

**OUTSOURCING OF OUTBOUND LOGISTICS IN THE TEA  
INDUSTRY: A CASE STUDY OF THE TEA DIVISION OF  
UNILEVER KENYA LIMITED**

**By**

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**A Management Research Project Submitted In Partial Fulfilment of the  
Requirements for the Award of Master of Business Administration (MBA)  
Degree, School of Business, University of Nairobi**

**October 2009**

## DECLARATION

This management project is my original work and has not been presented for a degree in any other university

Signed 


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This management project has been submitted for examination with my approval as the university supervisor

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## DEDICATION

This project is dedicated to my loving husband, Leonard Ongadi and son

Shalam Ongadi for their love and support

And

My dear parents Jackton Tiema and Margaret Tiema for believing in me

## ACKNOWLEDGEMENT

My utmost thanks go to the Almighty God for this far He has brought me. I owe my life and success to Him.

My very special thanks go to my supervisor for his support and insightful guidance through every stage of the project. I am most grateful for his keen interest in the successful completion of this project.

My sincere gratitude goes to the management of Unilever Tea operations in Mombasa in particular the director, Mr. Francis Kiragu for allowing me to conduct a case study on the company. I particularly appreciate the time and effort of the managers I interviewed for the completion of my study.

I am deeply indebted to my dear husband Mr. Leonard Ongadi for his love, patience and understanding during those long study hours, for helping me in every step and most importantly inspiring me to complete my studies. Thanks to my son Shalam for understanding my absence in his innocence and for his sweet smile whenever I came home late and tired.

I am also grateful to my parents Jackton Tiema and Margaret Tiema for their love and support in my education and life. Last but not least, thanks to all my friends and course mates with whom we exchanged valuable ideas and challenged each other academically and socially.

To you all I say thank you very much and may God Bless you.

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## LIST OF ACRONYMS

3PL – Third Party Logistics provider

EAI - East Africa Industries Limited

GDP - Gross Domestic Product

KIMBO - Kenya Industrial Management Board Organization

KTDA – Kenya Tea Development Authority

OTIF - On Time in Full deliveries

TBK – Tea Board of Kenya

UKL - Tea – Unilever Kenya Limited – Tea Division



## ABSTRACT

Outsourcing entails shifting of traditional corporate activities to parties outside of the firm with an aim of gaining access to world class capabilities.

Under the relentless pressure to compete, companies globally are striving to increase the quality of all their goods and services and at the same time reduce their costs. Professional logistics management can help with both of these objectives hence the significance of outsourcing.

This study focussed on three major objectives. First it sought to identify the challenges facing outsourcing of outbound logistics in Tea Division of Unilever Kenya Limited. Secondly, it sought to establish the strategies the Tea Division of Unilever Kenya Limited has adopted to cope with the challenges of outsourcing and thirdly, it sought to determine the impact of outsourcing on the level of customer service.

This study was conducted through a case study to establish the responses. Data was collected from primary source through personal interview with respondents who were managers at Unilever Kenya Limited Tea Division in Mombasa. The data obtained was then analysed and interpreted using content analysis technique.

The study identified a number challenges that of Unilever Kenya Limited – Tea division has faced as a result of outsourcing. The main ones included poor communication, too much management intervention, loss of control, quality of service, lack of performance measures, and skill level of the 3PL personnel.

The research ascertained that UKL – Tea had come up with a number of strategies to deal with the challenges. This included implementing key performance measures, improving communication channels and modes, regular operational meetings and intensive training of the 3PL employees. The research results also indicated that outsourcing had not significantly led to improvement in customer service.

The study recommends that UKL - Tea needs to improve on its relationship management to make the organization enjoy the full benefits of outsourcing. It also recommends benchmarking with the industry, engaging a dedicated manager to manage the third party and closely monitor the KPI's. There is also need for regular and honest reviews, challenging the 3PL to be the new leader in innovation and greater capacity building between the two partners to work towards the same goal.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background

#### 1.1.1 Outsourcing

From the early beginnings in the mid to late 70's, many companies have travelled the outsourcing road and as technology and accessibility to shared electronic data has increased so has the range of services offered by outsourcing companies (Rinsler, 2006). Outsourcing is defined as the shifting of traditional corporate activities to parties outside of the firm, whose benefit is to gain access to world class capabilities. Bisham Consulting referred to outsourcing as the deliberate movement of a series of connected business processes to a third party who manages them on behalf of the company. In these movements the commercial risk and assets are usually passed to the outsourcing company (Czinkota & Roinkainen, 2007).

Central to outsourcing are make and buy decisions and partnerships between purchasers and suppliers. According to Rinsler (2006), the concept is about dovetailing another company's expertise and focusing on one's company to improve competitiveness and customer service. Of utmost importance, the 3PL should have greater capability in terms of skills and market knowledge constituting a combination of experience, expertise and knowledge. The outsourcing organization must also be confident that the 3PL's experience can be deployed to its advantage.

Outsourcing entails a firm identifying its core and non core activities and engaging a third party to do the non core activities so that it can concentrate

on its core activities. Core activities are those which are key to an organization's distinctive competitiveness while the non core activities are those which the organization lacks full competence to do them. Outsourcing can be effective because few organizations if any possess the resources and capabilities required to achieve competitive superiority in all primary and support activities. By concentrating on its core activities, a firm increases its probability of developing competitive advantage (Saunders, 1994).

Constant changes in the business environment are placing demand on organizations to raise their standards of performance by optimising efficiency, responsiveness and learning's in their operations (Mintzberg, Lampel, Quinn & Ghoshal, 2003). The ability to meet customer and financial goals can be influenced significantly by the degree of effectiveness and efficiency achieved in managing operations in the supply chain.

Outsourcing can potentially reduce an organization's costs and increase quality of service hence contributing to a firm's competitive advantage and its ability to create value for its stakeholders (Hitt, Ireland & Hoskisson, 2007).

Outsourcing though beneficial, can in the converse pose serious challenges to an organisation if not done right. It is important to ensure core competencies are not outsourced and that the selected supplier provides better value for money than in-house provision (Johnson, Scholes & Whittington, 2008)

### **1.1.2 Outbound Logistics**

Logistics is defined as that part of the Supply Chain process that plans, implements and controls the efficient and effective flow and storage of goods,

services and related information from the point of origin to the point of consumption (Lysons & Farrington, 2003). Outbound logistics processes, take place at the downstream end of the logistics chain and comprise activities entailing collection, storage and physical distribution of the final products to customers (Hitt et al., 2007).

