



Procurement of logistics services—a minutes work or a multi-year project?

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Abstract

The purpose of the article is to describe and compare the purchasing process for advanced versus basic logistics services. Further some specific observations are presented from the procurement of advanced third-party logistics services, with respect to service definitions, providers evaluations and contracts. The purchasing process of logistics services will in the future need to be more differentiated due to current business trends. Hence companies must analyse how these new procurement situations will impact on their purchasing processes in order to understand what new resources, routines and competence they need to have in order to purchase logistics services in an effective way. © 2002 Published by Elsevier Science Ltd.

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1. Introduction

A changing context and new demands on logistics are driving an ongoing transformation and differentiation of the buying process for logistics services. Logistics services purchased some years ago were usually quite easy to define and the purchase decision was mainly based on the price of the service. Those basic logistics services constitute still the big volume offered and bought, but they are increasingly bought in bundles (van Laarhoven et al., 2000; Andersson, 1997; Sink and Langley, 1997; Berglund, 2000). At the same time, different value adding services and IT services are increasingly included in the bundles of services, which are handled in so-called third-party logistics relationships (Andersson, 1997; van Laarhoven et al., 2000). This development increases the complexity of the purchasing process of logistics. The increasingly more advanced tasks companies are trying to outsource today (e.g. logistics management) are much harder to specify and the companies are also not used to doing this. Van Hoek (2000) argues that there is a need for further

research and understanding of purchasing initiatives supporting the establishment of supplementary logistics services. We will in this article discuss the kind of procurement included in the procurement of advanced logistics services. But we will in the discussion also include routine purchases of basic services e.g. by the use of an Internet freight exchange. While the first type of process may take several years to finalise the latter may be only a minutes work. The purpose of the article is to describe and compare the purchasing process for logistics services for companies following either the trend towards outsourcing of more advanced logistics services, which will be emphasised here, or the trend towards leveraging the internet as a tool in their buying of basic services. Further lessons learned from especially the procurement of advanced third-party logistics will be shared. The article is conceptual in its nature, but based on empirical material that has been collected over several years of contacts with shippers, both in research projects and variants of action research. The article takes its starting point in the characteristics of service procurement and the business trends influencing logistics. Thereafter two emerging market areas are illustrated and, based on this, a comparison of different types of purchasing processes is made. This results in the identification of three important phases in the purchasing process, which are discussed in greater detail.

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2. Logistics services and business trends

2.1. Logistics—a matter of services

Most of the differences between the procurement of services and the procurement of goods apply to the purchase of logistics services, (see for example Axelsson and Wynstra, 2002). Services differ from goods since they are (Zeithaml et al., 1985): intangible, heterogeneous (not standardised), inseparable (meaning difficult to separate production of the service from the consumption), and perishable (not possible to stock). Logistics services also have these characteristics, however, they also differ from a large part of the services described in the service literature. For instance, logistics services mainly involve business-to-business relationships, where not only the buyer is the critical stakeholder, but also his customer who can be directly hurt by bad service. Furthermore, there is in many cases a need for close interaction with both the client’s and his customer’s processes.

The nature of the total logistics service bought, and the corresponding purchasing process, can be more or less complex. We will in this article use the term “advanced logistics services” for the more complex ones, and the term “basic logistics services” for the ones on the other end of the continuum (see Fig. 1).

What drives the degree of complexity are factors such as the number of services included (single or multiple bundled services); the tangibility of the service definition; whether focus is on handling or value adding; whether focus is on execution of activities or management; and whether the service is pre-defined and stable or if development and re-engineering is part of the scope.

2.2. Business trends impacting on logistics procurement

By using Kraljic’s (1983) purchasing product portfolio to position traditional logistics services (e.g. transportation or warehousing), those services would for most producing companies be at the border between leverage and non-critical items. The position on the “Financial impact”-axis is based on the fact that, although logistics is a big cost element in many companies and an important service element, it is normally not the major competitive advantage or cost element. When analysing the “Supply risk” this is often quite low as the buyer has a strong negotiating position and there are a large number of providers. Logistics services such as transportation or warehousing have often been bought separately or only bundled with a few other services. This has made the services quite simple and many providers are often available and willing to offer low prices to secure high utilisation of their capacity. Hence, purchasing strategies, that are often used, are or should be to standardise the services bought, use competitive bidding and global sourcing, and “consolidate” the services bought to a few providers both to achieve economies of scale and to reduce transaction costs. All of this is leading to a further strengthening of the buyers’ position versus the providers—but also to reduce some of the internal costs in the procurement process.

Some examples (compare e.g. Peters and Jockel, 1998) of the changing context driving more differentiated logistics procurement strategies and processes are: increasing globalisation of supply and demand markets, focus on agility and core competence, leading to outsourcing, consolidation of the supply markets, and the development of Information Technology and especially e-commerce (see Fig. 2).

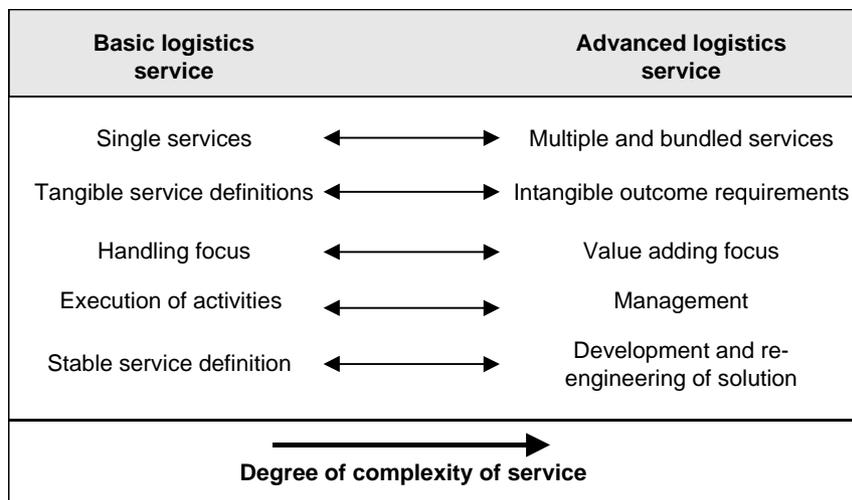


Fig. 1. Advanced versus basic logistics services.

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