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LOGISTICS OUTSOURCING
Current State of the Market of Outsourcing
Logistics Services

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Abstract		
<p>In this thesis the market of outsourcing logistics services was studied. The thesis is divided into three major parts. First part regards the outsourcing itself: types of outsourcing, reasons to outsource, activities that company may outsource, possible risks, consequences and decision-making process. The second part concerns providers: types of providers, parameters for choosing the right provider, the decision-making process in terms of choosing provider and management of relationships with providers. The last part dedicates to Finnish and Belarussian markets. It includes an experience of an existent service provider DHL, comparison between Belarus and Finland in terms of the development of outsourcing and currently figures.</p> <p>The objectives of this study were:</p> <ol style="list-style-type: none"> 1. To define the reasons for outsourcing; 2. To investigate existent providers and compare them; 3. To define the main issues to be regarded by management about outsourcing; 4. To analyse the current market of outsourcing logistics services through comparison between Finland and Belarus. <p>The main sources of information for this thesis were scientific articles, researches, books, interview with representative from DHL company and statistics. There are many books related to logistics which consider this topic, but due to relative novelty of trend of outsourcing, it was difficult to find a wide range of information. Nevertheless, English and Belarussian literature have been used.</p> <p>The study showed that logistics outsourcing is a worldwide famous trend which on the one hand attracts companies by numerous benefits and possibilities and on another hand may bring unpleasant consequences. This trend is different in Finland (the country with already developed market of outsourcing logistics services) and Belarus where outsourcing appeared not that long time ago. However, in both countries the development is very slow due to external, independent issues.</p>		
Keywords		
Logistics, logistics outsourcing, service provider, Belarus, Finland		

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1 INTRODUCTION

One of the significant changes in the global business today is the outsourcing trend. The essence of this trend is to outsource the activities to those who specialize in determined sphere. That on the one hand, gives the company opportunity to provide the tasks efficiently and on another hand involves receiving benefits from negotiation and pricing activities. Outsourcing is particularly important in logistics because logistics includes many operations from the management of raw materials to the delivery of the final product. Companies tend to outsource operations including warehousing, transportation, materials, planning, freight forwarding and reverse logistics.

However, the market of outsourcing logistics services differ worldwide: in some countries it is already developed and in some countries it has appeared not that long time ago. In order to consider both situations Finland and Belarus were taken as examples.

In this thesis I'm going to reveal the reasons for companies to outsource, consider the possible risks company may face and regard the relevant points which can help companies to choose the right service provider.

This thesis consists of three sections. First section discloses the types of outsourcing, reasons to outsource, activities that company may outsource, possible risks and consequences, decision-making process. The second section regards providers: types of providers, parameters for choosing the right provider, decision-making process in terms of choosing provider. The last section considers current situation on the market. As it was written above, it includes comparison between Belarus and Finland in terms of popularity of outsourcing and on overall outsourcing global trends.

Main objectives

The objectives of this thesis were to define the main things to be regarded by management about outsourcing, to indicate both advantages and disadvantages of this process, to investigate existent providers and to analyse the current

market of outsourcing logistics services through the comparison between Finland and Belarus.

Research methods

This thesis is based on exploratory study by searching proper literature and providing interview with an expert from DHL company. The main sources of information for this thesis were scientific articles, researches, books and statistics. There are many books related to logistics which consider this topic, but due to relative novelty of the trend of outsourcing it was hard to find a wide range of information. Nevertheless, English and Belarussian literature have been used.

While writing multiple research methods were applied. Quantitative method was expressed by analysing statistical data, qualitative research included data accumulation and analytical procedures through the book observation and interview in order to receive a better understanding of the topic..

2 OUTSOURCING

Market is continuously developing, the number of competitors is increasing and it is becoming continuously essential to have a competitive advantage. In these conditions, only companies that can run their business in an efficient way by reducing costs and at the same time saving high quality of products and services can succeed. One of methods to increase the efficiency of the company is outsourcing.

According to the Business Dictionary, outsourcing is “*The contracting or subcontracting of noncore activities to free up cash, personnel, time, and facilities for activities in which a company holds competitive advantage*”. The Cambridge Dictionary gives even simpler definition of outsourcing. It states that outsourcing is “*a situation in which a company employs another organization to do some of its work, rather than using its own employees to do it*”.

2.1 Types of outsourcing

Specialists of Outsourcing Institute USA define three types of outsourcing:

1. Manufacturing outsourcing. Company can outsource a part of manufacturing processes or the whole manufacture to a provider or to other companies in order to work together further. Manufacturing outsourcing gives companies the opportunity to focus on production of new products in order to gain a competitive advantage and to increase the flexibility of manufacture.
2. IT-outsourcing. The most popular type, which means full or partial outsourcing of IT functions. One of the main reasons for IT-outsourcing is the lack of high-qualified personnel.
3. Knowledge Process Outsourcing, KPO. This type is usually used used for receiving necessary knowledge from consulting companies in order to make a decision.
4. Business process outsourcing, BPO. BPO is the process of delegating a company's business process or parts of this process to third parties or external agencies. Particularly this type of outsourcing is regarding in this study.

(Sosunova L. et al., 2015, 328-329)

Usually, outsourcing is based on long-term relationship and involves several activities. Outsourcing is continuously becoming more popular because of the development of IT and logistics technologies. It is difficult for companies to follow all these innovations and implement them by using existent personnel. It appears that usually it is easier for companies to appeal to a logistics service provider rather than extend own logistics departments by creating and using expensive warehousing and transportation facilities. (Valentina Dybskaya et al.,2013, 722).

The main classification features of outsourcing are:

1. According to economic sector: industrial, commercial, building, medical etc.
2. According to the types of logistics services: transportation, warehousing, marketing, consulting etc.
3. According to the amount of power provider receives from a company: full outsourcing, partial outsourcing and joint outsourcing.
4. According to the location: insourcing, outsourcing and offshoring.
5. According to the time: long-term (contract for more than five years), urgent (for one time), seasonal.

(Victor-Adrian Troaca, Dumitru-Alexandru Bodislav, 2012, 53).

In order to make a decision to outsource it is necessary to regard all the classification features as there are different types of outsourcing in each group.

2.2 Business Process Outsourcing. Outsourced logistics services

BPO focuses on services. Service undertakings tend to be less capital-intensive than manufacturing companies and that is why there is usually a large supplier base. The range of logistics functions that can be outsourced are listed below on the picture. All the numbers are taken according to 2016 Third-Party Logistics Study (Table 1).

Outsourced Logistics Services	Percentages of Users	Outsourced Logistics Services	Percentages of Users
Domestic transportation	80%	Inventory management	25%
Warehousing	66%	Product labeling, packaging, assembly, kitting	22%
International transportation	60%	Order management and fulfillment	19%
Freight forwarding	48%	Service parts logistics	12%
Customs brokerage	45%	Fleet management	12%
Reverse logistics (defective, repair, return)	34%	Information technology (IT) services	11%
Cross-docking	33%	Supply chain consultancy	11%
Freight bill auditing and payment	31%	Customer service	7%
Transportation planning and management	28%	LLP / 4PL services	6%

Table 1. Outsourced Logistics Services. (Langley J.,2015, p13)

As it is written in Table 1, the most popular activities to outsource are domestic transportation (80%), warehousing (66%), international transportation (60%),

freight forwarding (48%) and customs brokerage (45%). The less frequently outsourced activities relate mostly to consultant and IT sphere.

On the whole, all the operations that can be outsourced can be divided into three categories:

1. Physical logistics and delivery:

- Transportation
- Manufacturing
- Packing
- Physical flow of goods

2. Non-physical logistics (Information):

- IT services
- Operations management services

3. Reverse-logistics:

- Returns
- Disposal of goods
- Flow of physical goods from downstream to upstream

(Rushton and Walker, 2007, 105).

The main concept of outsourcing services is that there is no need to use the company's own resources to carry out logistic operations. Service providers are able to provide a wide range of logistics services at affordable prices, thus making a significant contribution to the development and increase of business profitability and competitiveness of companies in the global economy.

2.3 Core and non-core activities

Every company should decide how many and which particular activities to outsource. This decision is based on the definition of core and non-core activities. Core activities are activities which determine the competitive success of the company. Core activities are relevant for the companies in order to gain high customer value and that is why it is obvious that non-core activities should be

outsourced (Figure 1). However, it is essential to regard the company's ability to compete in performing the core activities and make cost analysis. (Kenneth Lyons, 2012, 158-159).

