

THE POSSIBILITY OF DEVELOPING INTELLIGENT LOGISTICS OUTSOURCING IN SLOVENIA

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Abstract. Traditional outsourcing of logistics services has become an important tool for the Slovenian logistics and business market. It not only brings many benefits mainly in terms of cost reduction and focuses on core competencies, but also many shortcomings regarding business flexibility improvement and innovation development. As an increasingly competitive environment increases shipper's expectations, more innovative ways of outsourcing are needed, which would improve their flexibility and level of differentiation in order to capture greater market share. This indeed represents a departure from standard solutions and requires implementation of intelligent logistics solutions. Therefore, Slovenian logistics service providers face new challenges. The aim of this study is to examine the possibility of developing intelligent logistics outsourcing in Slovenia, and propose a method of planning and carrying out outsourcing, which will be advanced, and will bring benefits to both sides. For this reason, a general model of intelligent logistics outsourcing was developed based on a literature review of intelligent logistics outsourcing and a survey of the outsourcing market in Slovenia. According to our survey, Slovenian logistics providers are not mature enough for more intelligent means yet. Therefore, some suggestion that will significantly help and additionally motivate logistics service providers to use an intelligent logistics outsourcing model in order to offer more innovative solutions, as well as capture a greater market share were proposed. Using this model and these suggestions, it would be possible to create solutions in favour of intelligent outsourcing in Slovenia.

Keywords: logistics outsourcing; third party logistics; fourth party outsourcing; intelligent outsourcing; Slovenian outsourcing market; mutual relationship; innovations development; co-creation of knowledge.

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Introduction

Slovenian shippers have entered an era of intense competition and are therefore under constant pressure to reduce costs, create new values and rapidly improve their global competitiveness. To maintain their competitiveness and ensure growth it is no longer enough to focus on costs and core activities, but to implement more innovative approaches and new knowledge in business, which would allow new value creation and differentiation.

Traditional forms of outsourcing are, therefore, facing new challenges. Until recently, outsourcing of logistics services was an effective tool for reducing costs and focusing on core businesses. Although these factors are still essential, they do not represent the

full range of benefits that outsourcing should offer. In order to meet shippers' needs and 'retain an enterprise's competitive core and not to lose its future ability to compete in fast-moving and unpredictable market' (Hoecht, Trott 2006), outsourcing has to become more mature and innovative, offering a richer and more complex range of services.

Logistics service providers are a major obstacle to achieving those goals in the Slovenian logistics market. They too often provide only basic logistics services, such as transportation from place A to place B and classic storage, rather than other services, especially those which add new value. A major problem is poor understanding and knowledge of individual business processes, individual customer needs and a low rate of client differentiation and customization. This certainly

requires many years of experience in specific industries or market niches, which small logistics service providers do not have too often.

The question is how to create a smarter outsourcing, which will meet shippers' needs and will be able to increase providers' profits at the same time. The attempt to find suitable outsourcing is driving more and more researchers to develop new outsourcing models, based on mutual partnership that would foster innovation development (Wagner 2008), and 'win-win' solutions (in the sense of common co-creating of knowledge and innovation) for both partners, with the aim of maintaining competitive advantage in the marketplace and the existence of differentiation. Paton and McLaughlin (2008) also emphasized that innovative supply chain would assure the sustainable future. This of course requires an intensive enough change in the mind-sets of both outsourcing partners.

Based on the above mentioned facts, a new methodology of intelligent logistics outsourcing is needed. Therefore, basic model of intelligent logistics outsourcing was presented and further adopted to the needs of Slovenian logistics service providers. Proposed model leads logistics providers through different phases towards an effective implementation of a more advanced form of external performance. All phases of implementation are presented in detail, and moreover, greater emphasis is given to those stages that are according to a survey of Slovenian market the most critical.

1. Logistics outsourcing

Outsourcing of logistics services is an upward trend in global business practices. It can be defined as the 'implementation of any or all logistics services by an external logistics provider' (Sanders *et al.* 2007), which is specialised for logistics and can therefore more effectively implement logistics services as shippers. The most frequently mentioned reasons for outsourcing are lack of effective implementation of the service, lack of resources needed to implement services (Kasper *et al.* 2006; Sanders *et al.* 2007), strategic reasons, financial reasons, lack of experience, and so on.

Constant transformation of the business contributed to the development of new levels of outsourcing. Most commonly mentioned levels of outsourcing are 2PL, 3PL and 4PL. The first, the so-called 2PL form of outsourcing, emerged in the early eighties. Before that only in-house logistics existed, as shippers had their own logistics department and facilities. A 2PL provider provides just basic logistics services, such as transport and storage. Due to increased customer demand for integrated logistics services and higher provider profits, 3PL has been developed. A 3PL provider is a kind of shipper's partner that manages more complex or at least two logistics services (such as transport and storage) within a supply chain. Their added value is much higher than that of a 2PL, though the degree depends

on the type of 3PL (ALPHA Research Consortium 2004; Berglund 2000; Andersson 1997; Leahy *et al.* 1995; Marasco 2008). There are four types of 3PL providers: standard 3PL providers, flexible 3PL providers, advanced 3PL providers and assigned 3PL providers. With consideration given to the scope of logistics services, problem-solving skills and level of customization, the most advanced form of 3PL represents an assigned 3PL provider and the most basic form standard 3PL provider (Hertz, Alfredsson 2003). According to Visser (2007) great efforts to enhance global competitiveness, which affect further development of outsourcing, have been made over the past few years. But competition between individual companies is no longer so important than competition between supply chains. Therefore, the greater emphasis on effectively managed supply chain management has to be given. This fact subsequently dictated the evolution of a new, transformational form of outsourcing, so called 4PL. A 4PL provider designs, develops and transforms comprehensive and complex solutions related to a shipper's supply chain. His primary aim is an efficient implementation and integration (Kutlu 2007) of the whole supply chain. In addition, a 4PL provider is able to ensure tailor made solutions to the specific problems of a customer's supply chain (ALPHA Research Consortium 2004).

