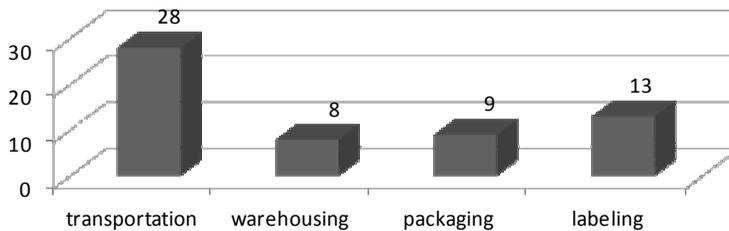
Table 1

*Outsourcing implementation reasons*

Reasons	Number of answers
reduction of costs	20
responsibility reduction	22
releasing own source for other purposes	9
acquiring the resources that company does not possess	13
risk – sharing	14
other	0

Source: own study based on the survey

It can be seen from Figure 4 that transportation is the most often outsourced logistic function. 28 small and medium-sized enterprises use this type of outsourcing services. Significantly less enterprises outsource such function as: labeling (13 respondents), packaging (9 respondents) and warehousing (8 respondents). It is apparent from figures that nearly 50% of respondents cooperate with transport companies. One of reasons may be a fact that having its own cars is quite expensive.



*Figure 4. Logistic functions outsourced to logistics providers*

Source: own study based on the survey

The figures reveal criteria of logistic provider choice. Price of offered services was the most important criterion for respondents (nearly 50% of respondents indicated this criterion). The next important criteria were location, range of services (18 answers each) and recognized position in the market (14 answers). Less important were experience (7 answers) and company size (only 1 answer). Enterprises did not indicate any additional criteria (Table 2).

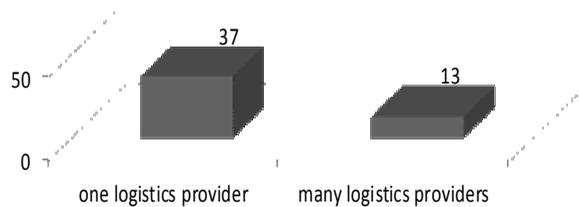
Table 2

*Criteria of logistics provider choice*

Criterion	Number of answers
recognized position in the market	14
company size	1
experience	7
location	18
prices	24
range of services	18
other	0

Source: own study based on the survey

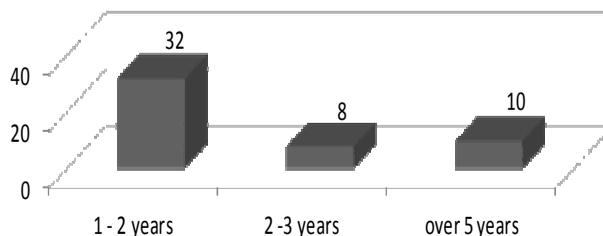
Figure 5 shows if enterprises cooperate with one or more logistics outsourcing companies. Most of respondents (74%) cooperate only with one outsourcing company. Other respondents use services outsourced from many companies. Figures confirm that small and medium-sized enterprises outsource logistics services rather from one company, but if they have more logistics providers, their number oscillates between 2 and 7.



*Figure 5. Mono or multi outsourcing partners*

Source: own study based on the survey

Figure 6 presents the time period for which the contract is concluded with an outsourcing company. More than a half of respondents signed contracts with outsourcing companies for 1–2 years. Significantly less, only 20% of respondents for over 5 years and just 16% for 2–3 years. The data seems to suggest that enterprises prefer to sing contracts for a shorter period of time.



*Figure 6. The time period of contract with an outsourcing company*

Source: own study based on the survey

It is important that 16 surveyed small and medium-sized enterprises outsource all logistics functions from external companies. Others 34 realize some logistics functions within the company. Although enterprises use outsourcing, 68% of respondents do not outsource whole logistic functions to external companies. Only 32% of respondents do.

Table 3 presents the level of satisfaction with prices offered by outsourcing companies. From figures it is apparent that 52% of respondents (26 enterprises) estimate their level of satisfaction as 'good', 30% (15 enterprises) as 'very good' and 18% (9 enterprises) as 'fair'. None of small and medium-sized enterprises estimate this level as 'poor' or 'very poor'. Most of enterprises are satisfied with prices offered by outsourcing companies.

