Evaluating Logistics Suppliers in the Slovenian Market

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This paper focuses on logistics performance of companies in the Slovenian market. The research is analysing the point of view of managers in production, trade and services oriented companies about their logistics needs.Specifically, we examined their perception of different characteristics of a logistics provider and their evaluation in the process of outsourcing. There are few logistics functions that have been outsourced.
This paper presents the outsourcing process with of outsourcing characteristics. The authors also identify elements of a successful outsourcing strategy, basing their conclusions on the research on the sample of 150 the biggest Slovenian companies.
The authors will intend to answer the following question in the research: Which indicators do customers use to evaluate their suppliers? It would be expected that in purchase decision processes, customers give strong consideration to the resources and the competence of the supplier as criteria to provide higher quality and more reliable and efficient transportation of goods. One of the aims of research will be to measure the perception of respondents about the different characteristics of logistics provider. Within any organization, there will be differences of opinion about key buying factors, their importance, and how well the company performs on each factor.

Key words: Logistical services, Outsourcing, Logistical provider, Logistics

Vrednotenje dobaviteljev logističnih storitev na slovenskem trgu

Prispevek se nanaša na logistične značilnosti organizacij na slovenskem trgu. Z raziskavo smo proučevali sedanja stališča managerjev v proizvodnih, trgovskih in storitvenih podjetjih organizacij glede potreb na področju logistike. Še posebej smo raziskovali zaznavanje različnih dejavnikov logistične oskrbe in njihovo vrednotenje v procesu outsourcinga.Obstaja nekaj logističnih funkcij, ki jih lahko vključimo v outsourcing.
V prispevku je predstavljen proces outsourcinga in njegove značilnosti. Na osnovi vzorca 150 največjih podjetij v Sloveniji so bili v raziskavi ugotovljeni elementi uspešne strategije outsourcinga.
V raziskavi so avtorji hoteli odgovoriti na naslednja vprašanja. Katera merila kupci uporabljajo za ocenjevanje svojih dobaviteljev? Pričakovati je bilo, da bodo kupci v procesu nakupa dali večji poudarek virom in kompetencam dobavitelja pri doseganju visoke kakovosti, zanesljivosti in učinkovitemu transportu.
Eden od ciljev raziskave je bil tudi merjenje zaznavanja anketirancev glede različnih karakteristik logistične oskrbe. Znotraj organizacij obstajajo različna mnenja glede ključnih dejavnikov nakupa, njihov pomen in kako dobro podjetje obvlada vsak dejavnik.

Ključne besede: logistične storitve, outsourcing, logistika, logistična oskrba

1 Introduction

Operating conditions in logistic industry with the accession to European Union change considerably. Slovenia has already joined to European Union, but also other transition countries in the Former Yugoslavian countries will face the time of accession to the European common market. Therefore, for companies operating in those markets primary goal is to extensively prepare for the new business environment. Slovenian logistical companies have stressed the issue of adjusting the number of employees to the scope and structure of operations following Slovenia's accession to the European Union.

Competition among logistical companies is increasing because of these changing market conditions in the Former Yugoslavian countries. Slovenian logistical companies are adapting to new common European market. They are reacting to strong competition in logistics industry by becoming more involved in the supplier selection process, by outsourcing logistical services and by becoming more critical, detailed, and comparative in their supplier evaluation.

Logistics companies in Former Yugoslavian countries are adapting to development guidelines at various levels. Like Mentzer et al., (2004) argued logistics offerings are subject to differences across countries. Logistics service expectations differ across national and cultural boundaries, enhanced personal interaction frequently occurs in service settings, and service use patterns frequently differ across countries as well as more traditional influences such as timeliness and responsiveness.

Overall, in this paper is to present a research, the objectives of which are:

- to review the existing literature in logistics as a functional system and the outsourcing of logistics activities,
- to outline different set of criteria for choosing the most suitable logistics provider, and to explore which indicators customers use to evaluate their logistical suppliers,
- to identify the significant outsourcing logistical activities, and
- to examine who is taking the buying decision of logistics in sample companies.

The paper consists of two parts. First, the theoretical foundation for the outsourcing of logistical services and for the analysis of manager's perception of characteristics of logistics provider is provided. Second, the empirical analysis, based on the primary data collected is presented. The results will render possible the preservation of the competitively of the logistics services on the Slovenian market.

