

THE IMPACT OF OUTSOURCING OF LOGISTICS ON THE COMPETITIVE ADVANTAGE STRATEGY OF EAST AFRICAN BREWERIES LTD

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ABSTRACT

Outsourcing is the act of one company contracting with another company to provide services that might otherwise be performed by in-house employees. Often the tasks that are outsourced could be performed by the company itself, but in many cases there are financial advantages that come from outsourcing. Many organizations are switching to the outsourcing of logistics as a way of remodelling their distribution and transport management resulting into competitive advantages. In this era of intense competition firms are focusing on logistics outsourcing to contribute significantly to their presence and performance in the market. The study sought to determine the impact of the outsourcing of logistics on the competitive advantage strategy of East African Breweries limited. The study considered case study as the suitable research method to be used since data could be gathered from a single source. The target population for this study was employees working with East Africa Breweries at their Head office in Nairobi. EABL employs about 1000 employees at its head office with a total of 580 employees in Procurement, Manufacturing, Warehousing, Transportation, Distribution, Sales and Finance from which a sample was drawn. Purposive sampling was applied in carrying out the study. Data was collected using document reviews, check lists, interviews and questionnaires. Analysis was done using Microsoft's Excel program and illustrated further in tables, graphs and charts.

Key Words: *outsourcing of logistics, competitive advantage strategy, East African Breweries Ltd.*

Introduction

Logistics encompasses all of the information and material flows throughout an organization. It includes everything from the movement of a product or from a service that needs to be rendered, through to the management of incoming raw materials, production, the storing of finished goods, its delivery to the customer and after-sales service, (Pollitt, 2008). The growing importance of logistics arises from companies becoming globalized to gain access to new markets, realize greater production efficiencies, and tap technological competencies beyond their own geographical borders, (McFarlan, 2004). Currently, logistics operations include purchasing, distribution, the managing of inventories, packaging, manufacturing, and even customer services, (Bowersox and Closs, 2006). In today's highly competitive environment, many companies are aiming to gain a share of the global market and to take advantage of higher production and sourcing efficiencies. A key determinant of business performance nowadays is the role of the "logistics function" in ensuring the smooth flow of materials, products and information throughout a company's supply chains (Smyth, 2004). More recently, logistics has become more prominent and is recognized as a critical factor in competitive advantage, (Bowersox and Closs, 2006). The logistics operations process includes the inputting, storing, transporting and distributing of physical goods. Over the years, logistics has developed from single-party logistics (self-managed) to multi-party, using e-logistics networks focusing on global operations.

General objective of the study

To show that the outsourcing of logistics has an impact on competitive advantage strategy at East African Breweries limited.

Specific Objective of the study

- i. To determine the effect of the outsourcing of transportation services on the competitive advantage strategy of East African Breweries Ltd.
- ii. To establish the impact of the outsourcing of distribution logistics on the competitive advantage strategy of East African Breweries Ltd.
- iii. To determine the effect of the outsourcing of Inbound and import logistics on the competitive Advantage of strategy of East African Breweries Ltd
- iv. To show how the outsourcing of warehousing services impacts on the competitive advantage strategy of East African Breweries Ltd.