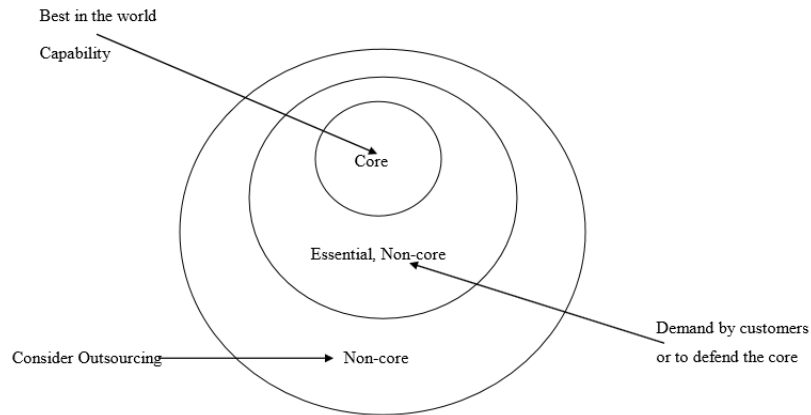


Figure 1. Core and non-core activities. (Quinn, 1999)

According to the information in Figure 1, the list of activities that are better not to outsource can be created:

1. Core activities which bring company the biggest profit.
2. Activities in which company is specialized and has a good knowledge base.
3. Functions with high customer impact, because in case of outsourcing company loses a part of the control for customers' feedbacks and has no possibility to react fast.
4. Activities that are inefficient and currently cause different challenges for a company. It is better initially to solve all problems in-house.
5. Activities that requires specialized knowledge. For example, company may have a specific technology, which was created particularly for some activities. Moreover, this technology is the property of the company.

(Hastings N.A.J., 2010, 224-225).

Companies can outsource their logistics completely or just partly. It is their decision, but the issue that all the companies should regard in order not to fail is core activity which provide them with biggest profit.

2.4 The market of outsourcing logistics services

The market of outsourcing logistics services is a whole set of firms, companies, agencies, groups that are providing different types of services in different fields of managing the material flows. The development of the market of outsourcing logistics services influences economic development. American scientist P. Doyle said, that at the beginning of the 20th century the main field was automobile industry, at the middle of the 20th century it was computer industry and at the end of the previous century particularly executors of outsourcing services provided economic development for the country and new working places.

The scheme of the market of outsourcing logistics services is shown in Figure 2.

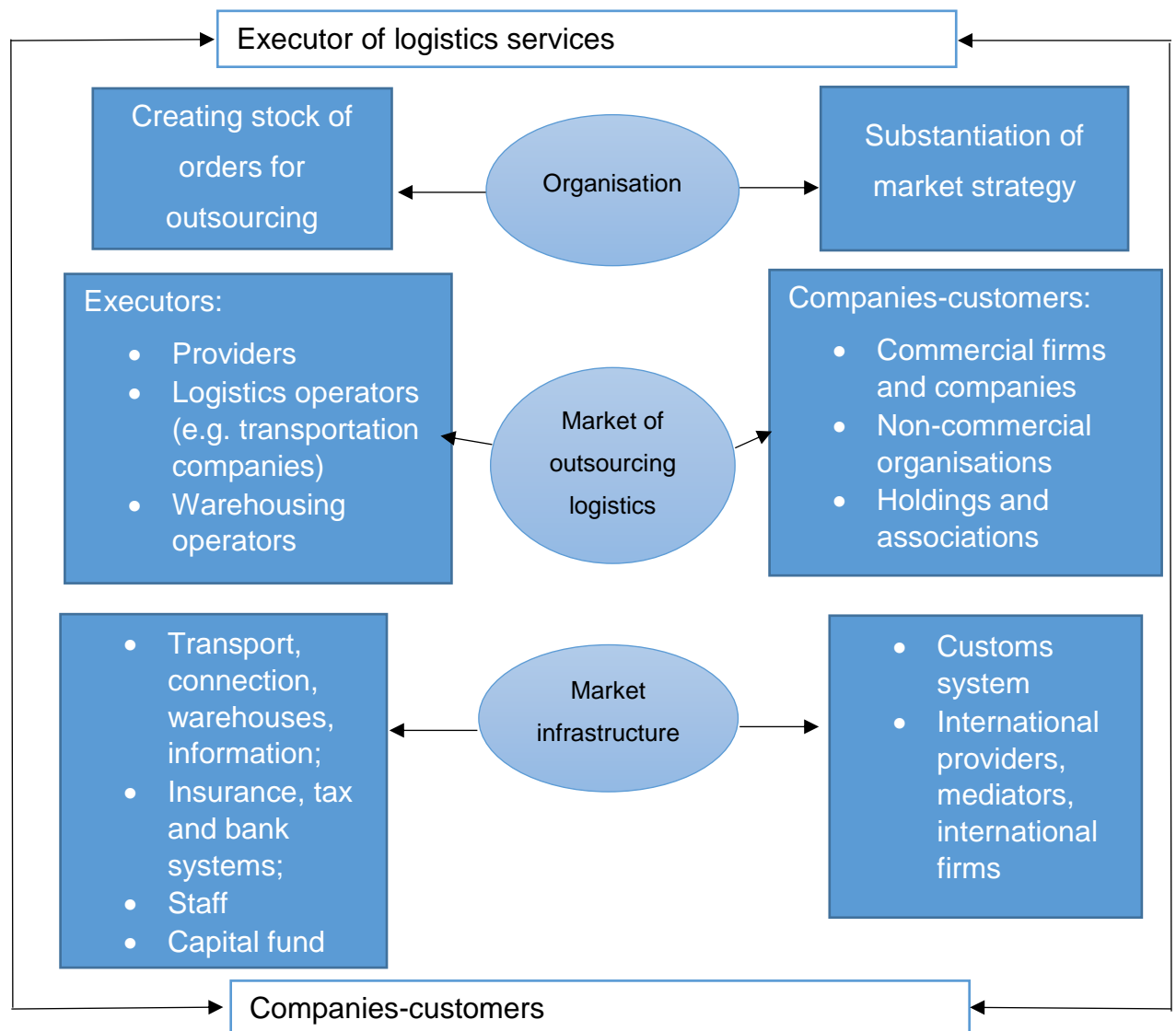


Figure 2. The scheme of the market of outsourcing logistics services.

The successful result of this system depends on the ability to build effective communication, to establish market infrastructure and to create an effective strategy.(Kurbanov A., 2012, 57).

2.5 Reasons for outsourcing

Each year, the number of companies that decide to outsource is increasing. No doubt, a company can receive many benefits by choosing outsourcing. The most essential benefits that encourage companies to outsource are written below:

- Cost reduction. Delegation of some processes to a third party will lead to a significant decrease in inventory, transportation, warehousing and personnel costs.
- Focus on core activities that are more vital for a company.
- A competitive advantage, as a result of the previous reason.
- Increase of efficiency, flexibility and productivity.
- Increased quality
- Outsourcing means integration which gives the opportunity of receiving new contacts, new experiences, new possibilities and new ways of thinking.
- Risk reduction as the high-qualified personnel of the third party will be responsible for all the processes and all the facilities providing for it.
- Advantageous usage of resources.
- Decrease in necessity of using own technologies and getting the access to using innovations.
- Improvement of customer services, expansion of market knowledge.
- Improvement of figures. According to the Capgemini 2015 Annual 3PL Study companies who outsourced part of their logistics to 3PLs gained average savings of: 6% order fill rate increase, 5% order accuracy increase, 9% logistics costs reductions, 5% inventory cost reductions, 15% logistics fixed-asset reductions.
(Journal of Logistics Management, 2014, 17-18; Donald Waters, 2014, 158-162)

According to the joint research in 2013 by KPMG, the audit, tax and advisory firm, and Hfs Research Ltd, the leading analyst authority, 43% of the 399 companies decided that cost reduction is the most essential aspect of outsourcing decision and 44% regard it as important. The second most important reason for

outsourcing was the increase of flexibility, and the third significant factor was “Standardized processes”.

The last reason should be regarded separately because it includes different aspects. The application of standardization is divided into four levels (Figure 3).