2 Literature review

2.1 Outsourcing partner selection

The basic concept of outsourcing is unambiguous: It involves choosing a third party or outside vendor to perform a function or tasks supporting that function in order to incur business benefits. The outsourcing arrangements can be grouped into four categories: out-tasking; co-managed services, managed services and full outsourcing, also known as business process outsourcing (Sanders and Locke, 2005).

Boyson et al., (1999) examined the reasons why some logistics outsourcing partnerships are successful and how best to manage a 3PL relationship. In particular, their research identified the most effective means and methods for evaluating and selecting 3PL from outsourcing user's perspective, and identified the most effective means for organizing, operating, and monitoring 3PL relationships. Sink and Langley (1997) presented a conceptual model of the 3PL purchasing process, which, according to their analysis, consists of five distinct steps or phases. Overall, approximately 60 per cent of Fortune 500 firms report having at least one contract with a third party logistics provider (Lambert et al., 1999).

A recent study by Persson and Virum (2001), discusses the potential economic advantages of logistics outsourcing. Some of these are: the elimination of infrastructure investments; access to world-class processes, products, services or technology; improved ability to react quickly to changes in business environments; risk sharing; better cash-flow; reducing operating costs; exchanging fixed costs with variable costs; access to resources not available in own organization.

As recently as a decade ago, 3PL was an emerging industry in many parts of the world. However, the rate at which use of these services grew, the rate of growth across functions and the reasons for this growth differed in different parts of the world. In Europe, firms tend to use 3PL both for international transport and for the distribution of products in foreign markets. Nearly two-thirds of the European distribution centers used by American, Japanese, Korean and Taiwanese manufacturers are managed by 3PL providers (Mckinnon, 1999). 3PLs helped firms deal with multinational transportation requirements and inconsistencies.

Several recent studies have addressed the issue of growth in the 3PL market and other freight intermediaries in detail. A study by Murphy and Poist (1998) provides a review and synthesis of research on this topic. A main part of supplier selection research is oriented towards the purchase of products rather than services. It reveals that supplier evaluation and selection is employed routinely in industrial purchasing. Most evaluation methods used by industrial buyers could be classified into three basic types: (1) a categorical approach; (2) a weight-point plan; and (3) a cost-ratio method (Sink and Langley, 1997).

Candidate evaluation begins with the establishment of selection criteria. Quality, cost, capacity, and delivery capability are used to evaluate distribution providers. In selecting an external logistics provider, however, the criteria are typically more rigorous. References provided by current customers, cultural compatibility, and financial strength, depth of management expertise, operating and pricing flexibility, and information system capabilities play essential roles (Sink and Langley, 1997).

Specialists in logistics prepared a process model of how to choose an external supplier. The process includes five steps:

(1) Defining the need for transferring logistics services onto external suppliers.
(2) Elaboration of alternative solutions.
(3) Evaluation of candidates and deciding for a supplier.
(4) Realization of services (transfer onto external supplier).
(5) Evaluation of external supplier's work.

Elaboration of criteria for selecting potential external suppliers in logistics is very important. There exists an extra study about the importance of parameters – features of logistics' quality (Menon, McGinnis and Ackerman, 1998).

2.2 Managers' perception of the importance of characteristics of logistical provider

Mentzer et al., (2004:15) found out that logistics services have become a significant source of competitive differentiation between firms. »Diverse regulations across borders, longer lead times, and increased transportation costs all add to the difficulty of managing logistics services internationally. As a service offering, logistics is often characterized by intensive customer contact, extensive customization requirements, and a reliance on extrinsic cues for service performance. Because of these qualities, logistics services are also subject to cultural influences that exist in cross-border trade«. In the case Balkans countries exists several differences (religious and cultural issues, trade regulations, shipping distances, and cross-currency issues etc.) between them and as a result we found different research results. And as further Mentzer et al., (2004: 15) suggested that identifying specific customer segments, some which may transcend national borders, logistics managers can benefit from reduced costs, enhanced revenue, and the ability to differentiate their offering from the highly competitive marketplace.