Outbound logistics constitutes a number of logistics trade offs that need to be planned and managed to provide increased service and reduced costs. Of essence to outbound logistics is that it must be efficient and cost effective whilst providing an acceptable service to the customer. The Chartered Institute of Logistics & Transport (as cited in Rushton, Croucher, & Baker, 2006) suggested that to achieve an efficient and cost effective logistics pipeline, resources must be positioned at the right time, in the right place, at the right cost and in the right quality

According to Lysons and Farrington (2003), outbound logistics activities entail moving the output from operations to the end user and include finished goods warehousing, order processing, order picking, packing, shipping, transport and maintenance of a distribution network. The elements of outbound logistics have always been fundamental to the manufacturing, storage and movement of goods and services. It is only recently however that outbound logistics has come to be recognized as a vital function in business and a key enabler for business improvement. Outbound logistics is one of the primary activities of the value chain others being inbound logistics, operations, marketing and sales and service. The goal of these activities is to

offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin (Lysons & Farrington, 2003). The success of outbound logistics entails a balance of total outbound logistics costs and customer service levels. Profit can be enhanced through OTIF while costs can be minimized through efficient outbound logistics operations (Rushton et al., 2006).

### **1.1.3 The Tea Industry in Kenya**

The tea industry is one of the oldest in Kenya with the first tea bush having been introduced and planted in 1903. Commercial activities however began much later in 1924 when private companies started and developed commercial plantations. The industry currently has over 100 factories and constitute of two sub sectors: the plantation sub sector which is owned and operated by private companies and the smallholder sub sector managed mainly by Kenya Tea Development Authority (KTDA) and other individual small scale farmers. KTDA, previously a state corporation, was incorporated as a private company in June 2000 and currently manages 54 tea factories in the smallholder sub sector serving over 400,000 growers (Tea Board of Kenya [TBK], 2008).

Kenya is currently the third largest producer of tea in the world after China and India. According to a report by the Tea Board of Kenya, the combined total production by plantation sector and the small holder was a total of 345 million kilograms in 2008 accounting for 9.1% of the total world tea production. 61% of this production was from small holder sub sector and the

balance from the large plantation sector. The year on year increase in tea production in Kenya can be attributed to the steady expansion in the area planted with tea particularly by the small holder sub sector, favourable weather conditions, increased manufacturing capacity and improved productivity per hectare as well as restructuring of the sub sector (TBK, 2008)

Though plagued by many challenges, the tea industry plays a significant role in the Kenyan economy with tea being one of the leading foreign exchange earner and export commodity. Kenya exports about 95% of her production annually and the balance of 5% is absorbed by the local tea market. Export earnings from tea in 2008 amounted to Ksh. 62 billion in foreign exchange which contributed to about 26 per cent of the export earnings and 4 per cent of the Gross Domestic Product (GDP).

To date, Kenya is the leading exporter of tea in the world accounting for about 23% of the world's exports. The top three export markets for Kenyan teas included Egypt, United Kingdom and Pakistan. About 80% of Kenyan tea is sold through the Mombasa Auction which is the second largest tea auction in the world. The tea auction is regulated by the East Africa Tea Trade Association and takes place every Monday and Tuesday all year round except on public holidays. Teas are offered at the auction by brokers on behalf of the producers. The producers also sell about 15% of their total production directly through private arrangements with tea exporters and importers across the world. The Tea Division of Unilever Kenya Ltd

The Unilever's global tea business constitutes the largest tea company in the world consuming 12% of the world's supply of tea. Its vast and complex supply chain covers Asia, Africa and the Americas and provides a livelihood for millions of workers and their families. Unilever's flagship brand of tea is *Lipton Tea* which is the world's best selling brand of tea, with annual sales of more than Euro 3 billion (Unilever Magazine Issue 146 January 2009).

Unilever Kenya Limited evolved during the 2<sup>nd</sup> world war when essential household and other vital products became increasingly scarce. The Government of the day then set up a body to coordinate the supply of essential items. This body was called Kenya Industrial Management Board Organization (KIMBO). Afterwards, the body was transformed to a business enterprise and incorporated as East Africa Industries Limited (EAI). In 1953, Unilever was invited as a strategic partner to bring in its soap, margarine and fat technology and acquired 50% shareholding in EAI.

Since then the company has grown in leaps and bounds and has a portfolio of brands such as Blue Band, Omo, Geisha and Sunlight that are popular across the globe. 25<sup>th</sup> October 2000 marked the name change from EAI to Unilever Kenya Ltd (Unilever Management Trainee Hand Book 2003). Lipton Limited was initially Unilever's Africa sourcing unit for tea. In January 2008, Lipton Limited ceased to exist and Unilever Kenya Limited Tea Division was engaged to undertake tea sourcing. The teas are sourced both from the auction and privately from the producers. Unilever Kenya Limited – Tea



Division is the biggest tea auction buyer in Kenya accounting for 21% of the auction purchases followed by James Finlay at 10% and Global Tea at 9%.

6% of Unilever's tea is now from Rain forest Alliance Certified farms and this constitutes the largest portion of teas that are sourced directly from the producers in Kenya (Unilever Magazine Issue 146 January 2009). The warehousing and logistics function has been outsourced to a third party logistics service provider. The 3PL provides warehousing, preparation of teas for shipment and documentation services to ensure timely despatch of teas to the customer. The importing Unilever companies in turn engage in blending and value addition to produce various brands of tea including "*Lipton tea*".

## **1.2 The Research Problem**

Outsourcing critical supply chain functions enables an organization to better focus on its core competencies and the strategic challenge of surviving and thriving in today's challenging business environment. The tea division of Unilever outsourced its outbound logistics service in 2002 in a bid to allow the company to concentrate on its core activities and cut logistics costs. The outsourced outbound logistics processes include; collection and warehousing of tea, preparation of tea for shipping and documentation.

The organization has gone through a long and challenging journey streamlining the services provided by the third party to fit into its supply chain service standards. The management team has invested considerable

time in aligning the outsourced processes and ensuring that the 3PL's lives up to their promise as far as service delivery is concerned.

