2007-01-01

An Investigation into Outsourcing Practice in Ireland: a New Direction in Logistics and Supply Chain Management

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YEAR XII, NUMBER 35, April 2007

Special issue

**Pan-European logistics and supply chain challenges:
setting the research agenda**

Guest editor: *Pietro Evangelista*

An investigation into outsourcing practice in Ireland: a new direction in logistics and supply chain management

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Abstract

Companies are increasingly focusing on the development of core competencies as an integral part of their overall strategy development and implementation. The corollary of this is that functions regarded as being non-core are being outsourced. This paper investigates the case for and against outsourcing and in addition what is happening in Ireland regards outsourcing. Furthermore to analysis of current literature in the field, an Irish-wide postal and e-mail survey, as well as three case studies revealed many interesting facts. The key findings of the work are manufacturing outsourcing is now the most popular function to be outsourced for both small to medium sized enterprises (SMEs) and large enterprises. Large enterprises (LEs) do not prepare or examine hidden costs more than SMEs, nor do they differ much in relation to the use of consultants. Furthermore, the importance of time spent on preparing or producing contract, and the impact the contract can have on the supplier-buyer relation do not differ significantly. It was found that most companies outsourced within Ireland, which led to further investigation in that area. In relation to logistics outsourcing specifically, this has become very important in the supply chain over the last 20 years as an activity that was traditionally handled by firms as a support function. At that time logistics activities such as warehousing, distribution, transportation and inventory management were given low priority compared with other business functions within the organisation. However, since the customer has become more demanding, the logistics function has now become a source of competitive advantage and there has been a growing emphasis on providing good customer service..

Keywords: Outsourcing; Ireland; Logistics.

Introduction to supply chain management and logistics outsourcing

Supply chain management (SCM) is concerned with the total management of the supply chain. The overall objectives of SCM are to optimise total supply chain costs and investment, in addition to deliver appropriate levels of customer service in targeted market segments (Sweeney, 2003). SCM provides the end customer with the right product at the right time, priced at the right level, in the right quantity and quality. Also,

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the ability to satisfy customer demands while responding to relentless competitive pressure requires creative and often complex approaches to managing a company's supply chain (Trent and Monczka, 2003).

Traditionally the functions in Fig. 1 were managed in isolation and often operated at cross purposes.
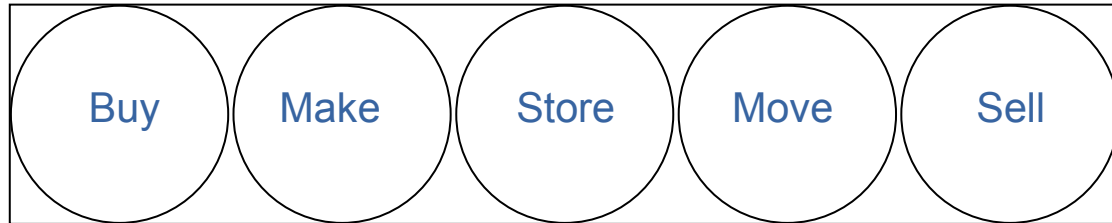
Figure 1: Functions in a traditional Company.
Source: Carroll and Sweeney (2005).

Supply chain management (SCM) integrates these functions by holistically managing the information, material and financial flows (see Fig 2). In addition for a chain to be as competitive as possible the material, information and money flows need to be managed across the supply chain which has implications for the way in which companies deal with their customers and suppliers (Sweeney, 2002).
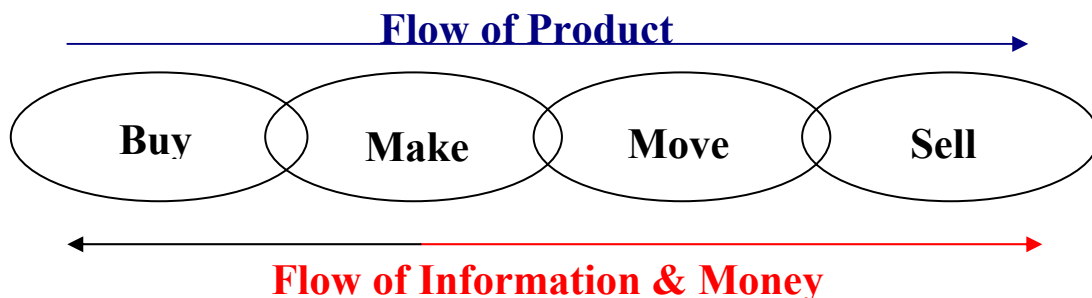
Figure 2: Functions in a company with SCM implemented.
Source: Carroll and Sweeney (2005).

SCM applies to all entities in all sectors. Improving an individual enterprise does not guarantee success in today's competitive market. Without the right companies up and down the supply chain to work with, a company will not achieve its true potential. In addition, recent advances in supply chain information technology (IT) and e-commerce have provided businesses with the potential to improve competitive advantage.