Increasing and more complex customer requirements, have created a need for more strategic solutions, increasing the complexity of supply chains and demanding higher value, which has led to the development of a fifth form of logistics outsourcing – intelligent logistics outsourcing. This form actually represents an upgrading of the already extant 4PL in the form of constant improvements, innovations, and generation of higher added value, increase of profits (Cohen, Young 2005) and competitiveness of enterprises. Intelligent outsourcing involves a complex and very close cooperation between the provider and shipper, which requires a high level of interaction and mutual trust (Cohen, Young 2005).

1.1. Intelligent logistics outsourcing

'Intelligent logistics outsourcing represents a further development of traditional outsourcing to more sophisticated and effective business models and collaboration between the shipper and logistics service provider' (Koulopoulos, Roloff 2006). The purpose of an intelligent outsourcing is not only reducing costs, but also co-creating knowledge and increasing innovative capacity, which helps to maintain and improve the quality of the entrepreneur and its differentiation. Achieving those objectives undoubtedly requires a partnership based on a high degree of confidence. In addition, it leads to that win-win scenario and a willingness of both partners to share risks and awards.

In striving for successful intelligent outsourcing, the significance of constant costs measures, as well as the quality of cooperation between partners should not be overlooked.

1.2. Key elements and aims of intelligent logistics outsourcing

The most important elements as a base for intelligent outsourcing are as follows:

- ‘a close working relationship between LSPs and their clients to facilitate collaboration and more efficient exchange of information in order to be responsive to changing customer needs’ (Zacharia 2008), and ‘achieving economic goals and aims of the network, in particular, mutual trust and commitment’ (Batt, Purchase 2004);
- strong, mutual partnership, based on trust, which is essential for better communication and knowledge sharing (Bandyopadhyay, Pathak 2007);
- the attainment of win-win solutions (Krishnamurthy *et al.* 2009);
- co-creation of new knowledge and innovations in order to improve shipper’s activities and consequently higher profits, and generate higher returns and any other benefits (extension of contract, additional references, etc.) for providers;
- new optimum pricing models for achieving a better ratio between costs and price, which allows receiving payment only for successful transactions;
- establishment of performance criteria, as well as verifiable performance indicators and constant measurements of achieved results along with degree of collaboration (Koulopoulos, Roloff 2006; Vitasek *et al.* 2010).

Key objectives of intelligent outsourcing are:

- innovation development;
- improvement of service level performance;
- reduction of shipper’s costs;
- increase of shipper’s and provider’s profit;
- sharing of benefits and risks (Koulopoulos, Roloff 2006; Vitasek *et al.* 2010).

Intelligent outsourcing, as any project, does not bring just positive effects, but also disadvantages and risks which should be successfully avoided in order to maximize its benefits.

2. Research methodology

To determine the current state of outsourcing in Slovenia, a survey was created during 2010 aiming to ascertain:

- the type of outsourcing usually offered by logistics companies;
- reasons for offering any type of outsourcing;
- reasons for not being able to offer any of more advanced forms of outsourcing;

- degree of cooperation between shippers and logistics providers;
- the degree of innovation within outsourcing.

2.1. Data collection

‘Data collection is a vital and critical point of any research’ (Thietart *et al.* 2001). For this study, the method of interviewing, which is a source of primary data that provides quality data collection was used. A structured, oral form of the interview with standard questions was carried out. The author did not affect the responses of the interviewees, but just explained possible ambiguities and asked some additional questions for a deeper and better understanding of shippers’ responses.

The questionnaire for the interview consisted of two parts. The first consisted of six questions regarding general information about companies. The second consisted of fifteen questions about the type and extent of outsourcing that logistics providers’ offer, about the logistics providers’ objectives, about the Slovenian outsourcing market assessment and about factors for successful outsourcing. Three questions were related to the understanding of the innovative concept, innovative approach in the context of outsourcing and the initiator of innovation.

Basic questions of general entrepreneurs’ information, as well as nine questions of the second part of the questionnaire were closed-ended questions. For seven questions the Likert scale was used. Score 1 meant that the answer was not true at all and score 5 that the answer was absolutely true. For two questions a three level Likert scale (totally agree, partially agree and disagree) was used.

Questions were first pre-tested by four persons: an expert in the field of logistics services, logistics manager in a small logistics company, a person responsible for logistics management in commercial enterprise and expert in the field of statistical data processing. The questionnaire was revised accordingly to their comments.

Interviews were conducted from 20 February to 6 July 2010. Interviews were performed face to face in order to achieve a greater level of confidence, and establish a genuine dialogue with interviewees. First, an application on participation in the interviews was sent by e-mail to all 3PL providers. Then the effectiveness of electronic messages and readiness to interact by telephone was examined. In case of a positive response, the date, time and place of the meeting for the interview were defined. Four companies refused to carry out the interview. But with all others an interview that lasted an average of one hour, was carried out.

Questions were answered by personnel of senior management. For one logistics provider this was a person from the supervisory board, in one case the assistant of the director, for 15 providers the director of the logistics company, for two the head of logistics,

for one a strategic sales manager, in three cases the head of marketing and sales – in one logistics company this was the head of operations coordination, in one the project manager, in one the head of transportation of the logistics department, and in one the person responsible for market research and development.