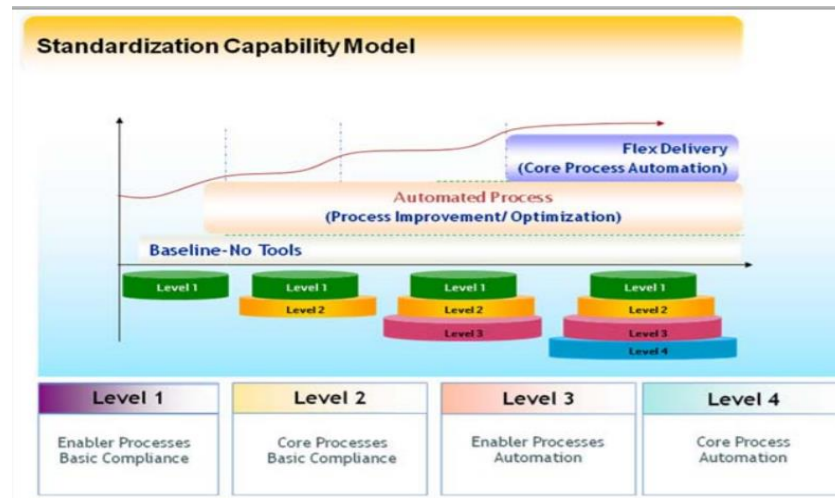


Figure 3. Standardization Capability Model. (Sehgal R., 2010, p4)

The first level is establishing a correspondence between enabler processes and standard practices. Further practices are divided into “one time setup” and “ongoing”. On the second level, core processes are taken into account. Levels 3 and 4 refer to automation. Initially, this concerns enabler processes. Afterwards there is an automation of core processes which leads to the development of processing platforms. (Sehgal R, 2010, 3-4).

2.6 Risks of outsourcing

Outsourcing seems to have many advantages. However, outsourcing also brings with it many risks. Company can wait up to two years before receiving benefit. Before making such an important decision, each company should estimate these risks and regard all the possible consequences. The risks that company may face are:

- Unrealized savings with a potential for increased costs. Usually cost reduction is one of the main reasons for outsourcing. Nevertheless, it does not mean that company will reach the optimization in cost control.
- Reducing work places for own employees may lead to losses of high qualified personnel.
- Poor contract or wrong selection of partner.
- Supplier problems (poor performance or bad relations, not giving access to best employees or technology).
- Over-dependence on a provider. Some companies regarding a service provider as a “hero” who is going to solve all their problems and starting to trust it all the processes. However, in reality at first company should count on itself, make decisions independently and consider a service provider as an adviser.
- Loss of control/core competence. It can be a result from the previous point or a result of wrong selection of a supplier.
- Loss of corporate knowledge and future opportunities.
- Dissatisfied customers. As a result of bad service provider’s performance.
- Lack of experience in planning or controlling an outsourcing initiative.
- Decreasing flexibility. It is very important for companies to have the ability to react fast to customer needs.
- Damaged data security.

(Nili M. et al, 2013, 97-104; Donald Waters, 2014, 166-170).

Nevertheless, each country has their own main risks.

The main risks in Belarus are:

- High cost of service. The trend of outsourcing is rather new in Belarus, because of that there is a high cost especially in warehousing services as there is a lack of warehouses providing all the required facilities. At the same time, currently this market in Belarus is developing very fast and the number of provider is increasing. That leads to decrease in cost of services.
- Lack of offered services and quality of services. The reason for that is lack of experience of providers. However as it was written above market is developing and this risk is almost gone.
- Possibility of losing confidential data in case of wrong selected provider. The most essential risk is the risk of choosing dishonest provider.

(Logistics outsourcing: practical aspects, 2016, 41-43)

The main risks in Finland are:

- Quality. For Finnish companies quality plays an essential role. That is why the risk of receiving bad quality of services is the main.

- Damaged data security. Safety provides companies co with confidence in a right selected provider.
- Proper documentation. For Finnish companies which work with Russia it is very important to prepare all the necessary and proper documents due to differences in regulations.

(Maaranen R., 2017, interview)

According to the information above the only common risk among the main ones is the fear of losing confidential data. All the main risks in Belarus are existing due to the relative novelty of the trend of outsourcing and lack of experience of providers. In Finland, companies mostly take care about the quality as there are many providers but not every is able to provide with proper quality and all the necessary required documents.

2.7 Offshoring

When regarding the risks, it is essential to take into account the type of outsourcing. As was already written, companies can decide to outsource their activities to third party firms based in other countries. In this case, this is called offshoring (Figure 4).

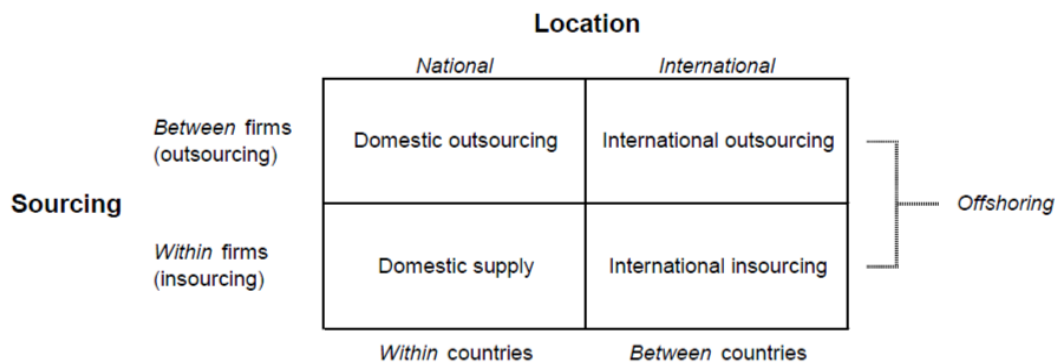


Figure 4. Types of outsourcing.(Juga J., 5)

This type of outsourcing is more risky than the domestic alternative because in this case companies should also take into account the risks they may face in another country. Risks have been divided into three parts: risks related to the company itself, risks related to the service provider and risks related to another country. (Kumara S. at al, 2014;101,105).

Company's risks:

If the company decided to offshore some activities or processes, it is necessary to regard the problems it may face afterwards.

At first it is relevant to understand that the contract should be written carefully and the rights of both sides must be understandable. Nevertheless, a company cannot control all the actions of a foreign service provider, and this means that the provider can cheat and act illegally behind the company's back. For instance there is a risk of losing intellectual property.

There is also a financial risk connected with unpredictable costs that can be caused by many different reasons.

Risks related to service provider:

The main risk is connected with the selection of a proper service provider, especially of a foreign one. The company may not even realise that it already has problems with its service provider as the company cannot control all the actions of a foreign provider.

Despite the fact that provider plays a role of saviour for the companies, still some unpredictable situations due to different circumstances can occur, such as failures in processes, delays in delivering services or problems with technologies. These may lead to an increased number of dissatisfied customers and decrease the number of customers.

On the other hand, these situations can be caused by premeditated actions of the service provider, for instance by stopping investing in employees or hiring employees whose qualification is not as high as it was agreed.

Risks related to another country:

These risks are quite understandable as each country has their own political and regulatory system. Before choosing the country for outsourcing, companies should pay attention not only to economic factors that will help to reduce costs but also to the political situation of this country. In addition, the culture should be taken into account. Different countries have different cultures. These differences concern language, values and traditions.

One of the main reasons for offshoring services is that optimizing global production will result in continuous shifts and lower costs. Nevertheless, nowadays the trend of nearshoring is actively developing. The reasons for this are concerning mostly the distance and impossibility of feeling close to the business. The main benefits of nearshoring are:

- Faster reaction and reply
- Fewer problems with cultural aspects
- Lower environmental impact
- No problems with time differences
- Possibility of frequent meetings and due to that establishing reliable relationships.

(Carlos Cordon et al, 2012, 86).

However, it is more profitable to offshore as nearshoring requires higher costs. At the same time, reduction of distance problems allows the company to take more control over the operations. Companies need to decide what is more essential for them.

2.8 Drivers of outsourcing

Based on all the benefits and risks, the drivers of outsourcing can be defined: cost, quality, finance, core business, cooperation, human resources. By controlling and decreasing costs, a company can strengthen its competitive position. Quality means access to skills, increase in quality demands and gaining competitive advantage. Financial driver means investment budget of the company. The funds should be used for investments in core business activities. Core business itself is a main activity that makes a profit for a company. Cooperation is an essential part in outsourcing as it can lead to misunderstandings. Human resources management means unavoidable changes in work process, hiring new qualified personnel and losing reliable old one at the same time. (Lysons K, 2012, 388-389).