The buying behaviour literature suggests that the importance of particular purchase makes a difference in terms of the buying process. A purchase can be important for the firm for several reasons. Purchased service attributes can be differentiate based on whether they are standard or non-standard, simple or complex and have a standard or a novel application. Purchases involving large expenditures, difficult to obtain items, or irreplaceable supplies are very important or "strategic" buys (Maltz and Ellram, 2000). We are agree that purchasing industrial services, like logistical services, is a time-consuming, complex, and expensive activity.

Which indicators customers use to evaluate their suppliers? We would expect that in their purchase decision processes, customers would give strong consideration to the resources and the competence of the supplier as the means necessary to provide higher quality, more reliable and more efficient transport of goods; therefore, the service provider must ensure a complete execution of all logistics and related activities. As a result, as Murphy and Poist (1992: 14-23) and Bardi et al., (1989: 4-11) point out, companies now tend to differentiate and select carrier or shippers on the basis of more specific attributes, such as "timeliness" and "reliability". Vaidyanathan (2005: 93) argued that logistics managers consider information technology, quality, cost, services, performance and intangibles as important factors in selecting logistics providers.

One of the aims of our research was also to measure the perception of respondents about different characteristics of logistics provider. Selecting the right list of factors can be difficult. Within any organization, there will be differences of opinion about the key buying factors, their importance, and how well the company performs on each factor. Most logistical providers choice research has concerned itself with the identification of those benefit attributes that companies perceive to most differentiate logistical providers (Lambert et al., 1993: 21-28; McGinnis 1990: 12-19; Murphy and Hall 1995: 14-23).

Because of the market competitiveness most logistics providers tend to expand their operations in other countries. Research by Stone (2001) studied the approaches that U.K. logistics service providers have used to implement expansion within the single European market. The study found that expansion has proved demanding and, for many U.K. logistics service providers, the single European market has yet to fulfil its initial promise.

One of the major challenges of services marketers is the assessment of the quality of service offerings. Because of the general nature of services (i.e. intangibility, inseparability, heterogeneity, and perishability), service quality is usually difficult for customers to evaluate (Palmer and O'Neill, 2003). In conceptualizing physical distribution service quality, Mentzer et al., (1989) synthesize 26 elements of physical distribution and customer service reported in the logistics literature over more than two decades to arrive at a parsimonious three dimensional construct composed of availability, timeliness, and quality (Mentzer, Flint and Hult 2001: 83). This structure was supported by later empirical evidence, with slight reconceptualizations based on additional extensive qualitative research (Mentzer et al., 2001: 83; Bienstock et al., 1997).

As Svensson (2002: 426) said »altogether, marketing activities and logistics activities may be seen as a chain of interdependent activities that complement each other in order to facilitate the exchange.« In our empirical research we explore the close interrelationship between marketing communications and logistics.

3 Empirical findings

3.1 Company profile

The main research instrument for empirical investigation, e.g. a questionnaire, was developed on the derived theoretical basis. The covering letters with questionnaires were mailed to the corporate directors of 150 the biggest Slovenian enterprises. We choose the strata based on the annual net profit. The survey was conducted in January, 2005. During the four-week period following the mailing, a total of 37 responses were received and that gave the response rate of 24,7%. The results present in this paper are related to the sample of 37 respondents. While one would have preferred a higher response rate or a larger sample, it should be noted that most previous studies of logistics outsourcing have involved no more than 250 responses (Boyson et al., 1999). As such, the 37 usable responses in the present research would appear to offer a plentiful and appropriate database for research of logistical providers.

The collected empirical data were processed with SPSS 10.0, where the emphasis was given to descriptive statistical analysis. We intend to use the regression analysis and hypothesis testing. The regression analysis and hypothesis testing produced very modest research findings because of the too small sample of the companies in the sample.

Some of the possible limitations of the survey results should be noted. First, the low response rate might be considered a concern, but in fact, it is expected in organizational research as opposed to consumer research (Hansen et al. 1996: 85). When small sample sizes are being employed, when each subpopulation of interest has fewer than 30 respondents, we should be very careful to ensure that any inferences are appropriate given the data collection. But in this paper a small sample represents a high proportion of our population and such concerns are less relevant (Bock 2002: 240).

The relevant data of the companies were provided mainly by members of the managing boards (70,3% of cases). Other respondents appeared in not more than three companies.