The challenges and intrigues of managing a 3PL have provided useful learning's to management and most importantly helped to leverage on the benefits of outsourcing. With a need to provide excellent customer service, manage outbound logistics costs and maintain its world class supply chain status, the organization is under continuous pressure to deal with challenges posed by outsourcing. This study seeks to determining the challenges of outsourcing and the strategies the company has adopted to overcome these challenges. It will also seek to determine the impact of outsourcing on customer service levels.

Several studies have been done in Kenya on outsourcing in general. Three studies in particular have covered the area of logistics outsourcing; one on distribution logistics within the supply chain of East Africa Breweries Limited (Lutta, 2003), another on competitive advantage through outsourcing of non core logistics activities within the supply chain of British America Tobacco (Kirui, 2001) and finally a survey of logistics practises of medium and large manufacturing firms (Motari, 2002). No study has been done to comprehensively cover outsourcing in the tea industry and particularly on the impact of outsourcing on the level of customer service which is a critical aspect of customer satisfaction. This study seeks to bridge these gaps and add to the existing body of knowledge. Successful conclusion of the study will help to answer the following research questions:

- i.) What are the challenges of managing outsourcing of outbound logistics?
- ii.) What strategies has the Tea Division of Unilever Kenya Limited adopted to deal with the challenges of outsourcing of outbound logistics?
- iii.) How has customer service been impacted by outsourcing processes that directly interface with the customers?

### **1.3 The Research Objectives**

The objectives of the study are

- i.) To identify challenges facing outsourcing of outbound logistics in Tea Division of Unilever Kenya Limited
- ii.) To establish the strategies the Tea Division of Unilever Kenya Limited has adopted to cope with the challenges of outsourcing.
- iii.) To determine the impact of outsourcing on the level of customer service

### **1.4 Importance of the Study**

The proposed topic of study will be of interest to the management of Unilever Kenya Limited. The research report will provide the company's management and staff documented information on outsourcing of outbound logistics services. This will give insight on how the company has performed, aid future logistics and customer service planning and help to contribute to the success of future outsourcing programs.

Other tea industry players and companies generally engaged in export business particularly in the tea industry will also benefit from the study. The output of the study will act as a source of information and they will be able to learn from the experiences of Unilever and adopt best practice. The study will

be beneficial to outsourcing companies by enabling them to understand a typical customer's experiences, expectation and challenges. Such knowledge would greatly assist them to improve their customer service.

Academically, this study will most definitely add to the body of knowledge on outsourcing especially in the area of outbound logistics and customer service in the tea industry.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Concept of Outsourcing

Outsourcing is defined as the purchase of a value creating activity from an external supplier (Hitt et al., 2007). Lysons & Farrington (2003) referred to it as the management strategy by which non core functions are transferred to specialist, efficient, external providers. According to Wheelan and David (2008), outsourcing is purchasing from someone else a product or service that had been previously provided internally.

Rushton et al. (2006) reinforced these views by asserting that in a typical supply chain, several different organizations are involved in getting a product to the market place providing the basis for outsourcing. He further added that a client company together with the third party organization act together in a partnership to help create a logistics pipeline that enables an effective and efficient flow of the right product through to the final customer. Outsourcing is increasingly becoming an important part of strategic decision making with more and more organizations adopting it to seek the value that can be captured through its effective execution.

The trend to outsource has for a long time been driven by the ever increasing complexity of global trade. In recent times however, new factors are accelerating it namely; pressure to cut costs, heightened competitive pressure resulting from the global economic slow down and growing commodization of the 3PLs industry leading to more aggressive marketing and downward pressure on pricing for logistics services. There is a particular obsession in

many industries for organizations to adopt outsourcing driven mainly by desire to cut costs. Pressure to cut costs as a key driver to outsource has however caused many organizations to make wrong decisions. While focusing on cost management is beneficial, it is advisable that rather than looking only at the lowest cost, companies should strive for an outsourcing program that achieves strategic and tactical outcomes aligned with its business objectives and that creates sustainable client value.

An organization intending to enter into an outsourcing arrangement must first and foremost clearly articulate its reasons for outsourcing and secondly carefully determine which part or parts of its supply chain to outsource and which ones to retain in-house. Careful and detailed evaluation of several potential 3PL's should be then carried out before the final selection of a suitable partner. The 3PL's should be evaluated on the basis of their logistics planning ability, technology, culture, career path and development of its managers, business team integration, cost effectiveness, service quality focus and performance against metrics.

It is important for the 3PL to give a copy of their employment policy, training methodology, and career planning as well as demonstrating that those who will be running the client companies operations have the appropriate knowledge, skills and experience.

Companies usually seek to exercise control over all aspects of the service performance through a contract that specifies adherence to tightly defined

service standards and procedures (Lovelock, Wirtz & Jayanta, 2000). A company seeking to outsource a part or all of its operations must put in place a number of key performance indicators to assist in the measuring and monitoring of its supply chain. It is important to concentrate on a few measurements that will really show how the 3PL is performing against agreed service levels.

The KPI's should be mutually agreed, must be designed in line with the processes involved and must be realistic and achievable. The set targets must reflect a culture of continuous improvement and be able to communicate success and failures (William, 2005). Some of the performance measure used include on time measures, early/late percentages, completeness of the orders, adherence to the order and cycle parameters as specified (Wood, Barone, Murphy, & Wardlow, 2002).

## **2.2 Benefits of Outsourcing**

Outsourcing is a new competitive weapon for leading organizations that enables them to focus on what they can do best without wasting resources on processes that can be performed by someone else. Outsourcing offers an organization a number of benefits. One of the prime benefits quoted is the opportunity for users to focus investments and resources on developing and strengthening core competencies that provide differentiated value to its customers. An organization must first and foremost find out what it can really excel at and outsource the rest. It must focus on building its strengths to maintain competitive advantage. Choosing to concentrate on core business is a strategic decision that provides opportunity for the company to streamline

its operations and concentrate management expertise in the core business area (Rushton et al., 2006). There is a lot of merit in focusing the organization's resources to what it does best. It is a leaner organization and more responsive to what its customers changing demands are.

Secondly, there are cost advantages to be gained. According to Lysons and Farrington (2003), outsourcing is a possible solution to increasing costs and is compatible with the cost leadership strategy. By controlling and decreasing costs, an organization can increase its competitive position. Capital cost advantages also come about because the client company does not have to invest in facilities and resources as it would for its own operations. Thus, the capital can be invested in more profitable areas of the business.