2.9 Risk reduction

As it was mentioned above there many risks company may face when decided to outsource. However, there are some actions that companies can undertake in order to reduce risks. Mostly these actions concern contract as this is the base of the partnership. According to Srabotic A. *“company should use performance based contracts and it is better to address sources of potential problems at the contract stage. The contractor must have necessary skills and management competence”*. It is better to use more than one contractor and *“primary contractor should be responsible for their sub-contractors. Company should have contract terms allow company to react to an emergency by funding overtime, extra resources or specific direction of resources to the emergency on hand”*. The actions concern not only documentation. *“Company should remain in-house strength including all the facilities and personnel and should be ready to remain with in-sourced solutions”*. (Srabotic A. et al., 2012, 205-222).

2.10 Consequences

After regarding all the benefits and risks it makes sense to pay attention on the consequences that company may face after outsourcing (Tables 2, 3).

The consequences can be financial measurable or just visible. Maintenance costs include operating costs, subcontracting costs (supplier’s selection, negotiation costs), costs of facilities, costs of spare parts, costs of logistics, environmental costs, costs of quality, and other costs.

Benefits of maintenance outsourcing	Financially measurable consequences	Hard-to-measure consequences
Increased quality	Decreased costs of quality	Improved company image, increased customer satisfaction
Efficiency	Decreased costs of quality	-
Increased safety	-	Improved company image, increased employee motivation
Cost savings	Decreased maintenance costs	-
Focus on core competences	-	Increased employee skills
Economics of scale	Decreased maintenance costs	-
Increased flexibility	Decreased maintenance costs	-
Acquiring superior know-how	Decreased maintenance costs	Increased employee skills

Table 2. Consequences of the benefits. (Marttonen S., Kärri T., 2012, p6)

In order to estimate annual benefit from outsourcing, companies may use the formula

$$NB = C_0 - \frac{C_1}{\alpha \times \beta},$$

where

NB – yearly monetary net benefit

C_0 – yearly maintenance costs before outsourcing.

C_1 – yearly maintenance costs after outsourcing.

α – an index describing the change in the quantity of assets to be maintained.

β – an index describing the change in the general cost level from time 0 to time 1.

The consequences that are not measurable are also essential as they strengthen the company's image and improve both customer's satisfaction and employee's skills which have a positive influence on the company's position in the market.

(Marttonen S. at al, 2012, 6-13)

Risks of maintenance outsourcing	Consequences of the risks
Inability of the service provider	Increased maintenance costs.
Decreased work morale	Negligence in operating assets, protests induced by employee firings.
Lost know-how	Increased maintenance costs if the service relationship comes to an end.
Dependence on the service provider	Worsened terms of contract, increased maintenance costs if the service relationship comes to an end.
Additional or hidden costs, unrealized benefits	During the service relationship worsened terms of contract or decreased quality of maintenance work.
Threatened data security	Competitors may know the information.
Decreased flexibility	Commitment to the maintenance contracts despite economic conditions
Lost company image and customers	Worsened company image through outsourcing announcement and employee firings, negative publicity through service provider actions.
Risks related to partner selection	Inadequate terms of contract, service provider opportunism or bankruptcy.

Table 3. Consequences of the risks. (Marttonen S., Kärri T., 2012, p9)

The table above shows the consequences of long-term risks and risks that might decrease later. According to a traditional risk assessment process, the expectation value of the risk is calculated by multiplying the cost effect of the risk by the probability of the risk. However, in case of outsourcing, it is hard to define the exact cost effect and the probability.

2.11 Make-vs-buy analysis

The decisions about outsourcing are mostly based on an economic make-vs-buy analysis. This analysis concerns the choice of whether to provide a particular process or activity on your own or to buy it from a supplier (Table 4). In other words, the company needs to decide between insourcing and outsourcing. Insourcing means the centralization of all the functions under the guidance of one business. That increases the level of control, but at the same time the expansion of the number of processes leads to decrease in efficiency. One of the logical

solutions to this problem is outsourcing.(Lysons K.,2012, 381-386; Sollish F. et al., 2012,283-289).

Reasons to “make”	Reasons to “buy”
Risks of choosing a wrong provider	Focus on core activities
Guarantee of good service’s process	Cost savings
Redundant amount of personnel or facilities	Gaining new technical opportunities
Good service’s quality	Lack of facilities
No need in personnel’s discharge	Alternative source of services
Protection of property rights	Lack of money resources
Expansion of the company	Gaining competitive advantage

Table 4. Reasons for “make” and “buy”.

Decision processes for make-or-buy includes four stages. At the first stage, the company regards all the possible risks and the opportunities to manage them. The project leader is responsible for that. However, in order to avoid failures, unexperienced companies can also hire an independent advisor who can maintain the deals and provider relationships itself. After this stage, the company continues with detailed evaluation. The main issue in evaluation is a definition of core activities. As was written above, this is one of the main criteria of which activities to outsource. It is also essential to consider the main motives and objectives and compare them to the company’s strategy. Companies that start to outsource without clearly understanding what they want will not succeed in improving services. It is clear that one of the main objectives remains cost reduction. Due to this an analysing stage which includes costs estimation is an important step in the make-or-buy decision process. The costs that are need to be regarded: salaries, benefits, training and education, specialised software,

travel, phone charges, amortisation, mail costs and postage, office supplies, equipment, management time, information costs and occupancy charges. The last stage is a selecting stage. The process of choosing the right provider includes defining the company's needs, considering the marketplace and finding potential providers. (Lysons K.,2012, 381-386; Sollish F. et al., 2012,283-289; Bajec P. et al., 2010, 287-290).

3 LOGISTICS SERVICE PROVIDERS

The appearance of Logistics Services Providers (LSP) is caused by the increase in the amount of services companies want to outsource. Service providers offer a variety of logistics innovations, opportunities and different solutions.

3.1 Type of providers

Logistics outsourcing contains 5 levels from IPL to 5PL providers:

1. IPL means in-house logistics. Usually the representatives of this type are small companies which provide all the services by themselves using their own resources, facilities and staff.

2. After expanding, companies can apply to a logistics service provider – 2PL. 2PL provides companies with basic necessary functions such as transportation, material handling and warehousing.

3. The next level is third-party logistics. 3PL performs the whole logistics process and offers the variety of logistics activities. Services that 3PL offers:

- Monitoring material flows through IT
- Customs procedures and documents
- Monitoring of documents
- Delivery's planning
- Warehousing services
- Value added logistics services

4. Fourth-party logistics is a new type of provider that offers services concerning projecting and planning supply chains. 4PL is an evolutionary development from 3PL. The main advantage of 3PL is the possibility to act on behalf of the client while they may be part of a joint venture. Services that 4PL offers:

- Monitoring, planning and optimization of supply chains
- Integration IT systems
- Monitoring of orders inside supply chains
- Optimization of delivery process
- Managing stocks inside supply chains
- Monitoring of documents
- Monitoring of quality

5. Fifth-party logistics is developing in response to appearance of e-commerce. The key component of 5PL is IT.

(Ogorelc A., 2007, 374; Bajec P. et al., 2010, 286-287)

3.2 3PL and 4PL providers

The most popular types which offer a wide range of services are 3PL and 4PL. The concept of Fourth-Party Logistics (4PL) Provider was first defined in 1996 by Accenture in order to integrate and manage a company's logistics resources and LSP partners including 3PL providers.

Nowadays there are different ways of possible appearance of 4PL providers:

- 3pl provider is developing till the level of 4PL
- Consulting company acts like 4PL
- Company that offer IT services is becoming 4PL provider
- Joint organization in supply chain is modifying to 4PL provider

(Dybskaya V. at al,2013, 734)

A 4PL is regarded as a strategic partner as well as a supply chain integrator that combines and manages the resources and facilities of its own organization with those of other service providers to create an optimal solution (Figure 5). A 4PL company creates the connection by managing and integrating the material flow between the client and 3PL providers inside a logistics network. In comparison to 4PL provider, 3PL providers offer only the coordination. 4PL and 3PL are not competitors, they supplement each other as 3PL owns facilities for transportation and warehousing and 4PL uses them to generate the best solutions to the clients. (Richards G., Grinsted S., 2016, 261-262)

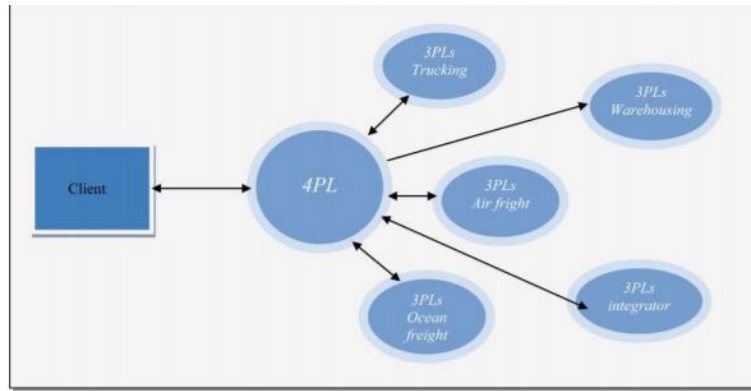


Figure 5. 4PL as an integrator. (Pinna R. and Carrus P., 2012, p107)

There are different models of 4PL. It can act as:

1. Lead logistics provider. In this case 4PL provider’s responsibilities include transport invoicing and control of 3PL providers.
2. Solution integrator. In comparison to the previous variant as a solution integrator 4PL takes part in selection of 3PL and acting on behalf of the client.
3. Industry innovator. As an industry innovator 4PL create a solution to many clients not for any single client.