Table 3  
*The level of satisfaction with prices offered by outsourcing companies*

Level of satisfaction	Number of enterprises
very good	15
good	26
fair	9
poor	0
very poor	0

Source: own study based on the survey

Figure 7 presents the forms of contact with logistics providers. The most commonly used forms of contact are e-mails (23 answers) and phone call (17 answers). Forms of contact that are used more rarely are online orders and personal contact with the consultant/shipper/agent (12 answers each).

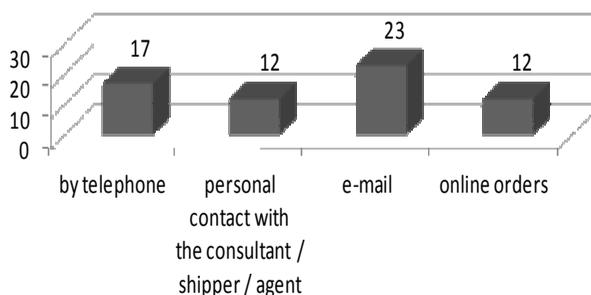


Figure 7. *Forms of contact with a logistics provider*

Source: own study based on the survey

Appraisal of timeliness of executed orders by outsourcing companies are presented in the Table IV. Data reveal that 60% of respondents (30 enterprises) estimate the timeliness of executed orders as 'very good', 38% (19 enterprises) as 'good' and only one enterprise estimate it as 'fair'. None of small and medium-sized enterprises estimate it as 'poor' or 'very poor'. The data seems to suggest that small and medium-sized enterprises are satisfied with timeliness of executed orders by outsourcing companies.

Table 4

*The appraisal of timeliness of executed orders by outsourcing companies*

Level of satisfaction	Number of enterprises
very good	30
good	19
fair	1
poor	0
very poor	0

Source: own study based on the survey

Data on the Figure 8 presents the future of outsourcing in small and medium-sized enterprises. Forecasts for the future of outsourcing in enterprises are promising. According to results obtained in the survey, there is a prevailing tendency to intensify cooperation (60% of respondents). Many enterprises are satisfied with current cooperation and do not want to change anything (36% of respondents). The tendency to reduce intensity of cooperation is observed for a minority of enterprises (only 2 enterprises).

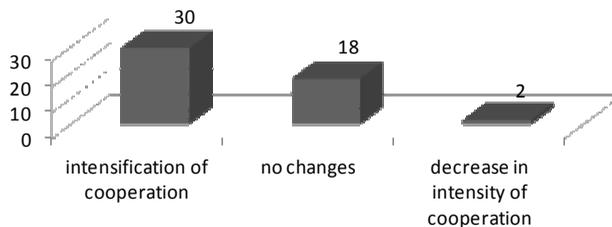


Figure 8. *The future of outsourcing in surveyed SMEs*

Source: own study based on the survey

### 3. Conclusion

The study shows that more and more enterprises implement logistics outsourcing in management strategies. This is not new but rapidly growing concept in management strategy. Almost 50% of enterprises have used outsourcing for more than three years. For most of them, the reasons for outsourcing are reduction of costs and transfer of responsibility to another company. The most popular are companies that offer transportation services, which are used by nearly 60% of respondents. The most important selection criteria for enterprises are attractive prices, location and range of offered services. Most enterprises use services of one outsourcing company, which performs only one type of logistic function. Some parts of the logistic functions enterprises realize themselves.

Nearly 80% of enterprises are satisfied with prices offered by outsourcing company. The vast majority do not fear the risk associated with the use of outsourcing. 98% of enterprises are satisfied with the timeliness of executed orders. These results are reflected in a subsequent question about the appraisal of outsourcing company which enterprise cooperates, against a background of other companies in the same industry. 76% of

respondent declare that they perform well and very well, 24% of respondents considered them to be mediocre. Forecasts for the future of outsourcing in small and medium-sized enterprises are promising. There is a prevailing tendency to develop and intensify cooperation.

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