Reduced ownership and responsibility for plant, property and equipment means that these items can be taken off the balance sheet making the company more attractive from an accounting perspective, as fixed costs are converted to variable costs. 3PL operations also allow for a clearer picture of actual operational costs. Payments need to be made monthly thus making actual outbound logistics costs very visible. Outsourced systems are generally more transparent than for own account operations and lead to improved return on investment through better use of resources (Rushton et al., 2006).

Thirdly, the use of a 3PL should offer greater flexibility to the user company. This is particularly true as a company seeks to develop new products and services or enter into new markets. It is economical for such a company to use a 3PL rather than develop a new logistics infrastructure (Lysons and



Farrington, 2003). In the same context, outsourcing can be beneficial to a company introducing new products and services that do not fit easily into their existing logistics structure. In this case, a third party operation may fill these gaps more effectively. A 3PL company is also more able to offer a number of value added services that may provide a significant added attraction to user companies. For example the use of track and trace facility may be a competitive advantage that has a very positive impact for key customers (Rushton et al., 2006).

Fourthly, there are process quality advantages. Rinsler (2006) asserted that a company that harnesses the skills and resources of an outsourcing company and provides products and services at a lower cost and high added value than its competitors as a result of letting experts run some of its operations will be more profitable than its competitors and quite possibly more flexible. As more of the organization's resources are allocated to its core competency, its core product or service will get better. Products will have fewer defects, higher reliability and lead times will decrease, speeding the time to market. All of these are direct and visible benefits to the customer.

The fifth advantage relates to access to latest technology. With the current lightning-speed changes in technology, it is extremely difficult for an organization to keep abreast of the latest functionality without substantial investment in information technology. As an organization begins to outsource functions, it will receive the added benefit of access to the latest technologies for that function. For instance a typical logistics operation requires a lot of special processes to track movement of goods. Many organizations do not

have the systems capability to efficiently undertake this, both physically and from a cash flow perspective. Generally, a logistics specialist is able to provide this service for many organizations using its in-house systems and processes that it has developed for the industry.

### **2.3 Challenges of Outsourcing**

Managing an outsourcing relationship can be very challenging and requires meticulous planning and considerable time investment by the client company. Many outsourcing initiatives fail to live up to their potential or the expectations of the parties. Even worse, a fair number of them fail outright, leading the company to either pull the operations back in-house or to start anew in the search for a reliable, mutually beneficial partner. Effectively dealing with outsourcing challenges is critical as it determines the success or failure of the outsourcing program.

In recent years, many 3PL users have expressed concerns that they are not being given the expected levels of service and business benefits. There is disappointment that the agreed service levels are not being maintained, that costs are higher than estimated with no evidence of year-on-year cost reductions and that the quality commitment and ability of the people used to manage their operations are insufficient (Lysons and Farrington, 2003).

Challenges also emanate from differences in objectives and at the basic levels how the two sets of management who have to work with each other on a daily basis work, trust and respect each other. From the start, one needs to look at how well any tender document was detailed, how well the tasks were

described and how open the client management was about their on going strategy and the reasons for outsourcing. Any hiding of real facts at this stage and the contract is likely to end in considerable difficulties. Similarly, any over expectations raised by the outsourcing company, particularly in terms of timing, complexity and the level of cost savings the client might enjoy will also ensure the contract flops quiet early in its life (Rinsler, 2006).

Differences in strategy and culture can also be a major challenge. While organizations do have different cultures, it is important that there is no clash of the same in a contractor-client relationship because any form of incompatibility may lead to problems in the way the operation is run. An organization seeking to outsource must also keep control of the strategy as that cannot be outsourced. The outsourcing partner will also have a strategy and marrying of the strategies is an important part of the early meetings between the companies and should form part of the selection process. Partners with diverging strategies cannot work together for long.

Another challenge is lack of clarity by the outsourcing company on why it really got in an outsourcing relationship in the first place. A company needs to understand why it is making the decision to outsource. At the least, this provides some clear objectives that can be used as a selection measure when various alternative proposals are put forward by prospective contractors. These objectives should become clearly identifiable requirements that are used as decision criteria in the selection process. A company needs to be sure that outsourcing is the right step for it to be taking. If the main reason is to cut

costs, then a company must be certain that it understands the true cost of its existing operation so that it can make meaningful comparisons with any proposals that are put forward. If the main reason is to improve customer service in a particular way, then the company must be sure that the chosen contractor can provide the competitive advantage that makes this service improvement feasible (Rushton et al., 2006).

Outsourcing relationships characterised by lack of trust and arms length negotiations can end up in difficulties. Many client organizations view outsourcing as an opportunity to pass on to someone else a problem to solve when they feel the present supply chain is not performing as required. Once the contract is signed they sit back and wait for miracles to happen. There is no guarantee that outsourcing will solve an inherent problem. An organization must first understand causes of the problem and have it addressed rather than just transferring it. The organization must also understand that outsourcing any part of business operations does not absolve management of ultimate responsibility towards their company. It requires regular contact between the various parties and success can only be realized with the active co-operation of both sides.

Lack of performance measures can also pose a great challenge to an organization. Many outsourcing arrangements start without clarity on how success or failure will be judged. Whenever this is the case you will find that key performance indicators have not been agreed, the measurement methodology is not clear and reporting arrangements have not been agreed.

Such a scenario leads to blaming each other over everything and lack of accountability leading to poor performance and customer service. Defining and setting clear expectations, targets and deliverables at the beginning of an outsourcing engagement is critical to its success.

Managing the feeling of loss of control that comes when one assigns part of the company operations to a third party can also be a great challenge. While there may be a certain comfort level to servicing one's customer when logistics is in-house, that feeling is gone when one outsources to a 3PL. There is considerable loss of control over the delivery system and thereby how customers experience the service. Ensuring that the 3PL adopts exactly the same priorities and procedures as prescribed by the outsourcing company is difficult yet vital for effective quality control (Lovelock et al, 2000). There is also a loss of experience in the user company. This would make it more difficult for the user to revert to an own account operations should it decide to. Another loss area is loss of control over the logistics variables. If a 3PL is used, the company may no longer be able to define the type and size of distribution centre's, machinery to use of and facility management (Rushton et al., 2006).