(Richards G., Grinsted S., 2016, 261-262)

Sometimes it is hard to define the difference between 3PL and 4PL providers and some specialists even doubt if 4PL exists in reality. In respond to that, some sources separate from 4PL another type - Lead Logistics Provider (LLP).

According to this view, LLP is an organization of 3PL level but with additional facilities which allow to optimise supply chains. (Dybskaya V. at al, 2013, 732-733; Mangan J., 2012, 156-157)

In order to define the differences between these types, the table below shows the main features and examples of different providers:

Type of provider	Main features	Examples
3PL	<ul style="list-style-type: none"> • Integrated warehousing and distribution • Creating and supporting logistics IT system 	DHL Supply Chain

	<ul style="list-style-type: none"> • Monitoring delivering process • Owning and buying logistics facilities • WMS 	DB Schenker
LLP	<ul style="list-style-type: none"> • Experienced specialists in logistics • Owning the facilities for cost optimization • Optimization • Managing of 3PLs • Continuous improvement of quality of service 	Ford DHL
4PL	<ul style="list-style-type: none"> • Planning and optimization supply chains • Providing deals • Managing IT • Integration of services, systems and information • Continuously innovative • Understanding the entire supply chain 	Samsung Accenture 4PL Services Amazon.com

Table 5. Type of providers and their main features. (V.Dybskaya, 2013, p 732)

However, the disadvantages of 4PL are:

- Reliance on partners to provide the service
- Reluctance on the part of 3PLs work for 4PLs
- Confusion as to who are the true 4PLs.

(Richards G., Grinsted S., 2016, 261-262)

The key issue of the success of 4PL is the ability to provide clients with the most optimal solutions due to the high level of professional competencies and the involvement of reliable and qualified contractors - 3PL-providers.

3.3 Important questions

There are some important questions that a company should answer once the decision to outsource has been made. According to Waters (2014, 163-165), the main questions concern initially the strategy a company currently has and what strategic changes it is expecting as it is very important to combine the company's strategy with the strategy of a chosen provider because partners with different aims can not have long-term relations. Before starting a relationship, it is also essential to establish the borders to outsourcing. Boundary process is

challenging the added value services in order to reach a success. After that, the important step is to choose the evaluation method for selecting a provider in order to prevent risks. The next question concerns considerations about success and failure. In order to stimulate and ensure the partnership, all the bonuses for meeting desirable targets should be discussed in advance as well as penalties for poor performances. The main issue of an effective relationship is respect and readiness to work together. That is why a company should consider the ways of reducing misunderstandings. The last question regards the problem of connection between the organizations as there is need not only in data linkages but also in connection between management and administration of both sides.

3.4 Selection process

The selection of a provider and the related key factors are very essential in business today. The most important factor remains cost. Nevertheless, there are many factors to consider:

1. Focus of a provider on continuous improvement
2. Using new IT
3. Collaborative partnerships
4. Variety of value-added services
5. Ability to provide with core services
6. Quality
7. Understanding of the contract. A provider needs to follow all the requirements that have been mentioned in the contract.
8. Technical feasibility. The possibility to achieve higher results by using proposed technologies, methods and solutions.
9. Ability to manage. The ability of provider to succeed and to develop.
10. Experienced and high-qualified personnel.
11. Financial resources of provider.
12. Type of provider
13. Recommendations and feedbacks from the previous clients.

The process of choosing the proper provider should start with evaluation. The evaluation should not include only cost perspective but also an ability of a provider to perform at a desirable level of speed and quality. At the same time, this evaluation should be based on possible risks as well as potential benefits. When choosing a provider, it is necessary to pay attention on its responsiveness

and capability. Responsiveness means the ability of a provider to understand the requirements and provide a company with proper solutions and services. The concept of capability includes both technical and operational capabilities. There can be many providers able to meet the company's requirements, but the purpose of the careful selection is to choose the best in a necessary field. After that, the financial analysis should be carefully provided. It includes measures of liquidity and profitability. In terms of revenue, market share can be estimated. Evaluation of the market share shows the provider's position in the market. An essential issue of selecting a provider is quality management as quality, on one hand, means compliance with specifications and, on the other hand, it is a high value. Finally, it is relevant to know the provider's customers and their feedback on the provider's performance.

(Sollish F., 2012, 69-73; Brahch A.E., 2009, 70-73; Mangan J.,2012, 161; Qureshi M.A at al, 2013, 92-96)

3.5 Decision-making process

There are different ways of a decision-making process as a company should take into account all aspects in order to succeed.

For instance, there is a balance score card model which provides the procedure of evaluation (Table 6). Initially, each company should decide for themselves which factors concerning providers are crucial for them.

Factors	Weight	Rating of providers		Ranking of providers	
		Provider A	Provider B	Provider A	Provider B
Performance					
Price					
Location					
Quality					
Capacity					
Layout					

Total			
-------	--	--	--

Table 6. A balance score card model.

Each factor in the table above has a weight according to its significance and providers should be rated out of 1 to 10 for each factor. In order to calculate the ranking of the providers, the rating of the providers should be multiplied with the appropriate weight. Then the rating should be summarized, and the rank of each provider will be found based on their total rating. That means the provider with the highest rating will receive the first rank.

In the end, a company can see the best provider for outsourcing according to the balance score card model based on the importance of the company factors.

(Xu Yang, 2014, 18-19; Sollish F., 2012, 84-85; Qureshi M.A at al, 2013, 92-96)

Another method is a special framework for evaluating potential providers:

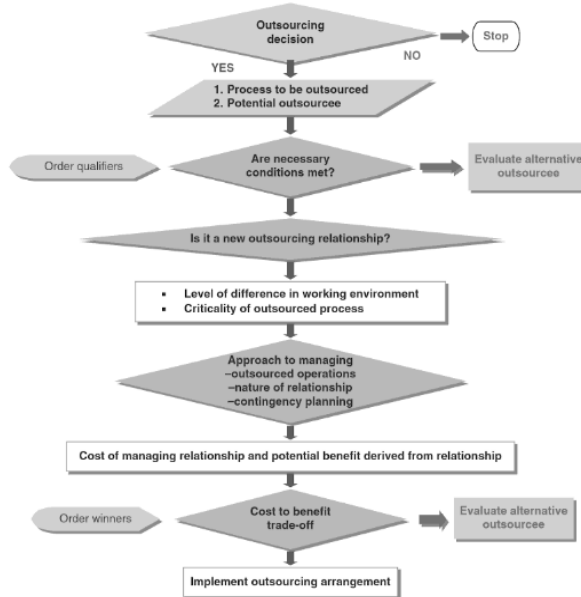


Figure 6. A framework for evaluating potential providers. (Sollish F., 2012, p 42)

The first step is to define if the qualifier parameters are met. These parameters depend on the outsourced service. Order qualifiers include quality certifications, conformity to discussed specifications, financial resources, reliability, availability of tracking, costs, ability to react to demand and a record of corporate social responsibility.

If the necessary conditions are met but the provider does not have any experience in outsourcing, it makes sense to regard the level of difference in working environments. The environmental separation index (ESI) is used for defining the differences between the working environments of the company and provider. It includes working practices, culture and concepts.

Other criteria are order winners. In some circumstances, order qualifiers may become order winners if they give cost benefits. As soon as both sides find trade-off, they are ready to implement an outsourcing agreement.

After reaching the agreement with LSP, a client expects to achieve fast and great results in service development as well as to build reliable relationships with its provider.