Table 1: Position of respondents in the companies

Position in the company	Frequency	(%)
Members of the managing board	26	70,3
Head executive	4	10,8
Counselling specialist	2	5,4
Business consultant	2	5,4
Other	3	8,1
Total	37	100,0

The companies included in the sample are distributed according to industries (see Table 2).

Table 2: Distribution of the companies in the sample according to industries

Industry	Frequency	(%)
Production of industrial products	11	29,7
Trade	9	24,3
Production of consumer products	6	16,2
Business services	6	16,2
Services for final consumer	5	13,5
Total	37	100,0

The sample consists of one company (2,7%) with less than 100 employees, 35,1% of the companies with less than 500 employees but more than 100, 35,1% of the companies with the number of employees bigger than 500 but smaller than 1001, and 27,0% of the companies with more than 1000 employees.

Table 3: Size of the respondents companies

Number of employees	Frequency	Percent (%)
51-100	1	2,7
101-500	13	35,1
501-1000	13	35,1
More than 1000	10	27,0
Total	37	100,0

3.2 Market characteristics and business strategies of entrance on foreign markets

Then respondents in the surveyed companies were asked about their largest sales geographic region. The respondents had the possibility to choose among different answers. The results show that the largest respondent sales market is Slovenia, followed by markets of former Yugoslavian countries. The next large sales market is the market of EU countries, followed by the market of East Europe.

Table 4: Respondents largest sales geographic region

Geographic region	Frequency	(%)
Slovenia	36	97,3
Former Yugoslavian countries	27	73,0
EU	25	67,6
East Europe	25	67,6
CEFTA	22	59,5
USA	12	32,4
Pacific - Asia	10	27,0
Australia and New Zeeland	9	24,3
Japan	8	21,6
Africa	8	21,6
Latin and Middle America	6	16,2

The presented research findings in the continuation relate to the above-stated sample of companies.

One of the main issues of research was to explore the business strategy of entry in the new market in the sample of Slovenian companies. With the growth of international trade, an increasingly diverse array of products of different national origins is now available in many countries throughout the world. This has resulted in greater interest in examining the primarily business strategy of entry in the foreign markets. The respondents had the possibility to choose among different answers. The data analysis shows that the most often planned business strategy in the sample of Slovenian companies were the strategy of market development (76,3%) and the strategy of new product development (73,7%). Opening the own company's subsidiary in the foreign market (50,0%) was the next most often used business strategy, following by outsourcing (42,1%), the strategic alliances with other companies appeared in 39,5 percent of cases while alliances with companies of raw materials appeared in 31,6 percent of respondents. The less often used business strategy for the entry in the foreign market was by respondents the licence agreement (13,2%).

Table 5: Business strategies used for entry in the foreign markets

Business strategy	Frequency	(%)
Market development	29	76,3
Product/service development	28	73,7
Opening of company's own subsidiary in the foreign market	19	50,0
Outsourcing	16	42,1
The entrance on foreign market with alliances	15	39,5
The strategy of alliances with companies of raw materials	12	31,6
Licence agreement	5	13,2

To understand the differences in the respondents' view of the chosen business strategy of foreign market entrance, we tried to find out if there are some statistical differences between companies of different main activity or industry. We compared the groups of companies according to industries (production of industrial products, trade, and production of consumer products, business services and services for final consumer). Accordingly, we make the hypothesis as follows:

Null hypothesis H_0: There is no difference among groups of companies of different industries regarding business strategies.

Alternative hypothesis H_1: There is a difference among groups of companies of different industries regarding business strategies.

We made the cross-tabulation for all business strategy of entrance on the foreign market in the table five. We used chi-square statistic (x^2) to test the association between the dependent variables (business strategy) and the independent variable (industry). The results indicated a statistically significant difference for two specific business strategy regarding entrance on foreign markets e.g. product or service development (p=0,043) and strategy of opening the company's own subsidiary in the foreign markets (p=0,034). So, we can reject the null hypothesis and conclude that there is a significant difference among five groups of companies regarding following business strategy: product or service development and opening the company's own subsidiary in the foreign markets. No other statistically significant differences among the remaining business strategies were found.