Growing international competition has forced manufacturers in many industries to guarantee fast and reliable deliveries of an increasing variety of high quality products. This has resulted in placing pressure on established companies in industrialised nations and has created opportunities for the new entrants and the nations which more recently have taken the path to industry. "This effect has been very pronounced in the West, with industry in Europe and America suffering particularly severely" (Sweeney, 2005).

Internationally and domestically the modern business environment in which we work is significantly different from that of the past. New competitors are coming in at ferocious speeds and have eroded barriers that had previously protected a company's markets. This has resulted in challenges for market share, reduced prices margins for many companies (Sharland, 1996).

In order to survive, companies are outsourcing significant parts of their operations to cut costs and bring in companies with best in class technology and knowledge to their organisations. Cutting edge technology and knowledge are now recognised as competitive weapons but are expensive to acquire. In addition, start-up companies no longer "play by the rules" and are writing new ways about how to conduct business (Hammer and Champy, 1992). Hines and Rich (1998) claim that for a few of the world's most successful organisations competitive advantage is being sought and achieved through their direct and indirect network of suppliers.

Outsourcing is not a new phenomenon. Its evolution is closely connected with the evolution of SCM. Services such as security and canteen management have been outsourced since the early 1960s and earlier. However, the volume and range of activities has significantly increased in the last 10–15 years to include IT, personnel, logistics, finance and accounting and even activities traditionally central to the firm such as manufacturing and R&D (Bailey et al., 2002).

Ireland, as with other Western European manufacturing countries, is currently experiencing a change in the way that customers and suppliers relate. The use of outsourcing is becoming more important and is growing significantly in a range of industries including: electronics, pharmaceutical, medical devices, automotive and food and beverage production. Consequently, organisations need to focus on areas where they have or can gain a competitive advantage and strengths that will enable them to participate successfully in an advancing global marketplace.

Ireland has a unique and unrivalled experience of SCM. This has resulted from several factors including: the open nature of the economy, the high levels of imports and exports and the strong IT base and almost uniquely diverse base of the economy (Sweeney, 2003a).

Ireland has seen an unprecedented growth since the early 1990s – the so called "Celtic Tiger" which was helped by public investment in education, high success levels by the Industrial Development Agency (IDA) in attracting inward investment and EU funding of infrastructure investment. One of Ireland's bigger attractions was a ready supply of skilled workers, including scientists, engineers and business school graduates. As far back as the 1960s, the country had been investing heavily in both secondary and higher education.

Now, Ireland faces more intense competition than it did, often from lower-cost rivals that are becoming equally adept at attracting FDI (foreign direct investment), investing in education and encouraging indigenous industries and higher inflation than in rival countries means that Irish competitiveness is being steadily eroded (Economist, 2004).

Traditionally outsourcing is an abbreviation for "outside resource using" (Arnold, 2000). Currently, in the simplest of forms, outsourcing takes place when an organisation transfers the ownership of service or function that used to be done in-house to a supplier. The degree of transfer of control is the defining characteristic of outsourcing. It concerns such questions as "the transfer of routine and repetitive tasks to an outside source," "…having an outside vendor provide service that you usually perform in-house" and "… paying other firms to perform all or parts of the work" (Zineldin and Bredenlow, 2003).

Historically outsourcing was used when an organisation could not perform to world-class excellence in all sectors of the organisation due to many factors including: incompetence of staff and/or management, lack of capacity with the organisation, financial pressures, or technological pressures. In its most basic of forms it started from

the basis of a single service such as canteen management, buildings management or computing. In addition, outsourcing was applied in overhead functions or activities which had no potential for competitive advantage and business processes where an end user could create a competitive advantage through partnerships with vendors specialising in a particular area (Dole, 1998). Now, outsourcing is used to build on core competencies and recognise that serving the customer is critical to the organisation.

Outsourcing is not simple or easy to create or develop and support. It can have both positive and negative effects on key areas of the supply chain (Mason et al., 2002). There are many implementation problems and the failure rate is often quoted to be as high as 70 percent (Zineldin and Bredenlow, 2003). In addition, it can adversely affect employees and many transitions have been unsuccessful (Logan, 2000). Even with these problems recent studies have indicated that 85 percent of all companies outsource at least one function or service (Logan, 2000).

Outsourcing can also help the company focus on its core competency or competencies. To decide what should be outsourced, a company should go back to the origins of the company and outsource everything else (Hammer and Champy, 1992). In other words, if the service/function is not a core competency of the company it should be considered for outsourced. Non core competencies are sidelines to a company's core competency and do not always generate profits and may even reduce profits and outsourcing your non-core competencies is to ultimately gain the company a competitive edge (Insignia, 2000).

Logistics outsourcing has become really important in the supply chain in the last 20 years as it was traditionally handled by firms internally as a support function. At that time logistics activities such as warehousing, distribution, transportation and inventory management had been given low priority compared with the other business functions within the organisation. However, since the customer has become more demanding, the logistics function has now become a source of competitive advantage (see Table 1) and there has been a growing emphasis on providing good customer service (Razzaque and Sheng, 1998).