2.2. The sample

The interviews were designed to cover 30 logistics service providers (the sample was very small, as in Slovenia few logistics companies providing more advanced forms of outsourcing existed; the Slovenian logistics market includes many more logistics companies, but the study was limited to those that deal with implementation of advanced outsourcing, at least 3PL), of which four refused. The basic information, which included the number of all employees, number of employees dealing, the qualification, seniority and the experience of all the employees involved in the field of implementation and management of outsourcing of these companies, is shown in Table 1.

Sampling was limited to firms within Slovenia. The sample covered only those logistics companies which have already provided outsourcing to their customers. Therefore, though both large and small logistics providers were included, the largest percentage of them was relatively large logistics company, both in terms of number of employees as well as in terms of revenue.

The model was first designed according to the authors’ knowledge of the logistics market. After that, the model was subsequently supplemented by a

list of logistics companies in terms of turnover, submitted by the chamber of commerce. The sample was finally reviewed by experts familiar with the outsourcing market in Slovenia after which review, again five new logistics companies were added.

4. Results and discussion

4.1. The extent and reasons for the implementation of 2PL

Data from the analysis showed that three of the twenty-six logistics providers do not offer 2PL, all interviewed companies carry out 3PL, while only five of them provide 4PL.

Of the total interviewed companies 9 or 39.1% strongly agreed or agreed that they provide 2PL performance, because of customer demand. A higher percentage of agreement (46.2% or 9 companies strongly agree and 42.3% or 11 companies agree) was observed among those providers that offer 3PL, while just three providers strongly agreed that they offer 4PL because of customer demand (Fig. 1).

4.2. Inability to provide 4PL

It has been shown that the primary reasons for not offering 4PL are the fact that there is no request (13 respondents or 61.9%) and lack of knowledge and experience of employees (10 companies or 47.6%). Other factors, such as lack of providers and facilities, too high risk and financial input were not stated as reasons of inability to offer 4PL.

In addition to arguments mentioned in Fig. 2, other reasons could be cited. One provider failed to provide 4PL, because it is not in global logistics, and one, because the market is unrecognizable.

Table 1. Basic information of the sample

Basic information	Category (%)	
No. of total employees	Below 15	2
	16–50	–
	51–100	10
	Above 101	14
No. of employees dealing with logistics outsourcing	Below 15	19
	Above 15	7
	All	–
	None	–
Qualification of employees dealing with logistics outsourcing	Secondary level	0
	Post-secondary level	1
	University level	25
	No	0
Seniority of employees, dealing with logistics outsourcing	Below 5 years	6
	6–15	17
	Above 16	3
Experience of employees, dealing with logistics outsourcing	1 project	1
	More than one	21
	All	4
	No project	0

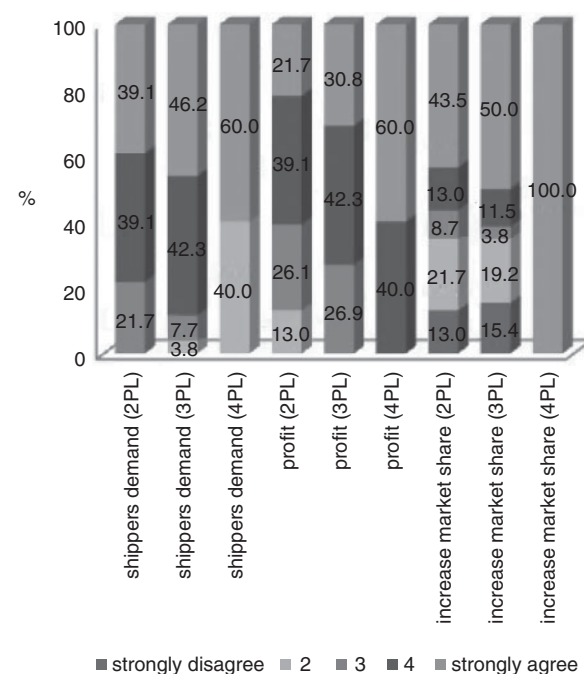


Fig. 1. Reasons for offering outsourcing

4.3. Most frequently outsourced logistics activities

Respondents were asked to indicate the most frequently provided logistics activities. As shown in Fig. 3, the most frequently provided logistics activities were transport services (25 respondents or 96.2%) and warehousing (21 respondents or 80.8%). Less interest was expressed in customs clearance (15 respondents or 57.7%) and inventory management (12 respondents or 46.2%). Very rarely was management of integrated logistics services outsourced (5 respondents or 19.2%), and even more so supply chain management. In addition to these services, requests for purchasing and sales services were identified in one case, and order processing and fleet management in another.