(Sollish F. et al, 2012, 41-43)

3.6 Monitoring relationships with providers

Outsourcing is a process that should be controlled carefully. The main objectives of this control are the estimation of customer feedback, achievement of planned sales, profitability and cost and risks reduction. There are five principles of monitoring logistics outsourcing:

1. Principle of company's way of working. It includes quality of services, risk prevention and service potential.
2. Competence of provider. The main components of this principle are provision with information, prevention of conflicts inside a company.
3. Principle of motivation. This principle can be divided into 2 parts: moral and material incentives.
4. Principle of optimal hierarchy. That means the ability to delegate authority.
5. Principle of economic feasibility.

(Kurbanov A., 2012, 67-68)

Every company can gain a competitive advantage and strengthen its marketing position if they follow these principles.

The relationship between the company which agreed to outsource and the provider can change over time as the company gains more confidence in the provider's abilities. Overall, there are four stages of an outsourcing relationship:

1. Master-servant stage. The company which outsources is the main, it establishes the rules and targets. The main driver on this stage is low cost.
2. Consultative stage. Provider acts as a consultant. The main drivers on this stage are cost, quality, reliability and reactivity.
3. Peer-to-peer relationship stage. This stage represents equal in rights relationship.
4. Competitive stage. Provider starts to compete with the outsourcing company in global markets.

(Sollish F. et al, 2012, 44-46)

3.7 Problems of relationships between a company and a service provider

Sometimes logistics outsourcing relationships work well and sometimes they fail. Problems of relationship between a provider and a company can be caused by many reasons. The main reasons are:

1. Termination of relationships. The objective should be to separate in peace.
2. Excessive dependence on a provider.
3. Privacy. In case provider is also a partner of competitors.
4. Self-satisfaction. In order to prevent it there should be regular meetings with regular reports.
5. Attitude. Relationship is a work which requires understanding of the working environments of each partner.
6. Contractual reasons.
7. Legislative reasons.
8. Problems concern data exchanging.

(Lysons K.,2012, 401-403)

The main reasons of partnership failures are expressed in Table 7:

Factor	Outsourcer ranking	Provider ranking
Poor communication	1	1
Lack of top management support	2	10
Lack of trust	3	4
Lack of quality commitment by supplier	4	18
Poor up-front planning	5	5
Lack of strategic direction for the relationship	6	3
Lack of shared goals	7	2

Table 7. The main reasons of partnership failures. (S. Emmett, B. Crocker, 2016, p160)

In order to understand the reasons and to reduce the amount of unsuccessful endings of outsourcing relationships, the 'Partnership Model' was created by Lambert, Emmelhainz and Gardner. The model regards three main elements: drivers, facilitators and management components. A consideration of drivers allows both organizations to receive benefits from the partnership; the examination of facilitators helps to detect possible misunderstandings between partners.

Drivers are the advantages that organizations will gain during collaboration because of that they need to be efficient and essential. Nevertheless, it does not mean that the drivers which are important for one party will have the same significance for the other.

The relationship will be successful if both parties receive significant benefits. The main facilitators for this are corporate compatibility, similar management behaviour and tools, reciprocity and proportionality. However, there are five additional facilitators that are also essential but can not be expected in every relationship: exclusiveness, common competitors, nearness in locations, a prior history of partnering, and a common end customer.

Drivers and facilitators define the potential for partnership, and management components define the way to achieve it. Management components are activities that companies are providing in order to increase profit, gain a competitive advantage or simply to improve all the processes.

A successful implementation of these components will lead to desirable drivers and when companies receive their benefits their relationship will strengthen. (Srbotic A. at al, 2012, 220-222).

3.8 Effectiveness of outsourcing relationships

After starting a relationship with a provider, it makes sense to evaluate the effectiveness of this outsourcing relationship. This index of effectiveness defines the ability of providers to satisfy clients' needs in particular services. The evaluation of this effectiveness includes many criteria such as timeliness of providing services, correspondence of amount of provided services, quality of customer service according to customer feedbacks and efficiency of provided services. There are different levels of effectiveness of outsourcing relationships and each of them requires particular actions. (A. Kurbanov., 2012, 102-105).

Level of effectiveness of outsourcing relationships	Actions related to the relationship
A very high level	The relationship works successfully, but there is still a need to make a plan of preventive actions.
A high level	The relationship works successfully, but there is still a need to make a plan of small corrective actions.
An average level	The relationship works successfully, the targets are partly achieved, but there is a need in corrective actions.
A low level	The relationship is not successful, there is a need in great corrective actions.
A very low level	The relationship is not successful, targets were not achieved, there is a need in radical managerial decisions.

Table 8. (A. Kurbanov., 2012, p 105)

According to Table 8, despite the level of effectiveness of outsourcing relationships, there is always a need to have a plan of actions. It can be simply preventive actions for the future or corrective actions.

4 LOGISTICS OUTSOURCING IN FINLAND AND BELARUS

Worldwide, outsourcing has been developing quite a long time, and currently the outsourcing market is estimated at many billions of dollars. According to the 2017 21st Annual Third Party Logistics Study, the relationships between shippers and 3PL are actively developing, as 91% of companies-customers and 97% of 3PL companies confirmed the success of their partnerships. The most popular activities to outsource remain those that are transactional, operational and repetitive. The 3PL sector continues to expand worldwide in terms of both income and scope. Nevertheless, the results in different countries differ. In order to show the difference, Belarus and Finland were regarded. (Langley J., 2015, 6).

Belarus is a landlocked country in Eastern Europe. In the time of the Soviet Union, Belarus was one of the most successful regions, but after the disintegration there was a decrease in economy. Currently, Belarus depends very much on Russia in terms of money and energy. Russia in turn uses Belarus as a transit point to Western Europe. (<http://www.bbc.com/news/world-europe-17941329>)

Finland is a country in Northern Europe. Finland became a member of the EU in 1995. The European Union is a political and economic union consisting of 28 members. Almost all countries-members are situated in Europe. One of the main economic advantage is that all the members can trade with other members without additional taxes. One more point that ease the relations is common type of currency – euro. Both these factors have a positive influence on the development of logistics.

4.1 Logistics outsourcing in Belarus

According to different sources, outsourcing is a new trend in the Republic of Belarus which appeared approximately in 2002. There are several reasons for that, but the main factor is that Belarusian companies were not ready for structural changes. They had a low level of management, workers

psychologically were not prepared for changes and in general here was no proper corporate culture.

In fact, Belarus is a perfect place for outsourcing due to the geographical location and low cost of services in comparison to many other European countries.

(Zaiceva N. et al, 2014, 56-59).

In Belarus, outsourcing is regarded as a perspective type of service as well as part of a company's development strategy. The increasing competition in the markets of goods, jobs and services require from large companies an increase in production efficiency and cost reduction. This situation leads to the increase of demand for outsourcing services.

There is a small amount of 3PL providers in Belarus. Nevertheless, it is understandable as the outsourcing market is only developing. Currently, there are 38 logistics centers. According to the IGI Global dictionary, logistics center is *"an area that is administrated by one company and allows other companies to lease warehouse space to carry out warehousing and logistics services"*. State providers own the major infrastructure despite the active participation of foreign companies in building logistics centers. The problem is that most projects are declared as logistics centers but in reality they represent only ordinary warehouses. In addition, very often large areas are leased to big tenants with a restricted amount of services such as loading, unloading and guarding. The main reasons for this are related to the fact that investors are not ready to implement an automated warehouse management system, arrange logistics service and hire qualified personnel. Quite often, logistic centers are built without elaborating even an elementary concept of the project and analysis of cargo flows. There have been cases of incorrect placement of warehouses and unsuitable equipment, the wrong construction of railway branches, which later appeared unclaimed. (Vakulich N., 144-149).

There are some significant factors that influence the development of logistics outsourcing:

- Despite the positive developments in recent years, warehouse and transport infrastructure is still poorly developed. As a result, the share of logistics costs in Belarus fluctuates between 20-25% of GDP.
- Partial use of logistics outsourcing services in the Republic of Belarus. Logistic outsourcing means just separate logistics operations (transportation, warehousing, distribution), and full outsourcing of logistics functions which involves the provision of long-term exclusive rights to conduct logistic operations of the company-customer is absent. The reason for this is the mistrust of Belarusian companies to providers. So the demand for individual logistics services has actually been formed, but there is no clear understanding of integrated logistics.
- In Belarus, outsourcing does not provide a visible reduction in logistics costs (savings of only 2-5%) mostly due to the pricing policy of logistics providers.