## **2.4 Contractor Management**

Managing the 3PL is an important final part of the outsourcing process. After signing the contract, it is vital to continue to control and monitor the 3PL to ensure the overall business operational objectives are achieved. Some of the means of controlling and monitoring include the contract, budgetary control,

management information metrics, review meetings, audits and giving incentives (Rushton et al., 2006). Good outsourcing relationships can only be realized when client organizations take deliberate steps to build strong relationships with their 3PL's.

The relationship between a client company and the 3PL it has engaged is similar in many respects to marriage. Expectations need to be exchanged, negotiated and agreed on. Both firms in the partnership must agree to a set of super-ordinate goals so that each feels a sense of success when the goals are met and share in the downside when goals are not. The creation of such a win-win combination comes about through sharing a common strategic vision. Indeed it must be remembered visions of shared goals do change over time and therefore communication should be continuous to maintain as open and productive a relationship as possible (Wood et al., 2002).

A research done by Rosebeth Mass Kanter can best be used to describe the relationship between an organization and the 3PL it has engaged. Her research suggested that effective alliances between companies are not entirely rational and business like. Much like family relationship, companies need to be flexible, involved and personal (Long, 2003).

Managing an in-house operation and managing an outsourced operation require a different skill set. If an organization decides to adopt outsourcing as a strategy, then there are important new skills to develop, namely the skills of choosing your partners and managing them. To this end, relevant intensive training and education would be required (Rinsler, 2006).

Clients seeking to outsource require experienced resource to manage all activities to avoid troubled supplier relationship and an underperforming contract. The clients companies should become better planners to secure value from outsourcing services; they must build relationships with outsourcing suppliers and resist the temptation to focus only on costs. They must understand their long-term objectives and improve communication with 3PLs to help get value from a contract and ensure their customers get the right level of service. Now and in the future, companies will continue to embark on a programme to outsource business activities for a number of reasons. But whatever their reasons, organizations looking to outsource their supply chain operations and systems must recognize one incontrovertible fact: an organization cannot outsource responsibility (Williams, 2007).

Outsourcing a number of business processes implies that those outsourced need to communicate and link with the rest of the company's business processes. Thus, not only are there data linkages that need to be forged, but the management and administration of the two companies need to be joined as well. A lot of time care must be taken to ensure a high degree of efficiency about the interfaces; slow, inefficient interfaces will cost money, increase friction between the two organizations and in the end result in poorer customer service and lost sales (Rinsler, 2006).

Proprietary information is always a concern, to avoid conflict, non disclosure agreements need to be part of the company's specifications and the third party may be evaluated based on their compliance. While vital technology

and product development plans must be protected, 3PL partners must be provided with adequate information to enable them to perform to specification (Wood et al, 2002).

## **2.5 Outbound Logistics**

Lysons and Farrington (2003) defined logistics as the total management of the key operational functions in the supply chain. Wood et al., (2002) described the logistics functions as one part of managing the supply chain which typically refer to the linkages among firms engaged in offering a good or service to end users, and to the articulation or coordination tasks required to manage these flows of goods and services as efficiently as possible. Heskett, (as cited in Rushton et al., 2006) reinforced the above views by referring to logistics as the management of all activities which facilitate movement and the coordination of supply and demand in the creation of time and place utility.

Logistics management can also be defined as the planning, implementation and control of the effective, efficient forward and reverse flows and storage of goods, services and related information between the points of origin and the point of consumption in order to meet customer requirements. Logistics is concerned with physical and information flows and storage from raw materials through to the final distribution of the finished product. Looking at a typical outbound logistics chain, probably every different aspect can be outsourced. However many companies opt to only outsource part of their operations (Rushton et al., 2006).



Traditional organization did not recognise logistics as an independent value adding function but barely allocated it amongst several other functions like manufacturing, finance and sales and marketing. Recently however, the importance of logistics has become more apparent. Several forward looking logistics-oriented companies have seen the need for some formal organizational changes to represent the recognition now given to logistics. This new functional approach emphasizes the need for logistics to be planned, operated and controlled as an overall independent activity.

Other key changes that have taken place include firstly the emphasis on the customer and the need to ensure that internal processes support the requirement to achieve cost satisfaction. Secondly, is the concentration on time compression throughout the whole supply chain and the need to identify and manage suitable trade offs. Thirdly, is the movement to globalization and the requirement to plan and manage the logistics network as a complete system (Rushton et al., 2006).

In his book *Competitive Advantage*, Michael Porter introduced a generic value chain model that comprises a sequence of activities found to be common to a wide range of firms. In this model, Porter identified several primary and support activities. Outbound logistics is one of the primary value chain activities others being inbound logistics, operations, marketing and sales and services. Each of these groups of primary activities is linked to support activities that include procurement, technology development, Human

resource management and infrastructure (Porter, 1985 as cited in Johnson & Whittington 2008).

The support activities help to improve the effectiveness and efficiency of primary activities which in turn are directly concerned with the creation or delivery of a product or service (Johnson & Whittington 2008). The firm's margin or profit depends on its effectiveness in performing these activities efficiently, so that the amount that the customer is willing to pay for the products exceeds the cost of the activities in the value chain. It is these activities that a firm has the opportunity to generate superior value. A competitive advantage may be achieved by reconfiguring the value chain to provide lower cost or better differentiation.

It had been a long held view that the various elements within logistics merely create additional costs for the organization. To an extent this is true because there are costs associated with movement and warehousing of products. However, outbound logistics does provide a very positive contribution to the value of a product through providing means by which the product can reach the customer or end user in the appropriate condition and required location. Logistics plays a central role in the performance of organizations and is a key enabler for business improvement.

Leading organizations have recognized that there is a positive value added role that logistics can offer rather than the traditional view that the various functions within logistics are merely a cost burden that must be minimized

regardless of the implication (Rushton et al., 2006). The importance of the logistics cost to the final cost of the products varies according to the sophistication of the logistics system used and the intrinsic value of the product itself (Rushton et al., 2006). Logistics systems entail a trade off where an increased cost in one area is more than offset by a cost reduction in another, so that the whole system benefits. The effect of the trade off should be settled on the basis of which policy yields the greatest trade off (Lysons and Farrington, 2003).

Logistics has great impact on national economies around the world too. One study indicated that about 30 per cent of the working population in the UK are associated with work that is related to logistics. Logistics structures and costs differ from one company to another and one industry to another. Logistics channels can be short or long with many intermediate points. Channels may be manufacturers, retailers or as is now becoming increasingly common by 3PLs. Customer service requirements provide a key input to any logistics network planning system. It is essential to understand what customer service levels need to be achieved because these will have a vital impact on the type of logistics structure to be developed (Rushton et al., 2006).