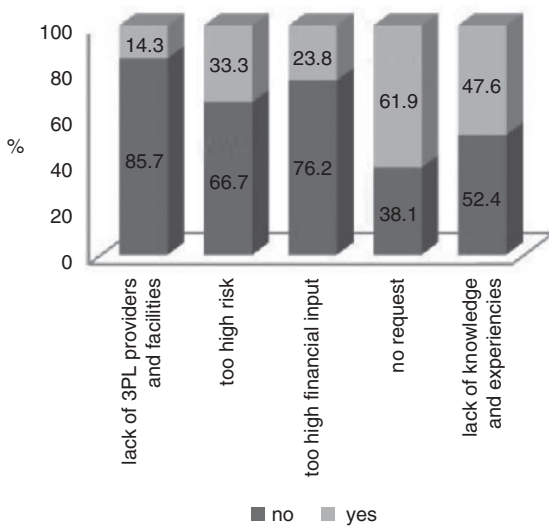


Fig. 2. Reasons for inability to offer 4PL

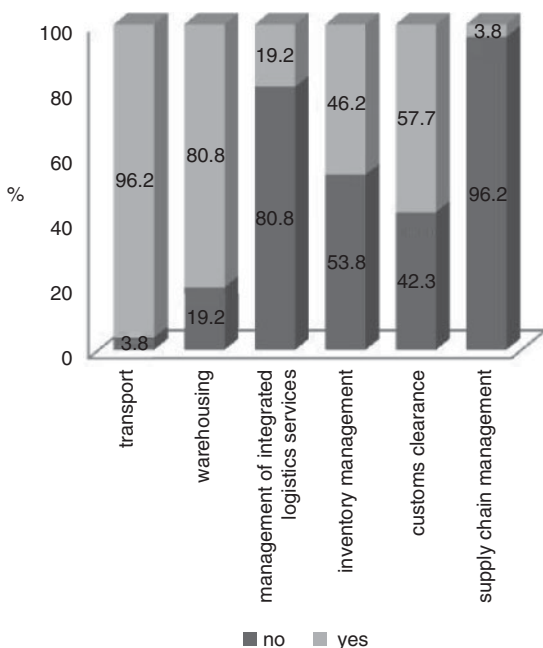


Fig. 3. Currently provided logistics services

4.4. The current state of the Slovenian outsourcing market

Interviewees were asked to describe the state of outsourcing in Slovenia. Of the respondents, 9 or 34.6% believed that Slovenia has a high level of demand for 2PL (Fig. 4). Of the total interviewed enterprises, 9 or 34.6% believed that Slovenia has a low level of demand for any form of outsourcing, and 8 or 30.8% were of the opinion that Slovenia has a high level of demand for 3PL. None of the interviewed companies seemed to believe that Slovenia has a high demand for 4PL.

4.5. Factors affecting shippers for outsourcing

As visible from Fig. 5, respondents attached the greatest importance to total cost reduction (57.7% of respondents strongly agree and 26.9% agree). Less important, but still significant factors were reduction of investment (26.9% of respondents strongly agree and 53.8% agree), focus on core competencies (46.2% of respondents strongly agree and 30.8% agree) and better performance of logistics services (26.9% of respondents strongly agree and 46.2% agree). Only 50% of respondents believed that shippers were taking decisions for outsourcing in order to be more innovative, and just 7.7% of respondents strongly agreed that shippers had looked for logistics service providers willing to manage the entire supply chain.

4.6. Key elements of successful outsourcing and the current situation

In the view of the interviewees', mutual relationships, high levels of trust and high levels of communication, aside from quality of operational logistics services, prices, improvement of services, and so on, to a great extent contribute to the success of outsourcing. Although other factors, such as high level of transparency and commitment, and sharing risks and rewards did not rank so high, they still exceeded 50% (Fig. 6).

When asked about the current level of trust, cooperation, communication, information transparency and a commitment with existing customers,

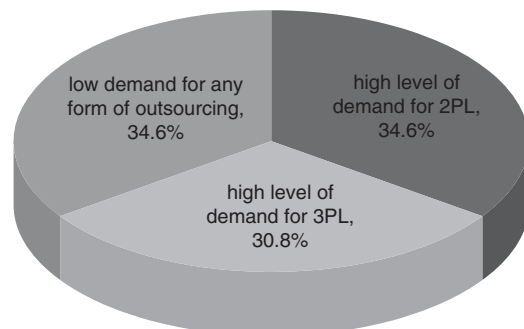


Fig. 4. Level of demand for outsourcing

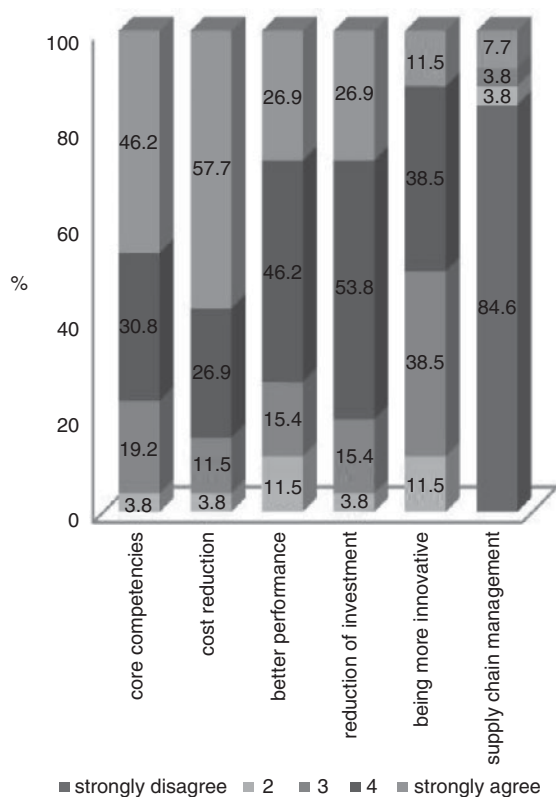


Fig. 5. Main reasons for outsourcing

respondents attested to a very high or high level of trust (38.5% very high, 57.7% high), collaboration (53.8% very high and 42.3% high) and communication (50.0% very high and 38.5% high) (Fig. 7). Evaluated a bit lower was current level of transparency (26.9% very high and 38.5% high), followed by level of commitment (23.1% very high and 46.2% high).

Among reasons for poor mutual relationships most interviewees pointed out fear of data loss (75%) (Table 2). Half of the respondents said that fear of losing control over the logistics service provider contributes to this situation, while two other factors – loss of autonomy and fear of dependence on logistics service providers – were not reasons for poor relationships. But all respondents agreed that shippers’ distrust, which is on quite a high level, has no influence on the relationship.

