

## **LOGISTICS OUTSOURCING IN UKRAINE**

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### **Анотація**

*Розглянуто поняття «аутсорсинг» та «інсорсинг», індекс ефективності логістики» (LPI) різних країн. Порівняно значення аутсорсинг та інсорсинг. Описано, яку тенденцію в Україні представляє аутсорсинг логістичних послуг.*

**Ключові слова:** аутсорсинг, інсорсинг, логістика, логістичний аутсорсинг, LPI.

### **Abstract**

*The concepts of “outsourcing” and “insourcing”, and logistics efficiency index (LPI) of different countries are considered. The meanings of outsourcing and insourcing are compared. The trend of the outsourcing of logistics services in Ukraine is described.*

**Key words:** outsourcing, insourcing, logistics, logistics outsourcing, LPI.

### **Introduction**

It is unlikely that anyone will deny the validity of the opinion offered for thinking about outsourcing. In my opinion, the transfer of all processes related to the storage, movement and delivery of goods to third parties is the outsourcing of logistics services. Today, logistics providers take into account global standards and practices when providing services. Standard 3PL operators offer Class A or Class B technology rentals or their own warehouses. The warehouses of the highest class are equipped with modern systems of storage, accounting and processing of goods. In addition, the warehouses are staffed by qualified employees and specialists who effectively manage the client's business processes. The main advantage of logistics outsourcing is that entrepreneurs do not need to maintain warehouses, equipment and personnel. You can simply order certain services from suppliers and pay for their delivery. Outsourcing is a must for small businesses to scale and for large businesses to maximize process efficiency. Providers aim for high results and work diligently on their reputation. Many customers sign long-term service level agreements (Service Level Agreements), according to which all responsibility, financial risk for lost or damaged products is transferred to the supplier. The contract also provides for penalties for late delivery [1].

Today, the logistics outsourcing market in Ukraine is experiencing another wave of development. The higher the level of consumption in the country, the more foreign trade companies, distributors, manufacturers and the same trade networks have to specialize in their direct activities. All the more, there is a need to attract qualified logistics operators to organize the supply chain of goods and transfer part of operations to them for logistics outsourcing. Outsourcing in logistics is the transfer of logistics processes to a third party. The latter can be either one company or a group of companies. The essence of this service is to reduce the company's costs for logistics, when delivering products thanks to the involvement of one or more qualified professionals – logistics operators [2].

### **Research Results**

Examining the term “outsourcing”, we can conclude that all its definitions refer to forms of cooperation, contracts, business relationships and management tools. Examining different areas of outsourcing definition, we state that all experts agree that outsourcing is a modern and successful business model that allows companies to gain a competitive advantage. Outsourcing allows companies to reduce risks and costs, improve the quality of products and services, quickly respond to changes in the environment, optimize the organizational structure and management systems, and generally increase work efficiency [3]. The growing volume of logistics services in Europe and the corresponding growth of the outsourcing market shows the importance of outsourcing logistics services in today's environment. The most common outsourced functions in Ukrainian logistics are transportation, warehousing and picking, followed by value-added services. The three listed directions of logistics activity generate up to 85% of the income of logistics operators [7]. Over

the last few years, outsourcing of road transport has also become very common. Warehouse outsourcing gradually developed in Ukraine. According to Cap Gemini Emstek Young Company experts, enterprises that use logistics methods can reduce inventory management costs by 15-30% [4]: logistics costs decrease by 8.2%, logistics assets increase by 15.6%. The average product order cycle is 10.7-8.4 days, total stocks increased by 5.3% [5]. According to the Ukrainian Logistics Association, the logistics outsourcing market in Ukraine has just taken shape. The market is expected to grow by 30-40% per year. By 2011 [6], half of Ukrainian enterprises will purchase professional logistics services. In the logistics process itself, ULA experts estimate its potential size at 10-130 billion dollars. Currently, 70-80% of the logistics services market is made up of highly specialized intermediary agencies engaged in transportation, transshipment, cargo handling, customs declaration and warehousing. Only in the last three years, an integrated logistics market began to take shape in Ukraine, when all or part of the services are transferred to specialized operators. According to the results of research, the following foreign companies make comprehensive offers: ASTRA, DHL, FedEx, Fiege, FM Logistic, Shenker, UPS, etc. [7].

In the process of researching the problems of logistics outsourcing and its impact on the efficiency of the enterprise's foreign economic activity, we made the following conclusions: 1. Outsourcing in logistics is one of the most modern business models. 2. In order to determine the need to outsource secondary functions, it is necessary to carefully consider all the advantages and disadvantages of this activity. 3. The problem of implementing logistics outsourcing is relevant for modern enterprises. 4. Thus, the transition to logistics outsourcing is a strategy aimed at increasing profitability and competitiveness in the long term. In the process of applying outsourcing in logistics, the company gets the opportunity to concentrate resources on the specialized business and not to engage in the construction and maintenance of unrelated infrastructure. 5. Currently, when outsourcing logistics business processes, an analysis is required for each specific case.

### Conclusions

The combination of the effectiveness of the application of logistics tools and the business tendency to focus on key activities provides ample opportunities for the growth of the logistics outsourcing market. Taking into account the global trends in the development of the logistics services market, the popularity of logistics outsourcing in Ukraine will continue to grow and cover more and more spheres of the company's production and economic activity. The use of considered and improved models and approaches will undoubtedly help to improve the quality of relevant management decisions, but it is unlikely to simplify the process of their adoption.

Further research into the services of logistics providers and the level of provision of logistics services requires a detailed consideration of modern methods of improving the activities of logistics providers and the possibility of using 4PL systems on the territory of Ukraine.

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