"Logistics is the process for the efficient and timely flow of goods, services and information from the point of origin to the point of consumption" (Candler, 1994).

Table 1: Types of Logistics services that can be outsourced.

Warehousing	*Outbound Transportation*	*Freight bill auditing/ payment*	*Inbound Transportation*
Freight Consolidation/ Distribution	Cross-docking	Product Marking/ Labelling/ Packaging	Selected Manufacturing Activities
Product returns & repair	Inventory Management	Traffic Management/ Fleet Operation	IT
Product Assembly/ Installation	Order Fulfilment	Order Entry/ Order Processing	Customer Service

Source: Cap Gemini Ernst & Young (2001).

According to Wilding and Juriado (2004) it has been estimated that about 40 percent of global logistics is outsourced.

The management of the logistics function in modern organisations involves decision making for the complete distribution of goods and services in the marketing function

with a view to maximise value and minimise cost (Razzaque and Sheng, 1998). What has become apparent is that competitive advantage now comes from the delivery process as much as from the product being delivered (Razzaque and Sheng, 1998) which has transformed logistics from a traditional back-room function into a front office function. Consistent service at appropriate levels is necessary for a well run and well designed logistics system.

However, in order for an organisation to handle its logistics activities efficiently and effectively, it must consider the following:

1. Can it provide the service in-house
2. Can it outsource the function
3. Can it set up a subsidiary by buying a logistics firm which will provide its logistics function.

It was evident that there was a huge variety of information found on the topic of outsourcing but the overall knowledge within those papers was not very widely ranged. Therefore, in order to add to the body of knowledge that is out there already and to find out information on outsourcing and business performance from an Irish perspective it was decided initially to conduct a survey on the Top 1,000 companies in Ireland. The survey will obtain a shallow amount of information from a wide number of study participants, then to conduct three case studies that will provide a deep amount of information from a small number of participants. The survey should throw up any information if anomalies occur between theory and what is happening. Anything that is not covered fully in the survey, or needs further clarification will be covered in the case study section. Therefore by the end of this piece of research, the results of the literature review will either be confirmed or contradicted by what is happened in Ireland and the results of the survey and the case studies will be triangulated.

Introduction to the survey instrument

The survey instrument is a standardised semi-structured questionnaire consisting of 35 multiple choice questions and four open text questions. They were grouped into five categories: general company information; general outsourcing; latest outsourcing project; outsourcing preparation and company experience. The survey was piloted in 10 companies and a response rate of 60 percent was recorded. However, given that there were changes to the survey at this point these were not included as part of the final sample frame.

A survey was conducted of managing directors, supply chain managers and purchasing mangers in the Top 1,000 Companies in Ireland (The Irish Times, 2005). In all, 978 surveys were sent out – 151 by e-mail and 827 by post and 133 replies received. Of this, 131 usable responses were obtained and 25 were returned as undeliverable. Excluding returned mail, the response rate was approximately 14 percent.

Level 1: Total Population = 978 companies
Level 2: Sample Frame = Total Population = 978 companies
Level 3: Sample Size =131

For the postal questionnaires, they consisted of a cover letter, questionnaire and a postage paid return envelope. For the e-mail questionnaires, they consisted of a cover letter which contained a link to the on-line questionnaire.

The responses were received in two waves, some weeks apart. An analysis of the responses in each wave indicated that the late respondents were drawn from the same population as the early wave. Overall there was no statistical significance found between the early and late respondents which indicate that there are no real differences between the companies who replied very quickly and those who took longer to reply. It further indicates that there is no bias between them.