4.7. Current state of an innovative approach

According to analysis, Slovenian logistics service providers are up on the latest innovations and are quite aware of their importance. Nearly 80% of respondents agreed that innovations are not just new products, but can also be new services or business models (80.8%), or a mere modification of an existing product/service (73.1%). In addition more than 50% of interviewees agreed that innovations are crucial for outsourcing and for the competitiveness of logistics service providers. More than 80% were of the opinion

that innovations are crucial for shippers’ competitiveness (Table 3).

A total of 24 respondents stated that competitive advantage (50% strongly agree, 29.2% agree) was primarily a reason for providing customers with an innovative approach, while better income does not play a so important role (16.7% strongly agree, 50% agree). The least role (20.8% strongly agree and 25% agree) was given to shippers’ demand (Fig. 8).

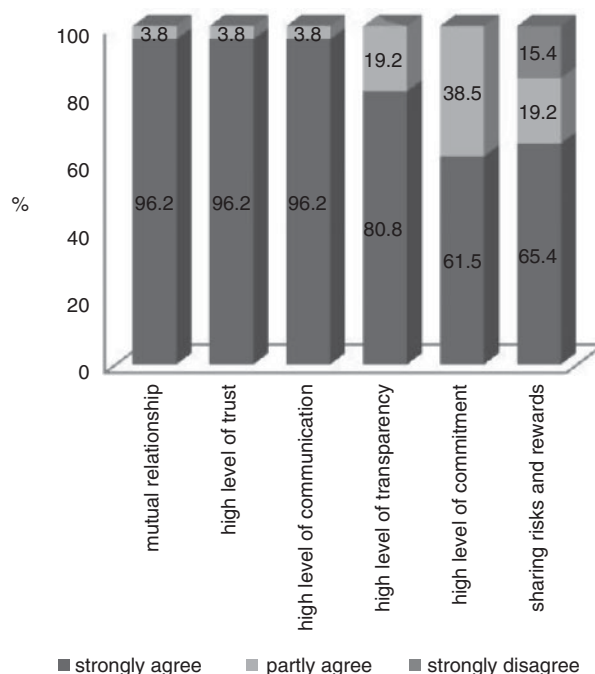


Fig. 6. The factors contributing to success with logistics providers

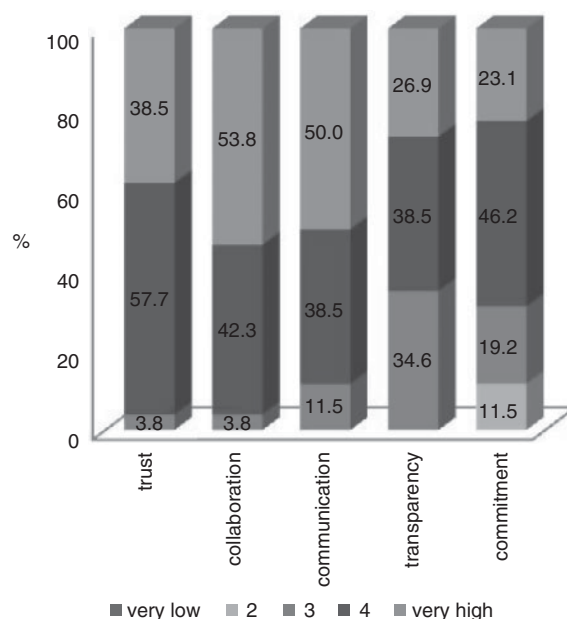


Fig. 7. Current level of mutual relationship

Table 2. Factors of unsatisfactory relationships

Reasons	Yes (%)	No (%)
Loss of autonomy	25	75
Fear of dependence	25	75
Losing control	50	50
Fear of data loss	75	25
Shippers' distrust	0	100

5. The model for an approach to intelligent outsourcing

5.1. Key reasons and importance of creating new model

From the interviews that have been carried out, it can be concluded that there is a low level of demand for any form of outsourcing. The highest level of demand has been seen for 2PL, lower demand for 3PL, while almost no demand has been expressed for 4PL outsourcing. This can be confirmed by the level of services that are often outsourced. Transport services, followed by storage, customs clearance and inventory management stood out significantly. However, demand fell drastically in the case of managing entire logistics services and even more in the case of managing an entire supply chain.

Regarding the level of offered services, all interviewed companies were able to offer transport services and freight distribution. A total of 25 of 26 companies have provided clients with storage of cargo, 23 with inventory management and value-added services (labelling, packaging, and assembling) and 16 companies have been offering customs clearance.

In the providers' view, shippers in most cases still decide to outsource due to the perceived need for cost cutting. Only a handful of them decide on outsourcing, because of the search for more innovative means of logistics services' performance.

About 80.8% of interviewees felt themselves to be competitive, despite the fact that none of the logistics companies in Slovenia engaged in 4PL. Just four logistics companies could be placed somewhere

between the 3PL and 4PL, since they offer more than 3PL providers, but are still not able to manage entire supply chains. Totally, 23 of 26 logistics companies could implement 2PL outsourcing, all interviewed companies could offer 3PL, but only a handful of them could be classified as dedicated logistics providers.

Surprisingly, the vast majority of providers agreed that mutual trust, cooperation, communication, transparency and sharing of risks and benefits are the most important elements for the success of outsourcing. But the current level of their cooperation has shown a different picture.