Despite all these problems in the development of logistics outsourcing, today the prospects of the Belarusian market are seen quite well. Belarus has created favourable business conditions and has developed a logistics infrastructure, but it has serious problems with attracting foreign direct investment. The logistics market is mostly closed to foreign companies (state operators dominate), or they consider it not attractive and there is only a low degree of integration into the world economy.

(Zaiceva N. at al, 2014, 56-59; Vakulich N., 144-149).

4.2 Logistics outsourcing in Finland

Logistics in Finland is on a good level, but according to the logistics surveys, differences across the country continue to grow. The logistical situation in Southern Finland is better than elsewhere in the country. Western Finland is at the second place, then Northern Finland, and the last is Eastern Finland. This situation is existing because of a great difference between the transport infrastructures and population distribution. Also, there is a large distance between the south and north of Finland.

(Solakivi T. at al, 2014, 9-12).

Finland is situated in Northern Europe. The location is far away from the central Europe but at the same time it is close to Russia, which gives a great opportunity for Finland to build relationships with both sides of Europe. Finnish companies

have successfully used this advantage and due to this, outsourcing has achieved its current level.

According to an interview with a representative from DHL, the recent political situation has changed everything. Initially, the EU applied sanctions for Russia, and a later Russia responded with counter sanctions. Finland appeared to be in a very difficult situation. Providers lost some of their customers and because of all restrictions they were busy with paper work for remaining customers. There were many different inspections performed in companies. All the delivered products to Russia or from Russia were carefully inspected. No doubt, all these issues cannot be without any consequences. Due to politics, the development of the market of outsourcing logistics services stopped. The only way currently for providers to survive is to create new solutions, find new markets and build relations with small Finnish companies inside the country. For instance, usually the customers of DHL provider have been large companies but currently it is seeking for new small Finnish companies and new markets to strengthen its position.

(Maaranen R., 2017, interview)

The most popular service to outsource in Finland is transportation. The demand for warehousing and IT-services is also growing, but other logistics activities are still mainly provided by the companies themselves. In comparison to other countries with identical economic situations, Finnish companies have been more averse to outsource their activities and there is only a slow growth in outsourcing. Earlier, according to research, it was expected that outsourcing would expand especially in IT activities, but the development appears to be not that fast. This can be caused by increased experience about the real advantages and risks of outsourcing. It appears that outsourcing brings more challenges to control the outsourced services than it brings cost reduction, as the majority of savings are made mainly because the company has the possibility to focus on its core business.

Probably logistics outsourcing has reached its maximum level at least regarding the current structure of the Finnish economy. However, Finland has high positions in many international comparisons measuring competitiveness. (Solakivi T. at al, 2014, 85-87).

4.3 Figures of logistics outsourcing in Finland and Belarus

In 2007, the World Bank jointly with the University of Turku (Finland) developed a methodology for assessing the level of logistics development in different countries. For determining the logistics rating, experts took the six most important criteria for assessing the development of logistics in a specific country, based on which the Logistics Performance Index (LPI) was calculated.

The logistics performance (LPI) based on the six key criteria:

- 1) Effectiveness of customs including speed, clearance, ease and predictability of formalities;
- 2) Quality of trade and transport related infrastructure;
- 3) Simplicity of organizing shipments at competitively prices;
- 4) Capability and quality of logistics services;
- 5) Possibility to track and trace consignments;
- 6) Timeliness of deliveries.

(<http://lpi.worldbank.org/international/global>)

Country	Year	LPI Rank	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Germany	2016	1	4.23	4.12	4.44	3.86	4.28	4.27	4.45
Luxembourg	2016	2	4.22	3.90	4.24	4.24	4.01	4.12	4.80
Sweden	2016	3	4.20	3.92	4.27	4.00	4.25	4.38	4.45
Netherlands	2016	4	4.19	4.12	4.29	3.94	4.22	4.17	4.41
Singapore	2016	5	4.14	4.18	4.20	3.96	4.09	4.05	4.40
Belgium	2016	6	4.11	3.83	4.05	4.05	4.07	4.22	4.43
Austria	2016	7	4.10	3.79	4.08	3.85	4.18	4.36	4.37
United Kingdom	2016	8	4.07	3.98	4.21	3.77	4.05	4.13	4.33
Hong Kong, China	2016	9	4.07	3.94	4.10	4.05	4.00	4.03	4.29
United States	2016	10	3.99	3.75	4.15	3.65	4.01	4.20	4.25
Switzerland	2016	11	3.99	3.88	4.19	3.69	3.95	4.04	4.24
Japan	2016	12	3.97	3.85	4.10	3.69	3.99	4.03	4.21
United Arab Emirates	2016	13	3.94	3.84	4.07	3.89	3.82	3.91	4.13
Canada	2016	14	3.93	3.95	4.14	3.56	3.90	4.10	4.01
Finland	2016	15	3.92	4.01	4.01	3.51	3.88	4.04	4.14
France	2016	16	3.90	3.71	4.01	3.64	3.82	4.02	4.25
Denmark	2016	17	3.82	3.82	3.75	3.66	4.01	3.74	3.92
Ireland	2016	18	3.79	3.47	3.77	3.83	3.79	3.98	3.94
Australia	2016	19	3.79	3.54	3.82	3.63	3.87	3.87	4.04
Macedonia, FYR	2016	106	2.51	2.21	2.58	2.45	2.36	2.32	3.13
Burundi	2016	107	2.51	2.02	1.98	2.42	2.46	2.68	3.45
Mongolia	2016	108	2.51	2.39	2.05	2.37	2.31	2.47	3.40
Mali	2016	109	2.50	2.45	2.30	2.48	2.46	2.36	2.93
Tunisia	2016	110	2.50	1.96	2.44	2.33	2.59	2.67	3.00
Guatemala	2016	111	2.48	2.47	2.20	2.41	2.30	2.46	2.98
Honduras	2016	112	2.46	2.21	2.04	2.58	2.44	2.53	2.91
Myanmar	2016	113	2.46	2.43	2.33	2.23	2.36	2.57	2.85
Zambia	2016	114	2.43	2.25	2.26	2.51	2.42	2.36	2.74
Benin	2016	115	2.43	2.20	2.39	2.55	2.47	2.23	2.69
Solomon Islands	2016	116	2.42	2.60	2.21	2.28	2.43	2.18	2.76
Albania	2016	117	2.41	2.23	1.98	2.48	2.48	2.15	3.05
Uzbekistan	2016	118	2.40	2.32	2.45	2.36	2.39	2.05	2.83
Jamaica	2016	119	2.40	2.37	2.23	2.44	2.31	2.38	2.64
Belarus	2016	120	2.40	2.06	2.10	2.62	2.32	2.16	3.04
Trinidad and Tobago	2016	121	2.40	2.38	2.34	2.31	2.28	2.28	2.79
Venezuela, RB	2016	122	2.39	1.99	2.35	2.47	2.34	2.48	2.71
Montenegro	2016	123	2.38	2.22	2.07	2.56	2.31	2.37	2.69
Nepal	2016	124	2.38	1.93	2.27	2.50	2.13	2.47	2.93

Figures 7, 8. Global ranking. (<http://lpi.worldbank.org/international/global>)

The tables show that Finland has the 15th place out of 150 countries and Belarus is only at 120th place. These countries are the best examples to compare countries with developed logistics systems with countries whose logistics is only developing. When this is examined in more detail, it becomes visible that all the values of figures in Belarus are twice smaller than in Finland, despite the two criteria where the difference is approximately 1 point: international shipments and timeliness (Figure 9).

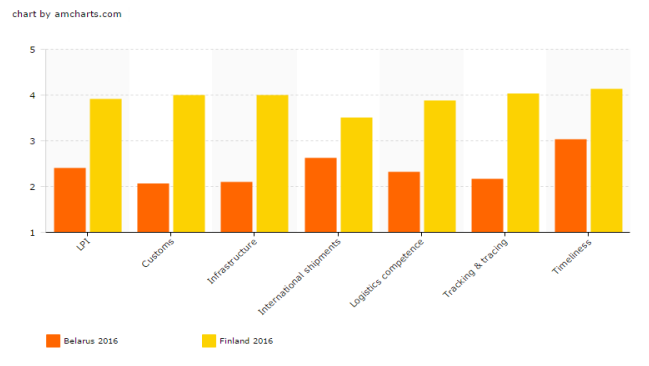


Figure 9. Comparison between Finnish and Belarussian scores.