The majority of survey respondents were from the manufacturing sector (25.5 percent) with just over 18 percent in the service sector (see Fig. 3).
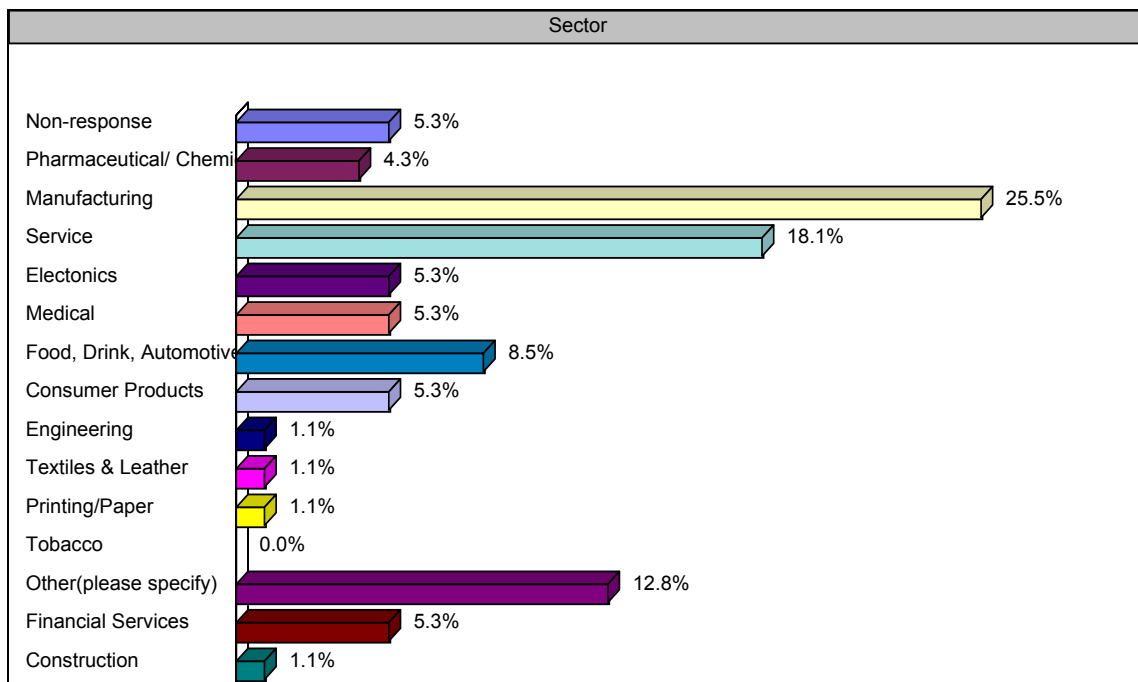
Figure 3: Sectoral Response.

In addition, since two modes were used to get the surveys to the study participants, postal versus e-mail comparisons were carried out. Sphinx survey was used to analyse the results. For the purposes of this research, probability analysis was used to show if a value was statically significant or not.

To ensure that the results from the survey are not biased and there were no differences between the late and the early respondents some analysis was done to compare these. These were done by using the same type of analysis as in the survey.

Main survey findings

In all, two hypotheses were tested in the course of the survey analysis: These were defined as follows:

Hypothesis 1: "Total outsourcing is the main type of outsourcing that companies in Ireland are involved in"

Hypothesis 2:
a) "The amount of outsourcing projects a company is involved in increases with the size of the company"
b) "The service/function outsourced depends on the size of the company"
c) "Cost goals are more important for SMEs than LEs"
d) "LEs prepare more and look into more hidden costs than SMEs"
e) "LEs offshore outsource more than SMEs"
f) "SMEs use consultants more than LEs"
g) "Employees affected varies by size of company"

From the results, it was found that the selective outsourcing is the main type of outsourcing the study participants are involved in. Furthermore, it was found that there was no statistical significance between the types of outsourcing SMEs and LEs are involved in. The results also indicate that total outsourcing is not the most popular type of outsourcing companies are involved in. In addition, there are very few differences in the types of outsourcing LEs and SMEs are involved in and the types of outsourcing do not vary by sector.

It was further indicated in the study that the number of outsourcing projects a company is involved in does not increase with the size of the company. From the results it was found that there was no statistical significance found between the number of outsourcing SMEs and LEs are involved in. However, SMEs seem more consistent in the number of projects they outsource with projects.

Manufacturing outsourcing is now the most popular function to be outsourced by both SMEs and LEs in the Irish Republic. This concurs with objective one where we saw that the service sector was mainly the sector where companies have set up in Ireland since 1990 thus indicating that manufacturing is moving out of Ireland. Other common areas for outsourcing are for both SMEs and LEs are: logistics and freight forwarding.

It was also indicated that the initial goals of the outsourcing initiative do not depend on the size of the company. The initial goals for SMEs and LEs were the same, the only differences being their positioning in the top five. The top five initial goals were to be:

Table 2: Types of Logistics services that can be outsourced.

	SMEs	*LEs*
1.	Cost Reduction	Cost Reduction
2.	Increase Service Levels	Efficiency Improvements
3.	Improve Cost Control/Structure	=3 Improve Cost Control/Structure
4.	=4 Efficiency Improvements	=3 Increase Service Levels
5.	=4 Better Quality	Gain Competitive Advantage

It was also indicated that LEs do not prepare more or look into hidden costs more than SMEs. However, a small percentage of companies – 3.5 percent of SMEs and 5.3 percent of LEs do not look into any hidden costs which is worrying given the number of problems outsourcing can cause

There was no statistical significance found between the size of a company and whether they offshore although it was found that LEs offshored more than SMEs with. Less than one in three LEs offshore outsourced and less than 15 in 100 SMEs offshore outsourced. Most companies seem to outsource within Ireland and given that manufacturing is now the most popular type of outsourcing (according to this study), it

seems to be counter-intuitive. Cost goals and non-cost goals are used in equal numbers for both SMEs and LEs.