All these findings (high number of 2PL contractors, small number of dedicated performers, low service range and diversification of logistics providers, low current level of cooperation) represent a dearth of intelligent outsourcing approaches. Thus, important changes in the field of Slovenian logistics outsourcing are necessary. To be able to maintain and even raise their market share in the domestic market and offer services to foreign markets, Slovenian logistics providers must increase service range, as well as level of performance. Their job now should not be limited to the execution of logistics activities, as in the case of traditional outsourcing, but rather reoriented toward knowledge creation and innovation development. They should become very well aware of customer needs and should also provide them with a level of service that they need. Competitiveness of Slovenian logistics service providers indeed depends on the ability to adapt to customer needs, to innovate, to develop and supply complex, high-quality services that add value and differentiate companies from the rest of their competition, but at the same time still allow cost optimization.

Given the fact that the Slovenian outsourcing market has achieved remarkable progress in the past four years and taking into account the global trend, progress towards an intelligent outsourcing can be foreseen in the future. However, in order to facilitate and accelerate the conquest of knowledge, as well as implementation of intelligent outsourcing, the design of a new model for implementation and management

Table 3. Knowledge of innovation and an awareness of the importance of innovation

Reasons	Strongly agree (%)	Partly agree (%)	Strongly disagree (%)
Innovation is:			
Crucial for logistics service provider	57.7	30.8	11.5
Just new product	7.7	15.4	76.9
Could also be new service or business model	80.8	7.7	11.5
Something new in the world market	53.8	11.5	34.6
A mere modification of an existing product/service	73.1	3.8	23.1
Crucial for shippers	84.6	7.7	7.7
Crucial for outsourcing	57.7	42.3	0.0

of intelligent outsourcing is necessary. Moreover, for the Slovenian logistics industry it would be appropriate to focus on the weakest phases of the current form of outsourcing, as well as to further highlight those stages that are critical for successful implementation of advanced forms of outsourcing in Slovenia.

5.2. Methodology of intelligent outsourcing implementation

Intelligent outsourcing is new terrain, and as such requires different methodology, management and administration than traditional outsourcing. Changes in methodology are necessary for rational and efficient management of the participating partners and for the establishment of cooperative partnership based on trust and commitment. Moreover, with the aim of improving performance of the services and adding new value, as well as skills and experience sharing, in order to create new business knowledge and innovations, should be allowed. Much emphasis

should also be devoted to constant measurement of the effectiveness of outsourcing, as well as the level of partnership.

Therefore, the proposed model covers five steps, based on an already established model of traditional outsourcing, as intelligent outsourcing derives from advanced 3PL or 4PL forms. Namely, it would be most reasonable to present only new phases, but as intelligent outsourcing requires additional changes of all existing phases, this is not possible. Thus, a review of all phases is needed.

For effective implementation of intelligent outsourcing a five-phase approach is proposed (Fig. 9):

- 1) defining key elements of intelligent outsourcing (understanding risks, establishing mutual trust, commitment and cooperation, co-creating knowledge for the development of innovation, choice of service for intelligent outsourcing);
- 2) diligent evaluation of current and desired business (documenting the current state of service(s), identifying potential opportunities with regards to service performance, analysing the current costs of service performance, identifying the desired results);
- 3) negotiations and establishment of the contract (specifying type of contract, choosing the method for determining prices for services performed by an external logistics provider, using various incentives to balance risk, determining the duration of the contract);
- 4) design of performance measurements/criteria;
- 5) transition from in-house logistics/traditional outsourcing to intelligent outsourcing.

Intelligent outsourcing cannot begin with the selection of services that will be outsourced as is the case with traditional outsourcing, but much earlier, by *defining the key elements*. Noting that intelligent

