Outsourcing versus Insourcing

Recent Trends and Factors to Consider

A white paper on the recent outsourcing trends in North America and the advantages / disadvantages of each logistics approach.
Outsourcing versus Insourcing

RECENT TRENDS AND FACTORS TO CONSIDER

INTRODUCTION

ASL and has been servicing logistics partners since 1959, with a number of partnerships lasting 20+ years. With that in mind, and given our collaborative history with several major brands, this white paper covers the recent trends in outsourcing versus insourcing logistics. We value our partnerships and believe it is our responsibility to provide support and assistance to our partners when considering strategic logistics options.

RECENT TRENDS

In a recent study of the state of logistics outsourcing, it was noted that despite challenging business conditions, aggregate global revenues for the 3PL sector continue to rise, and far more shippers (65%) are increasing their use of 3PL services than returning to insourcing (22%) some 3PL services. Outsourcing accounts for 54% of shippers’ transportation spend and 39% of warehouse operations spend. As found in past Annual 3PL Study surveys, transactional, operational, and repetitive activities such as transportation, warehousing, and freight forwarding tend to be the most frequently outsourced.

Additionally, the results of this study suggest that far more companies increase their logistics outsourcing in any given year than those that bring most logistics services back in-house. The measurement of these outsourcing/insourcing trends tends to remain fairly stable year over year:

**Outsourcing:** 65% of shipper respondents report increases in their use of outsourced logistics services this year, compared with 64% and 65% in the last two years. Three-quarters of 3PL providers see an increase in outsourcing among their shippers.

**Insourcing:** Generally, insourcing remains less prevalent, with 22% of global shippers indicating they are returning to insourcing many of their logistics activities. One region that evidences significant change from previous results is Europe, which dropped from 18% last year to 12% this year. 3PL reports of shippers in general returning to insourcing many of their logistics activities remains consistent at 37%.

So while rates of change to outsourcing/insourcing appear to remain stable in recent years, the general trend among companies is to increase their use of outsourced logistics services.
Reasons Why Companies Have Chosen To Outsource

While cutting costs is still a main driver for many organizations, the reasons companies decide to outsource today widely vary, going beyond dollar signs. This can be attributed not only to the degree of complexity and velocity of the companies supply chain, but the expectations and demand of the consumer as well. Although not an exhaustive list, the following are most representative of why companies choose to outsource:

- Lower costs
- Enhanced flexibility to grow or adapt based on changing business requirements
- Capital investment in facilities and equipment (or long-term lease commitments)
- Company Strategic Focus (*focus on core competencies*)
- Improved service
- Peak season or overflow capacity/constraints
- Access to capabilities (skills & processes) not available internally
- Workforce issues (e.g., labor concerns, hiring, compensation, etc.)
- Initial entry into a new market (geography or product)
- Access to technology not available internally
- Regulatory requirements and compliance issues
- Supply Chain Network reconfiguration
- Consolidation of existing facilities

Benefits/Drawbacks of Outsourcing

The benefits (and conversely the drawbacks) of outsourcing are directly related to the relationship between the company and its’ logistics provider. Successful outsourcing arrangements are typically well defined, planned and executed when there is a level of shared trust, collaboration and integration between both parties.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Drawbacks</th>
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<tbody>
<tr>
<td>Reduced operating and/or capital costs</td>
<td>Perceived loss of control</td>
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<tr>
<td>Increased flexibility and adaptability</td>
<td>Dependence on 3PL</td>
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<tr>
<td>Strategic focus to core capabilities</td>
<td>Incongruent corporate cultures</td>
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<tr>
<td>Improvements in customer service</td>
<td>Confidentiality and security of information</td>
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<tr>
<td>Access to Expertise</td>
<td>Tied to financial well-being of 3PL</td>
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<tr>
<td>Access to Technology</td>
<td>Hidden costs</td>
</tr>
<tr>
<td>Shared Risks</td>
<td>Political Issues (Bad publicity and/or ill-will)</td>
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INSOURCING

Reasons Why Companies Have Chosen Not To Outsource

While the general trend among companies is to increase their use of outsourced logistics services, there are also companies who choose not to outsource and maintain control of their supply chains internally (insourcing). Typically, companies choosing to insource have very complex supply chains with significant regulatory, political and customer challenges. While less prevalent, companies choosing to insource typically do so for the following reasons:

- Logistics is already considered a core competency
- In-house expertise exceeds the capabilities of most 3PL’s
- Logistics functions are too complex to consider outsourcing
- We know our business much better than a 3PL ever could.
- Too difficult to integrate information systems and flows
- A belief that cost reductions would not be realized through outsourcing
- Political climate where the benefits of outsourcing are outweighed by the negative publicity and/or ill-will derived from an outsourcing decision.

Benefits/Drawbacks of Insourcing

For companies choosing to insource, many are willing to forego the potential cost savings and flexibility benefits associated with successful outsourced relationships to maintain control and avoid uncertainty. In other cases, the decision to insource was based on solely reversing the effects of unsuccessful outsourcing decision.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Drawbacks</th>
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<tbody>
<tr>
<td>Maintain control of logistics functions</td>
<td>Potential savings are unrealized</td>
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<tr>
<td>Not dependent on 3PL</td>
<td>Decreased flexibility should business conditions change</td>
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<td>Costs are known (no hidden costs)</td>
<td>Risks not shared</td>
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<tr>
<td>Confidentiality of information remains secure</td>
<td>Reduced access to Expertise</td>
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<tr>
<td>Outsourcing risks are mitigated</td>
<td>Reduced access to Technology</td>
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<td>High fixed costs</td>
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