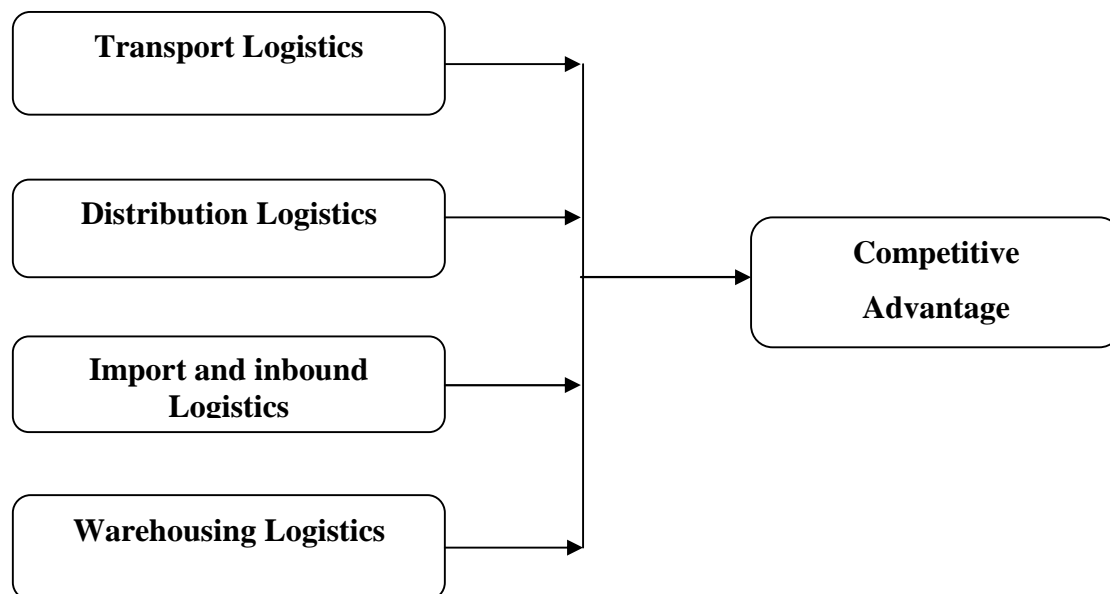
Literature Review

Supply Chain Management Theory

A number of researchers discuss logistics outsourcing from the Supply Chain Management point of view. Rao and Young (2003) suggest that firms consider outsourcing of logistics to an external Logistics Services Provider (LSP) when logistics complexity is high. Wilding and Juriado (2004) observe that cost reduction is the main motivation for logistics outsourcing. Boyson et al (1999), mentions that firms which outsource for operational and cost-based reasons, will tend to restrict the Logistics Service Provider's involvement to the basic logistics functions. Therefore, an outsourcing decision might be influenced by a firm's supply chain characteristics logistics complexity and demand uncertainty or logistics strategy.

Conceptual Framework

The study adopted the following conceptual framework



Independent Variables

Dependent Variable

Source: Author 2013

Conceptual framework

Research methodology

The study considered case study as the suitable research method to be used since data could be gathered from a single source. The target population for this study was employees working with East Africa Breweries at their Head office in Nairobi. EABL employs about 1000 employees at its head office with a total of 580 employees in Procurement, Manufacturing, Warehousing, Transportation, Distribution, Sales and Finance from which a sample was be drawn. Purposive sampling was applied in carrying out the study. Data was collected using document reviews, check lists, interviews and questionnaires. Analysis was done using Microsoft's Excel program and illustrated further in tables, graphs and charts.

Results of the findings and Discussions

It was established that the outsourcing of transport logistics has an impact on EABL's competitive advantage strategy; that the longer lead times with global suppliers, volatile fuel prices and risks such as unavoidable delays, has made estimating the cost and time associated with transportation in EABL difficult better transportation management has helped EABL improve their overall supply chain efficiency ; that to reduce transportation overheads and ensure that the right product reaches the right location on time, transportation managers require a centralized view into all of their transportation activities as well as the ability to understand transportation's impact on product inventory and that transportation plays a connective role among the several steps that result in the conversion of resources into useful goods in the name of the ultimate consumer; that the outsourcing of distribution logistics has an effect on the competitive advantage strategy of East African Breweries; that outsourcing of distribution logistics at EABL has the firm to focus resources on revenue-generating activities and offload processes outside their core competencies, that the influence on customers suggested that EABL has been freed to focus its activities and products on consumer demands leading to a bigger concentration on the sales drivers which are key to EABL's success in trade and that the outsourcing of distribution logistics has put EABL's customers as the first line beneficiaries. The sales and marketing teams therefore focus mainly on Quality, Distribution, Visibility, Promotion and Pricing of EABL products; that the outsourcing of Import and inbound Logistics has an effect on the competitive advantage strategy of East African Breweries.