The service/function outsourced does not necessarily depend on the size of the company but SMEs might not have all the services/functions LEs have due to their size, for example, canteens. In addition, LEs do not prepare more or look into any more hidden costs than their smaller counterparts, however there were many differences in what they looked into.

Introduction to case studies

The rationale for using the case study approach was that there were a number of determinants which had to be taken into account that could not be studied effectively except as they interact and function within the organisation themselves, for example, practices and processes within a company. The survey analysis threw up many questions that could not be analysed except with face to face interviews with companies.

One case study was examined. The case study was chosen on the basis of seven criteria:

1.   Sector
2.   E-mail or postal survey
3.   Company size
4.   Business performance rating
5.   Overall rating of outsourcing
6.   If they are considering outsourcing again
7.   When the company was set up

The information for the case study was gleaned from a number of sources including: published papers about the companies; the company websites; annual financial reports; the questionnaire they filled out and interviews with key decision making personnel in the company. In all, about 10 percent of the information was gleaned from published sources with the other 90 percent gained from the interview process.

The case study followed the same logic as the questionnaire design and is ordered in such a way so as to complement the construction of it and throw out common threads between the two.

Company a is part of a much larger organisation based in the USA. It has many plants throughout the world, primarily in America. It has a turnover worldwide of $1 billion per annum. In Ireland, it has a turnover of €100 million. The company was set up in the 1970s and is a large company.

Logistics case study analysis

Company A has been involved in four outsourcing projects. It has outsourced its security, canteen management, logistics and cleaning services. It initially outsourced their logistics function as it was seen that there were huge cost savings to be achieved by outsourcing it. Since then it has outsourced their canteen management, security and

cleaning services. The company's definition of outsourcing is: "Taking a key activity and giving the responsibility to manage this activity to an outside company".

The latest function it has outsourced was the re-outsourcing of the logistics function. For this it has been involved in total outsourcing with 100 percent of the function outsourced. The logistics function is primarily a load on/load off business, with 40/45' high cube containers and use a multimodal transport system (see Fig 4).
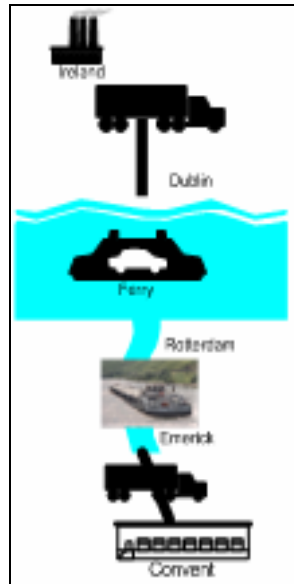

Figure 4: Multimodal Transport Network.

After the products are manufactured is, the containers are loaded onto a 40/45' truck in Ireland. They are then taken via road to Dublin. The containers are then loaded onto a ferry and taken through the Irish Sea to Rotterdam. At Rotterdam they are taken off the ferry and loaded onto a barge and are sent up the Rhine to Emerick. Once again they are off loaded at Emerick and put on a trailer and moved 5 miles via road to the warehouse in Convent. If the need arises they will use rail. It started on their latest outsourcing project between January 2004 and December 2004 and is currently post implementation. It affected less than 30 percent of its employees and the length of the contract it awarded was three years. Company A recognised ten to fifteen years ago for them to stay competitive and survive in a very tough environment it had to become masters of its own destiny. Huge numbers of competition were coming in from the Far East, Taiwan and China.

A joint decision between the Commercial Director and the Supply Chain Manager within the organisation made the decision to outsource. When it was moving at a reasonable pace and they both agreed it was a viable option they made a presentation to the Directors of the organisation. They explained to them exactly what they were doing and how they would ensure that the outsourcing initiative would be a success. From this presentation, the company Directors made the decision that the outsourcing initiative should proceed. In other words it was driven from the top of the company.

The decision to outsource logistics was almost forced through a number of factors. When the Supply Chain Manager started in Company A seven years previously they ran a logistics seminar in order to reduce costs. They invited all of their suppliers into the factory to discuss the logistics of the company, the costs involved and how the impact of

competition was affecting their prices. After this, they asked the logistics providers to go away and come back with some cost reductions. From the seminar two things came out:

1.   They had 35 to 40 different suppliers
2.   The company were not sure they were using the right people with the correct level of expertise

The initial goals of the outsourcing initiative can be seen in Table 3.

Table 3: Initial Goals of the Outsourcing Project.

	1	*Increased Service Levels*
	2	Efficiency Improvements
	3	Cost Reduction
	4	Increased Economies of Scale
	5	Better Quality

In addition, it was evident in the company that it was lacking expertise. It knew that the only ones that knew the real costs of moving goods were those that ran the ships. This was recognised within the company. It was further recognised that it did not have the expertise or the knowledge to get this information. Plus, the only way to get that was by outsourcing it to someone who had the knowledge and who would be hungry enough to get the business and cut costs.

In addition to the initial goals of the project, there were also some factors that influenced the company to outsource; these can be seen in Table 4.

