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THIRD-PARTY WAREHOUSING SELECTION: A COMPARISON OF NATIONAL AND REGIONAL FIRMS

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ABSTRACT

The size of the logistics outsourcing market has increased from \$25 billion in 1996 to an estimated \$50 billion in 2000 (Lieb and Randall, 1996). According to a recent study, warehousing continues to be the most frequently outsourced logistics activity, with 63.3% of respondents from several industries reporting use of third party providers for their warehousing needs (Langley, 2001). Based on the increased use of third party logistics providers overall and the large number of firms outsourcing the warehousing function specifically, one would expect that the logistics literature would contain numerous research studies focusing on third party warehousing. However, research on this topic is scarce. To address this deficiency in the literature, a survey was developed and distributed to current and potential third-party warehousing customers. This exploratory study had two main research questions. First, what criteria are most important to warehousing customers when selecting third party providers? Second, how effective are the typical national and regional third party warehousing firms at meeting the needs of warehousing customers on each of the examined criteria?

Method and Results

Because of the scarcity of research on the third party warehousing selection process, in-depth phone interviews were conducted with twelve warehousing experts representing various supply chain roles. Based on these interviews, a warehouse selection process survey was developed for warehousing customers. The survey was distributed to 1,460 manufacturers, wholesalers, and retailers in several industries. After eliminating returned surveys, the response rate was 11.4% (155/1,363).

The managers that responded in this study had an average of 18.02 years of warehousing/logistics experience and represented the highest levels of management in their firms, with 16.8 percent holding the title of corporate officer, 34.8% in director positions, and 45.8% in manager positions. The average annual global sales of firms in this research was 6.274 billion dollars, with 64.5% of the firms in the grocery/food/beverage industry and 22.6% in the consumer goods industry. Manufacturing firms accounted for 74.2% of the respondents, while 12.9% of the respondents were wholesalers and 11.6% were retailers. 75.48% of the firms in the sample reported the use of at least one third party warehouse provider in their network. When asked to provide the approximate percentage of national, regional, and local third party providers in their network, respondents reported that 40.13% of their third party business was handled by national third party firms, 32.50% by regional firms, and 21.93% by local firms.



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The first goal of this study was to assess the importance of various selection criteria during the evaluation of third party warehousing providers. In the survey, respondents were asked to rate the importance of each selection factor from 1 (Not Important at All) to 5 (Extremely Important) when they are evaluating third party warehousing providers. Table 1 ranks the criteria from most important to least important based on the means to each question. The top selection criteria were responsiveness to service requirements, quality of management, and track record of ethical importance. The three least important criteria were investment in state-of-the-art technologies, size of firm, and national market coverage.

Table 1
Importance Ratings of Third Party Warehousing Selection Criteria

Rank	Criteria	Mean	std. dev.	n
1	Responsiveness to our service requirements	4.71	0.499	150
2	Quality of management	4.51	0.652	150
3	Track record of ethical performance	4.33	0.73	150
4	Ability to provide value-added services	4.13	0.898	149
5	Low costs	3.97	0.761	151
6	Specific channel expertise	3.94	0.807	149
7	Knowledge of market	3.73	1.06	151
8	Personal relationships with key contacts	3.64	0.996	151
9	Willingness to assume risk	3.64	0.83	150
10	Investment in state-of-art technologies	3.59	0.953	151
11	Size of firm	3.08	0.876	151
12	National market coverage	2.85	1.21	151

The second goal of this research was to compare the performance of national and regional third party warehousing providers based on the perceptions and experiences of their customers. Respondents were asked to rate each type of firm on each criteria from 1 (poor) to 10 (excellent). Based on the results of the t-tests in Table 2, regional third party warehousing providers are rated significantly higher than national firms in their performance on six factors, with national firms rated higher on one factor.

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Table 2
Means Comparisons of Regional and National Third Party Firms

Rank	Criteria	Mean	std. dev.	n	Prob.
1	Responsiveness to our service requirements	7.84	7.01	129	.000
2	Quality of management	7.32	7.20	130	.496
3	Track record of ethical performance	7.59	7.10	129	.002
4	Ability to provide value-added services	7.31	7.18	130	.386
5	Low costs	6.98	6.27	131	.000
7	Knowledge of market	7.35	6.36	130	.000
8	Personal relationships with key contacts	7.01	6.02	129	.000
9	Willingness to assume risk	6.55	6.39	127	.371
10	Investment in state-of-art technologies	6.09	7.50	130	.000
n/a	Consistency of service in multiple markets	6.59	6.64	125	.830
n/a	Order accuracy	7.99	7.80	130	.048

Conclusion

The importance to logistics practitioners of narrowing the focus of outsourcing selection research to specific logistics functions and of conducting empirical research cannot be overstated. As environmental factors continue to increase the pressure for logistics managers to outsource activities, it is the responsibility of researchers to empirically examine factors that may affect their decision. This research identified the importance of selection criteria in warehouse outsourcing and compared the perceived performance of national and regional firms in delivering important warehousing capabilities and services. It is hoped that this study will provide a key first step in the process of providing practitioners with information that can be used to make better decisions when selecting third party warehousing providers.