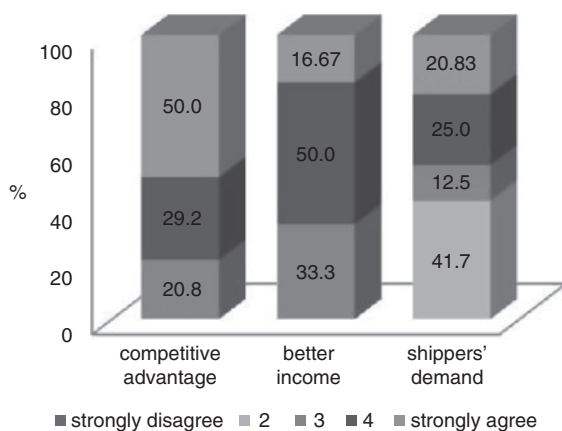


Fig. 8. Current offer of an innovative approach

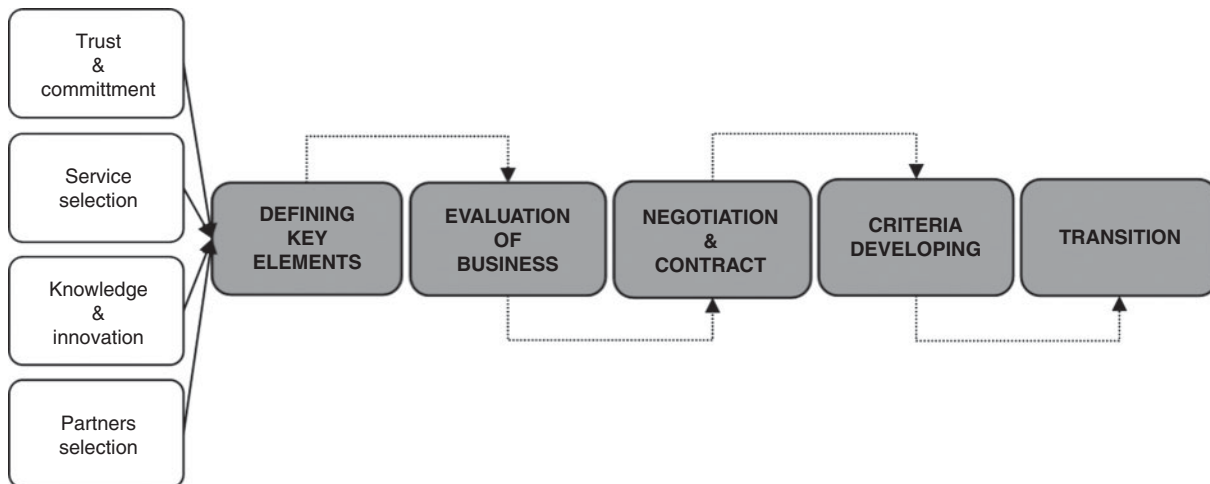


Fig. 9. The intelligent outsourcing process model

outsourcing is based on a win-win strategy, which brings benefits to both partners, 'performing such partnership that optimizes for mutual desired outcomes' (Vitasek *et al.* 2010) is necessary. So, strict attention should be paid to the ability of cooperative long-term partnership performance, based on a high level of trust and commitment. Therefore, it is highly recommended that the company entrusted the implementation of intelligent outsourcing to the logistics provider that they already work with. In this case, the trust has been already established, the partners are already familiar with each other's business, skills and knowledge, in addition, risks of unsuccessful performance are lower. Otherwise, the logistics service provider should be included in the outsourcing process in the very beginning in order to obtain enough time to thoroughly know each other's business and establish sufficient confidence and commitment to continue in the second phase. It is very important for logistics providers to make efforts in this direction, since ability of trusted partnership is nowadays a very good reference for getting new customers. However, for improving services and even developing innovations, which is the second key objective of intelligent outsourcing, cooperation itself does not guarantee success. Thus, it is necessary to know the legality of joint creation of knowledge. Clearly, this depends on the type of innovation and service level improvements that the company wants to achieve. As many researchers predicted that innovation by logistics service providers occurs almost exclusively as customer-driven innovation and upon the request of customers, which often propose new ideas, logistics provider should try to satisfy requirements and propose appropriate solutions that will enable service improvement and achieving lower costs. Nevertheless, also the fact that the logistics providers alone should show a high degree of self-initiative and propose new innovations should not be overlooked.

In case any doubts related to the long-term confidence, cooperation and ensuring of constant progress appear, continuing to the next phase would be unreasonable until all the doubts are cleared. When companies decide to proceed despite doubts, a partnership cannot bring about such benefits as expected by the partners.

Intelligent outsourcing goes beyond traditional outsourcing even as regards the *evaluation of business*. In the case of intelligent outsourcing all business functions, including the core competence could be outsourced (Quélin, Duhamel 2003). However, such an outsourcing causes a risk of information leakage and, consequently, the risk of existence and even competitiveness. In addition, the risk of failed implementation of outsourcing, as well as dependence on an external logistics provider can appear. That is why many researchers still believe that the key skills should be kept in-house (Hoecht, Trott 2006). Nonetheless, many authors suggest outsourcing of those significant

logistics activities that are poorly performed and lack innovation to such an extent that this defect weakens the current market situation of the enterprise. In this case, the most appropriate decision would be to find a reliable and confidential provider, able to analyse the process bottlenecks, present the best practices and improve process efficiency (Koulopoulos, Roloff 2006). With regard to the Slovenian survey, choosing the right service for outsourcing it is a difficult task, even so difficult that in some cases discourage enterprises from outsourcing. Therefore, it is advisable for providers to seize the opportunity and start to collaborate with enterprise also at this stage. In addition, even market research and performance benchmarking could be performed by providers.

In the third stage more attention should be given to the *establishment of the contract*, especially to the *selection of the pricing model*. Vitasek *et al.* (2010) proposed two pricing models: cost-reimbursement contracts and fixed-price contracts. Since both methods have strengths and weaknesses, this decision should be left to outsourcing partners and level of their maturity. However, greater attention should be paid to the duration of the contract and the inclusion of the right incentives. In case of intelligent outsourcing long-term contracts are highly recommended, as they encourage various investments for process improvements, risk sharing and open communication. On the other hand, right incentives of any type (cost, performance, nonmonetary, awards, extent of the contract) motivate both partners to achieve mutual benefits, share risks, satisfaction and stability, as well as excellent results and outcomes.

Intelligent outsourcing focusses greater attention on *performance criteria* than traditional outsourcing. Much greater attention is given to the quality of measures that allow for a real and accurate review of the situation, and are furthermore the foundation for further improvements and innovation, rather than to the amount of measured data. Moreover, to already established performance criteria is added the third one: the measurement of the partnership. Since intelligent logistics' success is based precisely on mutual partnership, the same attention as to cost measures is also devoted to the measurement of the partnership. We believe that mutual partnership is far too important not to be measured.

After signing the contract, a *transition* follows. In this case team works, communication, control, reviews and evaluations are of great importance. Moreover, in case of intelligent outsourcing also launch of innovations, which begins with preparation of the site of implementation and the training of users and other staff, and ends with the transfer of innovation into day-to-day business, occurred (Wagner 2008). It includes the management of the implementation, project control and analysis of customer satisfaction. After implemented innovation to one specific customer, it should be analysed and decided if the solution can also be made available to

other customers. Logistics providers often do not take advantage of this possibility and miss great opportunities in the sense of generating higher profits, acquiring new customers and achieving greater competitive advantage.