Table 4: Factors Influencing the Decision to Outsource.

	1	*Better Customer Service*
	2	Lower Costs

It saw that since they were spending €10-13 million per year on logistics and could it get even a two percent saving by outsourcing it would mean €200,000 the company.

Company A chose Ireland for the outsourcing of logistics as they felt the first port of call was to look locally. If it did not find a candidate or company that it felt would be successful in doing what it wanted in Ireland at the end of their research, it would have then looked next to the UK. Again if it was not successful there it would go to central Europe and so on.

The company are very familiar with Europe. The company has warehouses in the UK, Germany, and Belgium and are also very familiar with running logistics in Europe and in dealing with Europeans. It found that there were many problems with offshoring due to language barriers. The language issues are bigger than people realise because their understanding of English is not the way it thinks it is. Companies think they understand what we are saying but the specifics/details of what we speak are not always what they understand. Thus, it can have huge ramifications when it comes to doing what we want. From a language perspective and from a locality perspective Ireland seemed the most logical and best place to start. And since it found two suitable candidates in Ireland that could do exactly what they wanted, that is why it did not move to the UK.

But in saying all that, it never considered offshoring initially. It always considered Ireland its first port of call. However, it would consider offshoring if it was to outsource

it again, especially into mainland Europe. It will depend on a number of criteria though, as to tender it into the European market will mean a horrendous amount of work, as it will get every freight company in the whole of Europe trying to get the business. It has to consider this carefully otherwise it could get swamped with documents and it could take up to one year to process it, or even get an understanding of it and have all the required meetings.

As a result, it feels that the best place to keep these types of things is locally because it is dealing with local ports, local shipping etc. So, even if Company A tender it internationally and choose a foreign company who are experts in logistics, the outsourcing supplier still have got to talk to EUCON in Ireland and deal with them in Ireland. Hence, they are not going to get away with the Irish side of it which makes up approximately 30 percent of the total logistics. However, if the Irish company is not performing it will tender it out.

Even though Company A chose Ireland, there are many problems here. For example, if you take the cost of energy, for example, oil, which relates to the cost of electricity - the costs have doubled since 2005. It contemplates that their energy bill alone in 2006 will be €1 million higher than in 2005. As a result, it has got to make €1 million more to compensate for this loss in Ireland. These are the things that are crippling industry in Ireland but in particular manufacturing. If you go to Poland, their energy bills are lower (but not significantly) but what is drastically lower are labour costs and consequently companies are moving over there.

When it outsourced the logistics function initially there were five people in the shipping department – one supervisor and four administrators. When it was outsourced two of the employees moved into the customer care department as they were restructuring in there and found that there were two roles available.

In the shipping department one of the roles was kept and one of the other people stayed on with the new company and one person was offered redundancy. All avenues were considered for the other person. It was given the choice to stay, but its role in the company would have been deflated. It decided to do it in-house even though the company had very little experience of outsourcing. This was because logistics was an activity the supply chain manager (who was leading the project) knew a lot about. He had worked in logistics for over 20 years and gained a lot of experience in shipping and logistics. From that perspective, although they did not have any experience of outsourcing, it had a lot of experience of the decisions that had to be taken to ensure that it would work. It never even considered consultants as the company claims that the project did not need them. In addition, the cost of the consultants was a barrier to using them.

It did in-depth company research and looked into what it called the main hidden costs of outsourcing – overheads, contract management, cost of transition period and the costs of layoffs. In addition, it went into the marketplace and examined all the relevant shipping companies in Ireland. Then the company went back into their own organisation and asked "what did they need to give the potential suppliers enough information for them to come back and tell them what they would do the business". In essence it was pulling out data from its own systems, looking at what they were doing from an activity perspective and then handing the information out to the potential suppliers.

By doing that it essentially let the potential outsourcing suppliers lead it. They were given the following information to work on:

    A.   What was going on in Company A now
    B.   What Company A's business was
    C.   How the logistics function was made up

From this the potential suppliers had to come up with a plan of how they were going to run and manage the logistics function. However, the company did not do any major risk analysis. It did not look into cultural issues as they were outsourcing within Ireland or language barriers (for the same reason as before). If they were outsourcing into Central Europe, it acknowledged that cultural problems and language barriers would have been very critical issues.

The main hidden costs they looked into were from a training perspective because it was looking for experts in the field. The team that was in Company A was the main logistics team in the company. It had the knowledge and they were the ones that trained the new people from the outsourcing supplier. Instead of hiring in "experts" it kept the original employees in their roles for an extra couple of months. As a result there was very little cost to that. The company did not see it as a cost as such, it was just a later cut-off from going from the old system to the new.

It also used the sourcing activities with the potential suppliers as a learning ground for them. Essentially, they were learning about Company A's business and what they do. Since the supplier was an expert in the field most of the learning's were coming to Company A and the knowledge transfer was coming from the outside into them.