3.3 The overview of logistics in Slovenian companies

In our research we were interesting if Slovenian companies are planning, executing and control the whole logistical chain. The 78,4 percent of respondents answer in the affirmative, while the remaining 21,6 percent of respondent answer in the negative. Results show that respondents are aware of managing the entire logistical function.

Table 6: The indicators to evaluate logistics suppliers

The indicators to evaluate logistics suppliers	Frequency	(%)
Competitive price and payments conditions	26	68,4%
Adequate quality of logistical services	23	60,5%
On-time delivery	21	55,3%
Reliability of offered logistical services	17	44,7%
Technical equipment and ability to manage the entire logistical function	12	31,6%
The full service of logistics and connected services	10	26,3%
The speed of delivery	7	18,4%
The size of logistics provider	1	2,6%

One of the objectives of the paper was to explore which indicators customers use to evaluate their suppliers. Respondents had the possibility to choose among different answers. Results show (see Table 6) that the competitive prices and payments conditions were by respondents the important factors in selecting logistics providers (68,4%). The research suggests that respondents are given more importance to following factors in choosing logistics provider: adequate quality of logistical services (60,5%), on-time delivery (55,3%) and reliability of logistical services offered (44,7%). Managers also consider technical equipment and ability to manage the entire logistical function, the full service of logistics and connected service and the speed of delivery as important factors in selecting logistics providers. From results, it appears that firm characteristics (such as the size of logistics provider) influence the choice of logistics providers.

Purchasing industrial products and services is a time-consuming, complex, and expensive activity. To properly understand organizational buying we must be knowledgeable about the business buying center concept. One way to view a buying center is to categorize members which decide of purchases. It is useful to consider the various people within an organization who might be called upon to contribute to a purchasing decision. One individual or a group of individuals may perform different roles; he can act as initiator, gatekeeper, influencer, decider, user or buyer (Mahin 1991).

The results show that the purchase department is usually taking the buying decision (55,3%), followed by the logistics department (47,4%) and sales department or marketing department (36,8%). Directors are also taking buying decisions (28,9%). Respondents had the possibility to choose among different answers.

Table 7: Department taking a buying decision

Department	Frequency	(%)
Purchase department	21	55,3%
Logistics department	18	47,4%
Sales department/Marketing department	14	36,8%
Director/President of the Managing Board	11	28,9%
Managing Board	1	2,6%
Finance department	1	2,6%

The data in Table 8 indicate the percentage of different logistics activities outsourced by responding organizations. Approximately one-third of the responding organizations outsource either two or three logistics activities, while fewer than 10 percent of the responding organizations outsource one logistics activities. The most frequently outsourced activity (92,1 percent of respondents) is "road transport", followed by "customs broking" (44,7 percent of respondents) and "distribution" (39,5 percent of respondents). In 18,4 percent of cases, Slovenian respondents outsourced "warehousing", while product marking, labelling and packaging is outsourced by 13,2 percent of respondents.

Table 8: The most often outsourced logistical services by Slovenian companies

Outsourced logistical activities	Frequency	(%)
Road transport	35	92,1%
Customs broking	17	44,7%
Distribution	15	39,5%
Warehousing	7	18,4%
Product marking, labelling, and packaging	5	13,2%

4 Conclusion

This paper also expands previous research on logistics functional processes and logistics outsourcing on the Slovenian market.

There are several implications of these findings for logistics management. Results indicate that have different business strategies of entrance on foreign markets across countries can contributed to the development of different marketing strategies for those market segments. And also, the effectiveness of entire logistical function depends upon which logistics provider use. The logistics marketplace is highly competitive, and thus suggests that managers are involved in selection of logistics provider. Furthermore, outsourcing plays an essential role in the logistics industry. The survey identified the following as significant outsourcing functions: road transport, customs broking, distribution, warehousing, product marking, labelling, and packaging.

Because of the differences across companies in selected business strategy in foreign market entry, we conclude that managers should develop different marketing strategies for entrance on foreign markets across industries. A better understanding of entire logistics function from the planning, through implementation and control in the sample of Slovenian companies, would contribute to business organizations in the field of logistic industry.

Future research should examine the evaluation the logistics providers and outsourcing in other South-Eastern European countries. The comparison of these findings in other business environments and situations will benefit the competitiveness in logistics market.

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