## **2.6 Customer Service**

In Marketing terms, a customer is defined as any person, group or organization with whom a marketer has an existing or potential exchange relationship (Etzel, Walker & Stanton 2007). Kotler (1999) defined a service as “any act or performance that one party can offer another, which is essentially intangible and does not result in ownership of anything. According to Lysons

and Farrington (2003), customer service is concerned with providing internal and external customers with high quality products and services at the lowest cost and with the shortest waiting time and maximum responsiveness and flexibility to their needs. Wood et al. (2002) reaffirmed this by articulating that customer service involves an array of activities to keep existing customers happy.

A recent survey by Pew Charitable Trust found that 46% of customers had walked out of a store within the past year because of poor service. Zimmerer and Norman (2005) found out that smart companies are rediscovering that unexpected, innovative, customized service can be a powerful strategic weapon. Providing incomparable service not necessarily at a low price is one of the most effective ways to attract and maintain a growing customer base.

The role of customer service is a critical success factor for most companies. This is mainly because there is growing realization that satisfying the customer is key to achieving competitive advantage. Companies that fail to appreciate this do so at their own peril because they may lose significant market share. The level of customer service is a key factor of differentiation in a customer's decision to buy one brand rather than another (Rushton et al., 2006). Going hand in hand with customer service is building relationship. It is important for firms to build the relationship with customers by personalizing their interactions. Doing so gives customers a feeling of goodwill and a sense that the firm cares more than just making the next sale (Etzet et al., 2007).

It has been consistently demonstrated that it costs much more to cultivate new customers than it does to retain the existing ones. Add to this the fact that increasingly, competitors will attempt to take customers away with more value-added products (Wright, 2006). To outperform competitors, an organization must achieve the full profit potential from each and every customer. It must make the customer the core of the company's organization culture across all departments and functions to ensure that each and every employee views any exchange with a customer as part of a customer relationship, not as a transaction (Schiffman & Kanuk, 2004).

Rushton et al. (2006) identified seven rights of customer service; right quality, cost, product, customer, time, place and condition. All these different aspects are key requisites of a good customer service offering and are essential to ensure that a product achieves its expected sales in the various markets where it is made available. Of importance to note is that all these elements are affected by the standard and quality of the logistics operations that are an integral part of getting a product to the market. These elements provide the basis for identifying the different aspects of logistics that should form part of any customer service offerings. These elements also form the basis of the key measurements that are used to monitor operational success or failure.

Customer service levels should be based on customer expectations encountered in a particular market. These expectations are based on past performance, product durability, customer sophistication and the competitive status of the firm (Czinkota et al., 2007). Within a typical outbound logistics

process, there are many influences that may be relevant to customer service. These range from stock availability to delivery reliability. There is need to balance the level of service provided with the cost of that provision (Rushton et al., 2006).

Successful businesses recognize that superior customer service is only an intermediate step towards the goal of customer satisfaction. The least expensive and most effective way to achieve customer satisfaction is through friendly, personal service. Numerous surveys across various industries conclude that the most important element of service is the personal touch. In our society, business transactions have become so automated that the typical customer is starved of personal attention. Genuine customer service requires a business to bridge that service gap, to treat each customer as an individual and to transform "high-tech" application into a "high touch" attitude (Zimmerer & Scarborough, 2005).

Closely related to customer service is the concept of customer relationship management. This is concerned with learning about the customer needs and behaviour and integration of sales, marketing and service strategies (Lysons and Farrington, 2003). Customer relationship management views the customer as a fully informed participating partner. The relationship should not be seen as cosmetic and the customer must feel valued in a real sense (Wright 2006).

## 2.7 Outsourcing and Customer Service

In today's increasingly competitive environment, quality service is critical to organizational success. Unlike products where quality is often measured against standards, service quality is measured against performance. Customers determine the value of service quality in relation to available alternatives and their particular needs (Peter and Donnelly, 2004). Outsourcing can potentially bring to the organization expertise, efficiency and provide multiple opportunities for service enhancement.

Through outsourcing, companies can access proven, world class providers who already have in place the technology, machinery, training and manpower to provide efficient and effective service whose benefits can be significant. When done right, outsourcing can help a company streamline its customer service and logistics operations and be more responsive to the customer. If done wrong however, the arrangement can frustrate customers and negate any cost savings with lost business and negative brand impression.

Customer service is intricately linked to the process of outbound logistics and hence a key focus in outsourcing relationships. In a survey of logistics practise worldwide, firms listed customer service performance ahead of such concerns as lowered logistics costs and delivery speed and dependability. In comparing global firms on customer service performance, the same study found that the most successful firms differed significantly in their performance on six key customer service measures as compared to the

poorest performing firms. Those performance measures were fill rate, stock outs, shipping errors, cycle time, complete order and overall reliability (Wood et al., 2002).

Outsourcing can be an effective way to bring world class capabilities to the organization that can impact both sides of the profit equation namely cost savings and revenue. To avoid failure and build a robust customer service offering with the 3PL, the outsourcing company must be very clear on the level of customer service it expects. It must then strive to make the relationship stronger by building in a series of measurable goals and converting them into a contract. These will form important touch points and their accuracy, timeliness and relevance are critical to customer satisfaction and trust.

The challenge of the outsourcer in any partnership is to act as a guardian of the overall process, ensuring that each element offered by the 3PL fits the overall service concept to create a consistent and seamless branded service experience (Lovelock et al., 2000). Once in a while, mistakes are bound to happen. A robust customer service system will have a mechanism of identifying fail points in the system that require special attention such as process redesign or staff training. The ability to recover from a service failure can be critical to keeping and restoring customer confidence (Parasuraman, Zuithaml & Berry, 1994).

Third party service providers are more often than not more interested and focused in meeting their own pre defined metrics rather than their client



businesses and the important needs and objectives of their client's customers. This is one of the greatest challenges of customer service provision in outsourcing arrangements because this difference in priority results in the outsourcing company's client not getting the stellar customer support that is the corner stone of their business ("Customer Service Outsourcing," n.d). In view of this, it is important for the outsourcing company to engage a partner who will understand and uphold its customer service standards. In addition, to maintain quality and efficiency, any outsourcing program will require ongoing management from the outsourcing company's leadership.