The company received many benefits as a result of the careful planning and choices they made as a result of the outsourcing initiative. Table 5 shows the top eight benefits the company experienced as a result of the outsourcing venture.

Table 5: Top 8 Benefits of Outsourcing – Company A.

1	*Lower Prices*
2	Greater Flexibility
3	Closer Proximity to Markets
4	Service Levels Increased
5	Better Customer Satisfaction
6	Better Quality Services
7	Better Customer Service
8	Company more Profitable

One thing that is very prevalent about logistics, according to Company A, is that the two most important things about logistics are:

1.   The service to the customer - Company A will spend any amount of money to get the product to the customer when they need it, but how they share the costs depends on the situation.
2.   Cost

Other benefits include a significant reduction in costs - in the order of €3 million per year and the fact they were able to demonstrate to the people in the company and people on the periphery of the company that they were a very professional organisation. Also, that it was well able to manage their logistics and it was professional at doing it. This

was because one of the main reasons they outsourced was because Company A felt they were not doing it right. In addition, it is now able to manage their cash flow better.

Furthermore it gave the company a professional image of its logistics function and the customer service levels significantly improved. Since the function was running more smoothly they were able to put more energy into delivery and lead times because it had much better synergies at their base. It spent most of their time in the past fighting suppliers trying to curb costs. Now it spends most of their time looking at where the best place to position their product, what is the biggest order size it can do, what is the best route and overall what is the most economical way of doing things.

Since it is now dealing with just one supplier there has been a significant reduction in the administration costs in their finance department (see Table 6).

Table 6: Administration Before and After Outsourcing

	Before Outsourcing	*After Outsourcing*
No. Of Suppliers	35-40	1
No. Of Invoices (Monthly)	2000	4
No. Of Payments (Monthly)	100's	4

The biggest benefit to Company A is that now it is spending less time being focused on unimportant issues. As a direct result, it can now focus on issues that were important to the customer i.e. service to the customer and managing their cost base.

With regards some of the measures in the company like profitability, customer satisfaction the affect outsourcing had on them can be seen in Table 7. More importantly, although none of the indicators shot up, they helped prevent losses.

Table 7: Measures associated with Outsourcing – Company A

Business Performance Measures	
Shareholder Price Increased	Agree
Profitability Increased	Agree
Customer Satisfaction Increased	Agree
Sales Increased	Disagree
Cash flow Increased	Mainly Yes

It also received intangible benefits. For example, a more professional image of logistics created a "feel good" factor throughout the organisation and more harmony among people. Since the outsource team now worked very closely with the customer care team, they now treat the customer care team like their customer. In the old scenario, the shipping team fought with the customer care team, because the customer care team would ask them to do things which they felt were impossible but it was the message of the customer.

When asked in the survey about problems in the outsourcing initiative Company A said it had no problems. When pressed on this the supply chain manager said that this was because it had planned it well. It looked at the people they had, the knowledge they had within the company and how they would integrate the new team with the old team. It was here that it found a few minor issues – one person within Company A just could not get on with the outsourcing supplier. In addition, there were a few set up issues and a few with the supplier it had pre-outsourcing. It could see very quickly that it was going to lose a lot of business.

Other problems that have cropped up since the start of the outsourcing initiative include is that the outsourcing supplier is trying to keep a distance between Company A and their suppliers. This could have resulted in Company A losing touch with its main customers and their suppliers end up making the decisions. Before this was identified as a problem five or six key suppliers ended up talking to the outsourcing supplier because they feel that it is the ones that are making the decisions. To overcome this problem Company A arranges a twice yearly meeting with their main suppliers to discuss all important company business. In addition, it visits its warehouse[1] sites at least once a quarter. Here, it discusses the business and any issues that have cropped up since the last meeting.

In addition, its outsourcing supplier is good at giving Company A good news, but the supplier is not as quick or forthcoming about giving you bad news. Its supplier is not good at giving Company A information when the supplier is performing badly or not doing something right.

Company A claim that the few problems they encountered come down to the fact it carried out a lot of before the fact preparation about what it was going to do with logistics once they went with it.

But, even though Company A revealed many benefits, it is more important to establish the real impact of those benefits and problems encountered by its organisation. Since it is operating in a very competitive environment it must run its logistics very professionally and cost effectively as they are spending between €10-13 million per year on it. It is the second biggest budget within the organisation and if it is not running correctly it can have a huge impact on the profit margin of the organisation. Company A found the real impact to be:

1. They can now do a line by line cost saving
2. The can now calculate an accurate monthly incentive for their outsourcing supplier
3. On time shipment – 95 percent + against customer requirements
4. They moved from 20 percent deliveries direct to the customers to 70 percent (see Fig. 5). This system reduces double handing and lowers costs.
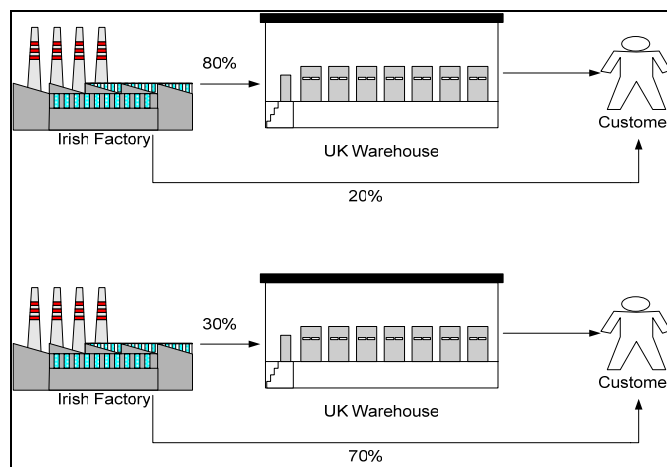

Figure 5: Direct to Customer Move.

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[1] These are very important as they hold approximately 200,000 tonnes of product in each of their warehouses.

Since it can now spend more time on important issues like cost savings, the following was the impact on the organisation:

1. Using a single haulier with a light weight chassis system enables them to get an extra 1 – 1.5 tonnes into each container (Inbound a saving of €200,000 and outbound a saving of €100,000 was recorded)
2. Using Swift Post instead of a courier service saves ~€20,000 per year
3. Increasing bale size by 10kg saves ~€80,000 per year
4. Going direct to more customers in Europe and the UK instead of going via warehouse - €30,000 –€50,000 per year.
5. Increasing order size from 18-20 tonnes to 22-24 tonnes

Company A rate their company's experience of outsourcing as very good. This is based on the criteria described in the case study and a combination of supplier and outsourcer input. In addition, these include all the benefits it has acquired, especially the €3 million saving per year. It claims the key to its success was the relationship they struck up with their supplier as this also brought natural benefits to the outsourcing initiative.

Company A is very dependent on the supplier. If something goes wrong with the supplier Company A will be left without a logistics function. On a more positive note, there are a lot of companies available to take over the business. It has not considered outsourcing again, but will do if the need arises. What it envisages will happen is the maintenance function will soon be outsourced.

Conclusions

Outsourcing, as it is today, would not exist if it was not for contemporary processes and trends related to supply chain globalisation. Companies are now experiencing greater competitive pressures from lower cost countries than ever before. This has resulted in companies not competing against other companies but supply chains competing against other supply chains. Outsourcing is potentially one of the vital elements of an organisational strategy aimed at lowering costs and keeping the companies in high costs economies afloat. It is helping developing countries to increase their GDPs as a consequence of inward investment in industrial capability.

Outsourcing is an important area for companies in Ireland as labour and other costs have risen rapidly over the last 20 years. Companies, as this study demonstrated, are looking for ways to increase profitability and to lower the costs of supplying products. Outsourcing is one of the ways companies can do this. By outsourcing to a country with lower labour costs, companies can take advantage of the costs savings. However, outsourcing does not come problem-free. It can affect the performance of a business both positively and negatively. It was found from this study that the benefits gained by a company are unique and cannot be easily replicated in another company.

Ireland has been used as an outsourcing country for American multinationals since the early 1960s. Companies like Dell, Intel, Wyeth Medica, Apple and Wyeth Biopharma all have operations there. However, Ireland is now becoming an outsourcer. Many companies are outsourcing to lower labour cost countries/regions like Eastern Europe

and China to try and overcome the high level wages that are now demanded. In this scenario, higher skilled jobs can often be retained in Ireland.

Two hypotheses were constructed for the purpose of this project. The hypotheses were analysed in the survey review section in the project. For hypothesis 1 the hypothesis was rejected as selective outsourcing is the main type of outsourcing companies in Ireland are involved in. The sub hypotheses were also rejected as there was no statistically significant difference found between the types of outsourcing companies are involved in by size or by sector.

For hypothesis 2 there were six objectives within the hypothesis to be tested and one sub hypothesis. All the objectives within the hypothesis were rejected as was the sub hypothesis.

- The number of outsourcing projects a company is involved in does not increase with the size of the company;
- The service/function outsourced does not depend on the size of the company;
- Cost goals and non-cost goals are of almost equal importance;
- LEs and SMEs prepare the same amount;
- LEs and SMEs offshore approximately the same amount;
- SMEs and LEs use consultants to the same extent.

The explorative research, with its theoretical and industry contributions suggests avenues for future research. The findings from this study are valuable and important in the context of outsourcing in Ireland in order to identify areas for future research within outsourcing in Ireland. It is recognised that there are limitations in terms of recommendations and conclusions that can be derived. However, it is felt that it provides a robust foundation for future research into outsourcing in Ireland.

Finally, outsourcing is an important strategy for companies as cost pressures increase and customers continue to demand more for less. The information generated through this research and the roadmap proposed provides companies with a robust basis for the planning and implementation of outsourcing initiatives.

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Acknowledgements