Finally, it should be highlighted that as in case of traditional outsourcing it is necessary to perform all phases, but not necessarily in the proposed sequence. Nevertheless, significant changes of the order could extend implementation of intelligent outsourcing and lead to various inconsistencies (Greaver 1999; Corbett 2004). There is ‘no size fits all’; thus, every model should be modified in accordance with a particular enterprise’s needs.

5.3. Presentation of new opportunities and potential problems/barriers

Regarding the current, extremely competitive situation of the global business environment, where supply chain and its management play an important role and contribute to the increase of competitive advantage to a great extent, increasing demands and expectations of outsourcing, as well as greater attention to outsourcing would be expected. Therefore, it is necessary that Slovenian logistics service providers begin to think about raising the level of outsourcing, and thus, lure enterprises to their side. At the same time this is an excellent opportunity to survive in the logistics market.

Predisposition for the transition to the next level of outsourcing is promising, as logistics operators agree that the mutual relationships, trust, commitment, risk and reward sharing, as well as higher service level are very important for successful outsourcing. Moreover, presented model would be of the utmost importance and significance and could lead to a turnaround in favour of outsourcing. Logistics service providers are given a great possibility to offer higher levels of outsourcing and achieve higher profits and global competitive advantages, while on the other side more advanced forms of outsourcing provide higher levels of differentiation and added value for shippers.

Successful implementation in practice would require a change in the mind-set of Slovenian logistics service providers. Transition at the highest level of outsourcing requires further improvements in many fields. That would represent a challenge for logistics providers. They have quite good theoretical knowledge regarding innovation; however, they lack the knowledge of the innovation development process and its management. In addition, they lack cooperation with partners, such as technology and information companies, which would be of great help for innovation development. The second critical factor for implementation represents formation of trusted relationship, risk and rewards sharing. The reasons are too high risks, followed by financial output. One possible culprit could also be a lack of

confidence in outsourcing and logistics providers, because of bad or too many references. The third critical factor is fear of long-term contracts. Smaller logistics providers currently provide outsourcing even without any contract, while bigger companies prefer short-term contracts. The key reasons in most cases are risks. The fourth critical factor undoubtedly is the rush and desire, to accelerate the implementation of outsourcing as soon as possible. Partners, often do not follow the proposed stages of implementation. Moreover, certain phases are often even omitted. The last, but nevertheless important problems are the performance criteria that are too often poorly defined, and in some cases not even formed. The only measured criteria are mainly costs of implementation, while the level of performance is measured only in case of significant errors. Awards are rarely the subject of conversation, while penalties are an indispensable part of the contract.

Conclusions

Study of Harvard Business School (MacCormack *et al.* 2007) indicated that ‘world leading companies aim at establishing more competitive advantages, and therefore, demand more advanced forms of outsourcing, so-called intelligent outsourcing, based on the sharing of knowledge and experience between partners, close mutual cooperation and an increased rate of innovation’. In accordance with the global economy’s needs, also range and complexity of providers’ offer was being adapted as well.

The situation in Slovenia is totally different. This research paper has clearly shown that Slovenia still engages in a low level of any form of outsourcing and lacks advanced outsourcing forms. Most frequently outsourcing occurs in 2PL and 3PL forms, but just a few providers are dedicated logistics service providers and only a handful of providers are able to offer 4PL. Actually, we cannot speak about pure 4PL, but some kind of mixture between 3PL and 4PL. The reasons for such large discrepancies between the global and Slovenian outsourcing market are due to the late start of logistics outsourcing on the one hand and the relatively low demand of Slovenian enterprises on the other hand. In addition, the providers’ lack (mainly Slovenian providers) of experience, knowledge, personnel and financial resources, too many risks, and lack of ideas, play an important role.

The offer of Slovenian logistics service providers is still too focused on basic logistics services, such as transport, warehousing and customs clearance and not on complex logistics services, such as management of part or even the entire supply chain. Demand for logistics services is at the same time also quite limited in transportation, storage and customs clearance. Only a few enterprises (large companies) have a demand for advanced logistics services, such as inventory management. The main

reasons for outsourcing still remain as cost decrease, followed by a focus on core competencies. Innovation and the search for logistics to manage the entire supply chain remain at the bottom.

In conclusion, we can say that findings, such as a high number of 2PL providers, small number of dedicated 3PL providers, and performance of mainly basic logistics service offering, as well as lack of collaborative partnerships do not characterize intelligent outsourcing. The Slovenian logistics market has not realized the advantages of traditional outsourcing yet, and is far from achieving a status in intelligent outsourcing. However, not all the blame can be attributed to logistics service providers, but also to entrepreneurs unaware of the benefits of outsourcing, lacking knowledge in the field of cooperation and too burdened with the risks of outsourcing.

Nevertheless, it should be pointed out that Slovenian logistics service providers are very well aware of some factors, for example the importance of collaborative partnership, that leads to the success of outsourcing. Even the innovative approach is no longer an unknown quantity. All described facts are, despite the black scenario of our survey, a good prerequisite for the implementation of developed model. A five-step intelligent outsourcing process model was proposed. The model provides accurate implementation of intelligent outsourcing and the logistics service provider's role in that process. As there is no secret recipe that could be used by all companies, it is best viewed as a facilitative framework. We believe that those logistics providers that will be able to adopt and implement the proposed model in their businesses will dominate the market. Those that will not be able to make this step and establish mutual partnerships with other enterprises will fail, and will not have much long-term chances for success.

This article has only been able to touch logistics outsourcing from the viewpoint of Slovenian logistics service providers, while the viewpoint of Slovenian entrepreneurs has not been covered. Clearly, further studies are needed in order to understand real inhibitors of outsourcing, which would allow progress in the field. In order to obtain those data an investigation of Slovenian entrepreneurs is needed.

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