An important step that companies can take to improve quality of customer service in outsourcing arrangements is ensure the provider has all the information necessary to serve the customer and full authority to do so. Companies need to weigh their concerns about information security and financial control against the damage that such arrangements can do to customer satisfaction.

## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 The Research Design

This research project was conducted through a case study design. Mugenda & Mugenda (1999) defined a case study as an in-depth investigation of an individual, group, institution or phenomenon. The study intended to identify underlying challenges facing outsourcing of outbound logistics, establish the strategies Unilever Kenya Limited -Tea Division has adopted to cope with the challenges of outsourcing and to determine the effect of outsourcing on the level of customer service. This research design was preferred over a survey because the objectives of the study require an in-depth understanding of the challenges of outsourcing, strategies of dealing with the challenges and the impact of outsourcing on customer service.

### 3.2 Data Collection

Given the nature of the study, primary data was used. Personal face to face interviews guided by an interview guide were conducted (see appendix II). The researcher conducted the interviews personally. The interview guide was designed to address the objectives of the study and had four main parts. Part A was used to capture the respondent's personal details, part B captured background information on the outsourcing program at Unilever Kenya Limited tea Division, part C captured the challenges of outsourcing and strategies used to cope with the challenges and finally part D captured data related to customer service.

A total of eight respondents were interviewed comprising the Director, Auction Sourcing Manager, the Non -Auction Sourcing Manager, the Tea supply Manager, the Marketing and Product Development Manager, the Assistant Marketing manager and two Supply Coordinators. In addition to the above, the researcher also interview one manager from the 3PL who is a former employee of the Tea Division of Unilever Kenya Limited who provided useful insight on the background of the outsourcing process at Unilever Kenya Limited – Tea Division.

Personal interviews were deemed fit for this case study for the purpose of obtaining in-depth information through carrying out flexible interviews that provided the opportunity to probe the interviewees.

### **3.3 Data Analysis**

Information from the interviews formed the basis for qualitative analyses. Data was collated and analyzed using the conceptual content analysis technique and resulted into the findings and conclusions. This type of analyses was deemed appropriate as it did not limit the respondents on the answers. Lutta (2003) and Gichira (2007) who used this type of analysis described it as a useful tool in gaining fresh insight.

## CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

### 4.1 Introduction

This chapter covers findings of the study based on the analysis and interpretation of both the primary and secondary data collected from the field. The discussion will focus on the objectives of the study. The first objective was to identify challenges facing outsourcing of outbound logistics in Unilever Kenya Limited Tea Division, the second was to establish the strategies the Tea Division of Unilever Kenya Limited adopted to cope with the challenges of outsourcing and the third was to determine the impact of outsourcing on the level of customer service.

### 4.2 Respondents Profiles

The director and seven managers that were interviewed exhibited good understanding of the issue under study. Most of the organization's key performance measures revolve around timely delivery of teas to the final customer. As a result, logistics and specifically the operations and performance of the third partly logistics service providers are of keen interest to each the managers. This coupled with the fact that all the managers have been in the organization for a minimum of three years and possess excellent skill and competences made it easier to get quality responses.

### 4.3 Background of the Outsourcing Process

Unilever Kenya Limited – Tea Division embraced outsourcing in 1992. Prior to that there was full fledged in house shipping department comprising of 25 staff members who carried out a bulk of the outbound logistics tasks.

The respondents highlighted the benefits that have accrued from outsourcing of outbound logistics to have included; enabling the organization to concentrate on its core activities by freeing management from engaging in routine logistics tasks. Closely related to this is the fact that the third party logistics service providers' handle some statutory requirements relating to the Kenya Port Authorities and the Kenya Revenue Authority thus alleviating the accounts department from these routine tasks.

Outsourcing has also led to some level of improved customer service and reduction of fixed assets through sale and transfer of the assets to the third party. There is also some level of cost savings even though most of the respondents were not very confident about this fact as there was no clear way of comparing cost levels before and after outsourcing.

#### **4.4 Challenges of Outsourcing Outbound Logistics**

Respondents were asked to indicate the challenges that Unilever Kenya Limited – Tea Division has faced as a result of outsourcing. The respondents identified the key challenges that have faced UKL – Tea to be;

##### **4.4.1 High level of Management Intervention**

The study revealed that high level management intervention to be a major challenge. There was an excessive need for UKL – Tea managers to monitor the activities and performance of the third party logistics service provider to ensure customer service levels were upheld and to mitigate customer complaints. While monitoring of a 3PL performance is mandatory, too much

of it means that the outsourcing company lacks sufficient confidence in the ability of the 3PL to deliver service to the required standard.

The high level of monitoring by UKL – Tea was mainly necessitated by the fact that the third party's logistics service provider's employees were incompetent and did a lot of costly mistakes that resulted in poor service quality and increased customer complaints. As one respondent put it "constant first aid measures needed to be administered to guarantee required service quality standards and to ensure no customer complaints arose".

The respondents strongly believed that nothing could really get done well and on time unless there was a lot of monitoring and follow up. The managers attested to the fact that whenever the 3PL was not closely monitored, service quality would end up being low and a customer complaint would most certainly arise. This consequently resulted in considerable duplication of effort with UKL - Tea managers having to get so much into operational process details negating the very essence of outsourcing that is mainly supposed to relieve management from spending precious time on non core activities.

#### **4.4.2 Differences in Strategy and Structure**

The respondents concurred that it had been a challenge to bring the 3PL to a level where they share the UKL – Tea vision and passion for superior logistics service delivery and high level of customer service. The strategy and culture's between UKL – Tea and the 3PL were so divergent to an extent that the 3PL struggled to adopt exactly the same priorities and procedures as prescribed

by UKL - Tea yet it was vital for superior performance and customer service. As one respondent put it “for 3PL it is just another job but for us it is passion to deliver”.

#### **4.4.3 Loss of Control**

Another challenge cited was considerable loss of control over the delivery system and thereby how customers experience the service. With outsourcing, UKL - Tea to some extent lost the feeling of comfort and satisfaction that comes with servicing one’s customer personally when the logistics services are provided by a dedicated in-house team. There was also loss of control in the sense that Unilever lacked the ability to choose the quality of staff the 3PL employed further eroding the ability of the 3PL to ensure the logistics services were carried out to satisfactory levels.