(<http://lpi.worldbank.org/international/scorecard/column/254/C/BLR/2016/C/FIN/2016#chartarea>)

This can be explained by the location of Belarus. There are many channels through Belarus and due to that, there is a great experience in international transits. Nevertheless, only one value (timeliness) is higher than the value three. In order to increase the LPI index of Belarus, it is necessary to increase the investment attractiveness of the logistics industry, accelerate the formation of the 3PL service market and transition to the 4PL concept, improve the regulation of the logistics industry, raise the level of personnel's qualification for the logistics industry and restructure logistics systems. Finland has a high position on this list. However, two criteria are below the value four: international shipments and logistics competence. It means these areas are the weakest, and Finland should establish more international shipments and expand worldwide relations as well as develop logistics inside the country. According to Figure 7, it is difficult to achieve simplicity in organizing shipments at competitively prices because only several countries have that value higher than 4.

Another essential index in logistics is DHL Global Connectedness Index. In 2011, DHL, the world leader in logistics and express delivery, released the first study of the DHL Global Connectedness Index. The study was provided by a world-renowned expert in international business and economic strategy Pankaj Ghemawat, who teaches international strategy at the IESE business school in Barcelona. The components which this index includes are:

“1. *Trade:*

- *Merchandise trade*
- *Services trade*

2. *Capital*

- *Foreign direct investment stocks*
- *Foreign direct investment flows*
- *Portfolio equity stocks*
- *Portfolio equity flows*

3. *Information*

- *International internet bandwidth*
- *Telephone call minutes*
- *Trade in printed publications*

4. *People*

- *Migrants (foreign born population)*
- *Tourists (departures and arrivals)*
- *International students”*

DHL Global Connectedness Index regards 140 countries from the points of depth and breadth of their connectedness. Depth and breadth are both scored on a scale from 0 to 50, so overall global connectedness can be equal to the value from 0 to 100 (Figure 10).

The main common characteristics for countries with the highest breadth scores are large size and wealth. For countries with the highest depth scores, it is common to have fast economic growth.

FIGURE 2.1 // DHL GLOBAL CONNECTEDNESS INDEX, OVERALL RESULTS
WITH RANK CHANGES FROM 2013 TO 2015 IN PARENTHESES

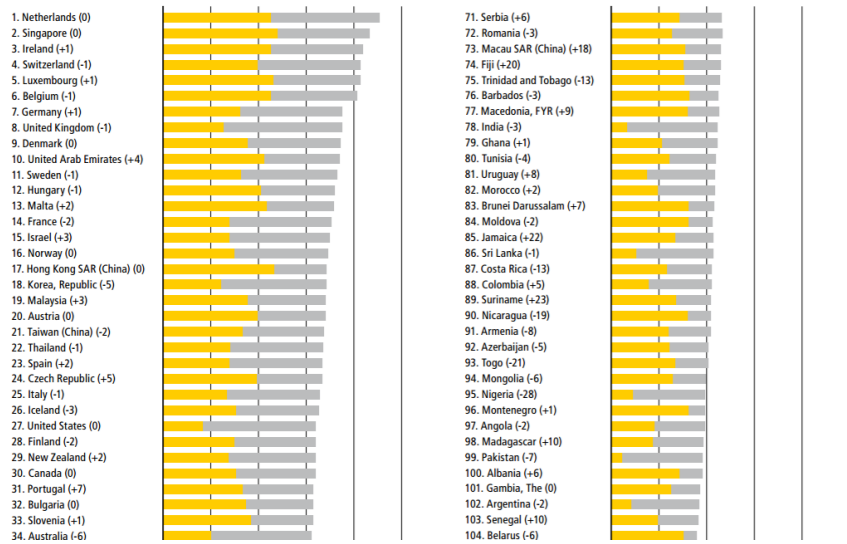
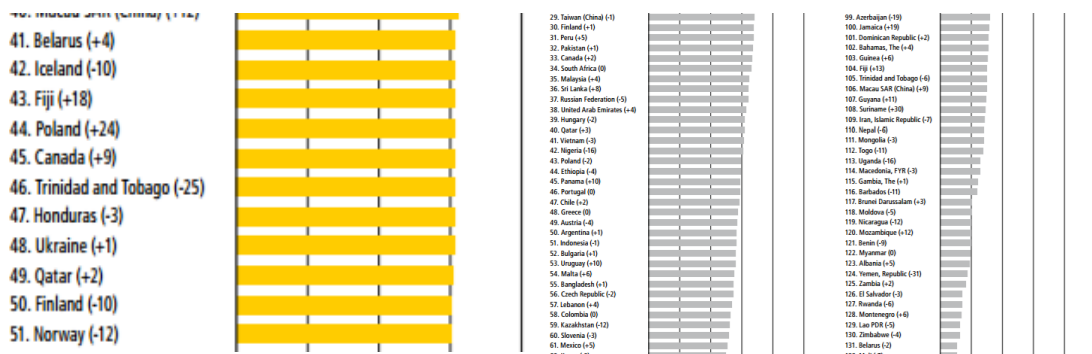


Figure 10. DHL Global Connectedness Index. (P. Ghemawat and S. A. Altman, 2016, p 30)

According to the results of DHL Global Connectedness Index, Finland and Belarus have different situations. Finland is at the 28th place mostly because of breadth dimension Belarus takes place among the lowest ranked countries on breadth. Belarus is at the 104th place on overall results, but at the same time, in terms of depth, Belarus has higher positions than Finland.



Figures 11, 12. Depth and breadth dimension. (P. Ghemawat and S. A. Altman, 2016, p 33-34)

Stimulating the development of logistics will lead to higher positions in the DHL GCI ranking. For that, it is necessary to expand foreign trade relations (especially this concerns Belarus), create a more open economic policy, conclude more regional trade agreements, and improve the effectiveness of customs services.

5 CONCLUSION

Logistics outsourcing is a worldwide famous trend which attracts companies by its numerous benefits and possibilities. The main reasons for outsourcing are cost and risk reduction, possibility to focus on core activities, improvement of quality and increased efficiency, flexibility and productivity. Nowadays, companies may choose any type of provider from the simplest one to a large integrator who will provide all the necessary services according to specified requirements. The most popular types are 3PL and 4PL. 4PL provider acts as an integrator of 3PL providers and because of that 4PL and 3PL are not competitors but they supplement each other as 3PL owns facilities for transportation and warehousing and 4PL uses them to generate the best solutions to the clients. However, it is essential to select the right provider. The selection process includes the evaluation of the potential provider's responsiveness, capabilities, financial and quality management, reputation and market share. After starting a relationship with a provider, it is important to be on good terms with the partner. For that, communication, trust and contract terms play a significant role.

However, the current state of the market of outsourcing logistics services differs worldwide. While some countries focus on how to retain the high level of development of outsourcing, other countries are still trying to establish the outsourcing trend. The difference between such countries is clearly visible in comparison between Finland and Belarus.

On the one hand, in comparison to Belarus, Finland has some advantages that play essential roles. When outsourcing has only recently appeared in Belarus, Finland have already developed the outsourcing market. No doubt, Finnish providers are much more experienced and advanced than their Belarussian counterparts who are still learning from European companies. The location of Belarus is perfect for outsourcing, but Finland, despite northern location far away from the central Europe, has an access to the sea. This fact expands the opportunities of transportation. Finland is a member of the European Union and at the same time on good terms with Russia. This allows Finland to act in all

areas. Belarus has not so many connections with the EU and Russia is the main partner of Belarus.

On the other hand, these countries have many similarities. Both countries are greatly influenced by their neighbours and neither of them play main roles in Europe. The development of outsourcing is not on the same level but it is affected by the same circumstances: it stalls due to politics.

According to my study, it is clear that providers can deal with all the problems concerning clients, risks, competitors but without external support the market will start to collapse. In order to stimulate the market to develop, providers should search for new innovative solutions and for new market areas as well as increase the quality of their services. However, the market of outsourcing logistics services consist of two sides: providers and clients. There is no need in this market without a demand. Clients need to increase the level of trust to providers due to careful selection as well as develop contract terms.

The logical conclusion, based on the results of this thesis, is that outsourcing is a trend which initially was created by companies in order to simplify processes but then it appears to be managed and greatly influenced by politics. Political decisions and economical changes are unpredictable as well as the future of the market of outsourcing logistics services.

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