

## Introduction

### 1.1 Background

#### 1.1.1 Present situations of Logistics Outsourcing around the world

Over the world, outsourcing of logistics functions to partners, known as “third-party logistics providers”, has increasingly become a powerful alternative to the traditional, vertically-integrated firm. A growth in the number of outsourcing partnerships has contributed to the development of more flexible organizations, based on core competencies and mutually beneficial longer-term relationships. A 1995 survey of the chemical industry by Van der Steen and Siegel (1995), for example, found that the average number of outsourcing partnerships per company grew from 1.5 in 1989 to 5.5 in 1994. Overall, some 60 per cent of **Fortune 500** companies report having at least one contract with a third-party logistics provider (Lieb and Randall, 1996).

A report published by fedex announced western Europe invested more fund(65%) to TPL than Northern America(49%) and Asia(50%), and 32% of Asia enterprises outsource their logistics service function to TPL, in Europe the rate is 29%, in Northern America the number is 16%, it showed us logistics outsourcing in Asia is more active than other area of the world. Around the world, there are more than 70% enterprises want to outsource their logistics service function to TPL, because it can reduce lots of costs and shorten the period of order, in Asia generally shortened from 9.8 days to 7.9 days and in Northern America, generally shortened from 25.6 days to 18.3 days. (<http://www.logistics-smu.net>, 2006)

#### 1.1.2 Present situations of Logistics Outsourcing in China and in Beijing

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China external logistics reached a total value of RMB 48 trillion in 2005 with a yr-on-yr growth of 25.2%, which was a little lower than the previous year but still remained a rapid increase. Structurally, as the industrial product logistics developed fastest, naturally it took the largest proportion in total value of the external logistics; whereas the agricultural product logistics increased slowest, and its proportion was rather small.

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The total value of China external logistics amounted to RMB 26.8 trillion in the first half of 2006, rising 15.3% compared to the 1st half of 2005 (calculated at comparable price, hereafter the same in this paragraph), but its growth rate declined by 1%, which was mainly caused by decreasing growth rate of industrial product logistics; The total value of industrial product logistics was RMB 23.4 trillion, up 15.6% compared to the 1st half of 2005, but its growth rate declined by 1.2%; the total value of import logistics was RMB 2.95 trillion, up 14.2% compared to the 1st half of 2005, and its growth rate increased by 0.2%; The total value of agricultural product logistics reached RMB 461.5 billion, growing 5.1% compared to the 1st half of 2005, its growth rate remained almost the same as the 1st half of 2005.

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(<http://www.logistics-smu.net>, 2006)

The total expense of China external logistics was RMB 1678.6 billion in the first half of 2006, rising 14.7% compared to the 1st half of 2005 (calculated at current price, hereafter the same in this paragraph), and its growth rate increased by 1.2%. It was mainly because of the sharp rise of energy cost that caused the common rise of transportation fee. However, the ratio of the total expense of external logistics to GDP continued to drop from 18.6% in 2005 to 18.4% in the first half of 2006, down by 0.2%. (<http://www.logistics-smu.net>, 2006)

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From the view of total logistics expense structure, in the first half of 2006, transport cost was RMB 932.9 billion, rising 12.9% compared to the 1st half of 2005, and its growth rate up

0.8 by 0.8%, which maintained almost the same as compared to the 1st half of 2005 with a proportion of 55.6% to the total expense. The storage cost was RMB 531.4 billion, rising 18.6% compared to the 1st half of 2005, and its growth rate ascending by 2.4%, the storage cost shared 31.7% of the total expense, ascending by 1.2% compared to the 1st half of 2005. Management cost RMB 214.4 billion, rising 13.2% compared to the 1st half of 2005, and its growth rate increased by 0.2%, moreover, it shared 12.8% of the total expense, but the proportion declined by 0.1% compare to the 1st half of 2005. (<http://www.logistics-smu.net>, 2006)

## 1.2 Research Objective

The main objectives can be divided into the following four parts:

1. To analyze the performance of the existing logistics service providers of MSG Food Company
2. To set up a performance appraisal system for MSG in logistics service providers
3. To establish the requirements/benchmarks from the survey of the users of MSG
4. To select the logistics service provider candidates of MSG.

## 1.3 Dissertation Structure

This dissertation is structured in the following five chapters

Chapter I : Introduction

Chapter II : Literature Review

Chapter III: Methodology

Chapter IV: Main Findings

Chapter V : Conclusion/Recommendations

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