The study also found out that the respondents agreed that Owing to the globalization of sources, manufacturing and production, EABL has adopted the logistics management view to guide their business operations outsourcing provides companies with greater capacity for flexibility, especially in the purchase of globally sourced products and that the operational structure of EABL in the face of globalization enhances long-term cooperation agreements between buyers and sellers.

It was also established that environmental factors such as IT development and capability of supplier can influence organizations' decisions to outsource warehousing logistics; that there have been major changes in the number and location of facilities with the closure of many single-user warehouses and an expansion of consolidation facilities and distribution centres and that EABL limits themselves to the production and marketing leaving warehousing and distribution to other firms.

Conclusions

The study concludes that the outsourcing of transport logistics has an impact on EABL's competitive advantage strategy. The outsourcing of transport logistics influences the competitive advantage of East African Breweries to a great extent.

The study concludes that the outsourcing of distribution logistics has an impact on EABL's competitive advantage strategy. The study concludes that the outsourcing of distribution logistics has an impact on EABL's competitive advantage strategy to a great extent.

The outsourcing of distribution logistics has put EABL's customers as the first line beneficiaries because they have been kept at an arm's reach. EABL sales and marketing staffs are able to gain access to their consumers and shoppers easily and understand their value drivers and deliver beyond their expectations and thus becoming their preferred partners and a source of profitable business solutions.

The study found that the outsourcing of Import and inbound has an impact on EABL's competitive advantage strategy. The study also concludes that the outsourcing of Import and inbound affects the competitive advantage of EABL to a great extent. The study found that the outsourcing of Warehousing Logistics has an impact on has an effect on the competitive advantage strategy of EABL. The study also concludes that the outsourcing of Warehousing Logistics affects the competitive advantage of East African Breweries to a great extent.

By Outsourcing Transport, Warehousing, Import and Inbound logistics EABL has been able to win at the consumer level by establishing an efficient and effective route to market. This implies that EABL has been freed to focus its activities and products on consumer demands leading to a bigger concentration on the sales drivers which are key to EABL's success in trade. These are:

1. **Quality of products:** Improving the presentation and experience of EABL brands to the consumer.
2. **Distribution of products:** Ensuring the right brands are available to meet shopper and consumer needs.
3. **Visibility of products:** Making EABL brands and brand messages visible at the point where the purchase decision is made.
4. **Price of products:** Effective pricing objective within the competitive set in the market place.
5. **Promotion of products:** Giving EABL consumers brand building offers which drive sales.
6. **Persuasion of retailers:** Motivating outlet staff to recommend and support EABL brands.

Through logistics outsourcing, EABL has ensured the right brands and are available in the right channels at the right time .In achieving this; a value chain has been developed leading to competitive advantages. EABL is able to serve its consumers in the segments in which they shop easily and in so doing, it has created great value for its customers and the organization.

Recommendations

The study recommends training the procurement personnel on the best outsourcing procedures in transport logistics, centralizing the transport logistics outsourcing activities, establishing a schedule for each and every job in order to avoid delays, communicating outsourcing procedures to the employees and other stakeholders, and enter into strategic alliance with a well-established transport logistics firm. This will increase consumer satisfaction by delivering EABL products on time and in perfect condition. For a distribution outsourcing strategy to work effectively, EABL must proactively establish efficient and cost effective product delivery structures and processes. This calls for outsourcing distribution to a logistics firm that will deliver products on time and in perfect condition to maintain their quality.

The study recommends that the management should ensure top management commitment, undertake cost benefit analysis, establish global sourcing structures and processes, undertake research on the various companies offering vehicle outsourcing services, and involve the entire department in outsourcing decision making.

The study recommends that the management should establish strategic relationships with external third-party service providers, develop information systems, establish inventory and customer order fulfillment procedures, and establish ties with freight transport and forwarding firms, and training of personnel in order to equip them with skills and knowledge.

The study recommends that the management to create an automated stock-keeping unit to take advantage of just in time production lead times, establish a market-linked logistics system, involve firms with strategically placed warehouses in the target markets, come up with a warehouse management plan in order to enhance delivery and reduce costs.

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