

# A Research on Problems and Countermeasures of Logistics Outsourcing for Enterprises in China

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## Abstract

Logistics outsourcing, as a form of outsourcing, not only adapt to the requirements of the economic situation but also can bring the economic benefits for enterprise, however, it is not a common phenomenon in China. The aim of this paper is to put forward several suggestions for Chinese enterprises by analyzing the problems existing in the development of logistics outsourcing.

**Keywords:** Logistics outsourcing, Problems, Countermeasures

## 1. Introduction

Logistics outsourcing originated in the 1980s. After more than 20 years of development, it has become a certain number of industries in developed countries. According to the data surveying on 500 large enterprises of manufacturing business from a body in the United States, 65 percent of the domestic logistics businesses had done by the third-party Logistics Company in the United States in 2002, it would be 77 percent if international logistics outsourcing is included. At present, the proportion of the third-party logistics in the whole logistics market is nearly as high as 76 percent in Europe and is nearly 80 percent in Japan. However, there is still a big gap compared with developed countries because of many reasons such as imperfect management system and so on although the logistics industry has had a relatively rapid development in recent years in China.

## 2. The problems of logistics outsourcing for enterprises in China

Chinese enterprises have to face many troubles and risks in the course of logistics outsourcing, they are as follows:

### 2.1 Logistics management system is not perfect

The logistics management system was ignored. The majority of the Chinese enterprises think it is not important to establish their own logistics management system after they outsourced their logistics to a professional logistics company, in fact, it is wrong. Enterprises should establish a set of internal logistics management systems regardless of whether they had outsourced their logistics to the logistics provider or not. Logistics outsourcing is only a form of enterprise logistics, therefore, enterprises should put the activity of the third party below their own management model, so that they can manage and control logistics businesses effectively.

The logistics information management lags behind. At present, many enterprises still remain in the era of pens and paper in the course of logistics management, the management level is far beyond information and networking although some companies equipped with computers, which hindered the further development of Chinese logistics outsourcing seriously.

### 2.2 A lack of understanding for logistics outsourcing and decision-making mistakes

Many Chinese enterprises lack the concept of modern logistics, in addition to some of the emerging private enterprises, most of state-owned enterprises still adopt the previous mode of operation of logistics management to meet their demands by the way of self-sufficient. Up to now, about 70 percent of Chinese enterprises actualize self-logistics. Among these enterprises, most of them have their own transport, warehousing and other departments or companies, they usually spend large amounts of money to establish their own logistics subsidiaries regardless of whether they are capable of logistics management, thus competitiveness for these enterprises is reduced greatly.

In addition, the leadership of the enterprise which outsourced their logistics to the logistics provider defined the scope of outsourcing by the report of the relative sectors. However, they don't consider whether the decision of logistics outsourcing they made are fit for the overall development strategy of the enterprise, it turns out to be that the decision-making is often far from reality.

### *2.3 Uncertain risks of logistics provider*

On the one hand, the enterprise may lose their information resources, core technologies, even the commercial secrets may be let out, because of poor credit of the third party and their "disloyalty" to the corporate; On the other hand, logistics provider may abuse their power to damage the benefits of the enterprise, especially there are many obstacles of exchange of information between them. In addition, it is quite possible that logistics providers raise the price but provide poor services relatively for their own interest under the situation of weakened control for them.

### **3. How to solve the problems of logistics outsourcing for enterprises in China**

According to the problems of logistics outsourcing existing in the enterprises in China, several countermeasures should be taken as soon as possible, they are as follows:

#### *3.1 Make strategic objectives of the enterprise and make relative logistics outsourcing decision-makings*

The enterprise should understand that it is important and necessary to outsource their logistics to the third party, they should analyze the situations of their own logistics before they do that, and discuss whether the logistics are their core competencies and whether they could bring external strategic interests to them. In fact, logistics outsourcing is not a strategy to the enterprises itself but the way to achieve the strategy. If they decide to outsource their logistics they should analyze which kind of business can be outsourced to the professional logistic company and which kind of business should be reserved for internal management. Meanwhile, they should determine whether they can find several capable providers so that they can choose among them flexible, otherwise, the strategy of outsourcing will bring many tough problems instead of cutting the cost. In the end, the enterprise should estimate the total cost of logistics before outsourcing. Only after a detail audit of the total cost carried out, they then could estimate the cost of logistics reduced.

#### *3.2 Establish a set of effective management systems of logistics*

The enterprise should strengthen the structures of management and organization and the design process so that they can establish a set of effective management system of logistics. The idea that all the business about logistics should only be done by the third party is mistaken. In fact, it is vital that enterprises and the third party formulate the relevant processes, make many operational standards which provide the standard for testing whether the third party can meet their requirements, and identify the channels for information communication together.

#### *3.3 Communicate and manage effectively for forming a win-win strategic cooperative relationship*

Firstly, it doesn't mean that enterprises can enjoy good services absolutely from the third party they chosen, on the contrary, they should manage and communicate with the third party effectively. But generally speaking, enterprises should take appropriate logistics management strategies so that they can control the third party flexible to some extent.

Secondly, many problems can be generated in the process of cooperation daily between the enterprise and the third party, most of them can be attributed to the miscommunication. Therefore, the two sides should establish an open-exchange mechanism in order that they can communicate frankly under a kind of institutional and relax circumstances, and solve all the problems appeared in cooperation effectively as soon as possible.

At last, the enterprise should take a long-term view if they want to choose fit model of logistical operation to meet their management strategy. The role of outsourcing for enterprises is not only to achieve the lower costs but also to get value-added benefits. In fact, only think about logistics outsourcing with a spirit of greater motivation and adventure, can the enterprise find its real value. Therefore, to get value-added benefits, it is necessary to improve the competitiveness and profitability of the whole enterprise by the way of innovation of the supply chain. In the end, strategic partnership of co-ordination having common goals, sharing common interests and risks should be established by two sides as soon as possible.

### **4. Conclusions**

With the rapid economic development and increasing competition in the logistics market, it is an inevitable trend of logistics outsourcing, however, the road of outsourcing is a long-term and tortuous process. In general, 3PL is a kind of superior logistics pattern, because it is favorable not only to concentrate on developing business for enterprises and enhance their core competitiveness, but also to reduce the cost and improve the efficiency. We can say, to some extent, it has a kind of integrated advantages. However, the process of adopting the decision-making of logistics outsourcing for enterprises is complex because enterprises have to consider and analyze the whole business development strategy and internal overall strength so that the decision-making they made can adapt to the development of the company. Therefore, enterprises should make a reasonable and prudential decision-making of logistics rather than outsourcing their logistics to third-party logistics blindly. At the same time, enterprises once selected a third-party logistics company, the cooperation with them is also a long-term and run-in process, and

therefore, enterprises should manage and control the third party effectively so that 3PL can truly play a good “third-party source of profits”.

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