#### **4.4.4 Quality of Service**

The study established that to a rather high extent, the 3PL did not deliver expected levels of service and business benefits particularly in the initial years. Outsourcing essentially entails an organization letting an expert carry out its non core activities in a more effective and efficient way. The respondents were of the opinion that while the 3PL’s service quality had increased over the years, it had been a great challenge to get the 3PL deliver consistent and superior service quality. The respondents actually attributed the improved logistics performance and customer service to their own extra efforts together with their teams rather than on the fact that the outbound logistics services had been outsourced.

There were also concerns among the managers that the 3PL lacked innovation and relied heavily on Unilever's management to offer solutions and initiate improvement plans. Hence, there was a perception that the organization did not fully enjoy the benefit of outsourcing as far as transfer of fresh insights and innovation from the 3PL was concerned.

#### **4.4.5 Lack of Cost Savings**

As far as cost savings were concerned, the study revealed that there was a perceived lack of savings mainly due to the fact that UKL - Tea puts too much effort in the partnership to ensure smooth operations. The partnership also lacked a basis for compare the level of savings before and after outsourcing as this was not clearly spelt out at the start of the process.

#### **4.4.6 Lack of Performance Measures**

Lack of comprehensive performance measures was cited as a great challenge to the organization especially in the initial stages. There was lack of clarity on how success or failure would be judged as the key performance indicators were vague and not consistently measured or reviewed by the team. The 3PL was consequently not held responsible and accountable for their actions and output.

The issue was further aggravated by the fact that UKL – Tea management and staff were always on standby to administer quick fixes and ensure issues did not get out of hand. In the process, there was a lot of blaming each other once the problem was solved leading to poor performance and customer service.

The KPI's have since been developed and review mechanisms put in place to



hold the 3PL accountable. The monitoring and enforcing is nearing being fully operational and management is committed to making it work.

#### **4.4.7 Poor Communication**

The respondents highlighted that poor communication was a great concern. The communication lines especially at the start of the process were not well defined and hence many things went wrong. The 3PL escalated issues mostly when they had gotten out of hand, meetings were mainly held when there was a crisis and UKL – Tea concentrated more on fire fighting rather than giving performance feedback.

Management has worked hard to develop structured communication channels. Roles are now more clearly defined and there is better visibility of what each team member in UKL – Tea and at the 3PL is responsible for. For instance, each of the 3PL has been given certain clients to handle thus in case of a query it is clear who's responsibility it is. A culture of information sharing was also put in place such that even an anticipated issue that could potentially affect smooth flow of work was highlighted for the team to be prepared in case of any eventuality.

#### **4.4.8 Skill Levels of the 3PL Staff**

Among the challenges the respondents cited was the low skill level of some of the 3PL staff charged with managing the UKL – Tea logistics and shipping operations. Before outsourcing, UKL – Tea had a full fledged department of well trained employees. When outsourcing was adopted, most of them were retrenched while a number were taken over by the 3PL. While those that

joined the 3PL understood UKL – Tea operations, most of the other 3PL staff lacked expertise and adequate training to execute their duties to satisfactory levels.

The study further revealed that the 3PL employees lacked passion for the job and motivation to deliver superior performance. There were also concerns that the 3PL lacked the ability to retain its very good employees such that the very best left or were highly demotivated while the less skilled ones remained on the job. Lack of proper succession planning was in addition cited as a challenge as whenever a good employee had to leave, there would no sufficiently competent person to take over the job.

#### **4.4.9 Poorly Developed Outsourcing Industry**

From the in-depth interviews, it became apparent there are very few 3PL's with the expertise and capacity to handle large scale tea business logistics operations. UKL – Tea while seemingly facing many challenges has actually engaged the leading 3PL. With no other service provider possessing adequate capacity in terms of machinery, expertise and staff, there is therefore a serious gap in terms of lack of competition that has led to most of the exiting 3PL's to become complacent and offer substandard service.

#### **4.5 Strategies Adopted to Overcome the Challenges**

From the in-depth discussions, it was revealed that Unilever has been passionate to ensure each of the challenges faced as a result of outsourcing is dealt with adequately. The respondents intimated that pressure to deliver against target has been immense from the leadership team leading to UKL –

Tea to aggressively deal with the challenges to ensure superior performance of the logistics function. Unilever has adopted various strategies to deal with each of the challenges faced by the organization as a result of outsourcing. These include;

#### **4.5.1 Key Performance Indicators**

The study revealed that formulation and implementation of Key performance Indicators went a long way to overcome most of the challenges such as high level of management intervention, poor communication, substandard work quality and poor customer service in general. UKL – Tea crafted the KPI's which were then agreed upon by both parties and signed off. These KPI's have gone a long way in instilling discipline and holding the 3PL accountable for their performance. The respondents concurred that having KPI's has helped the teams to be more proactive to improve their performance.

#### **4.5.2 Improved Communication**

Communication was cited by the respondents a major challenge and determinant of service quality delivery. With concerted effort by management to improve communication, proper clear communication channels have been put in place. Team member's roles have also been clearly defined consequently improving communication flows as queries are channelled to the right persons.

#### **4.5.3 Regular Operational Meetings**

The respondents cited holding of regular operational meetings as a major strategy that has helped to overcome ninety percent of the challenges faced.

In the initial stages, meetings were carried out only when there was a crisis and the environment was not very friendly for discussions as the focus was always on solving the immediate problem. Currently, operational meetings are held periodically whether there is a crisis or not. During these forums the teams discuss past performance, complaints from customers and share ideas on how to improve performance.

The forum also provides opportunity for UKL – Tea to share good working practices and to solve any issues that could potentially affect service delivery. The operational meeting also provides the teams from UKL – Tea and the 3PL a good opportunity to interact and enhance the team spirit.

The 3PL key employees are also normally invited in meetings that UKL – Tea arrange with other stakeholders such as the port authorities and the shipping lines that directly affect their service quality. This has gone a long way to enhance their understanding of customer requirements and improve on their skill level. The respondents also intimated that they invite the 3PL teams in teleconferences with customers and the Unilever global coordination team based in the United Kingdom, to participate in the discussions that touch on systems, logistics and customer service.

#### **4.5.4 Training of 3PL Teams**

From the discussions with respondents, the level of skills of the 3PL staff was cited as a major challenge. UKL – Tea rolled out various training programs in system use and customer service. These have gone a long way in improving the skill level of the 3PL staff. The trainings have also served to help the teams

understand the tea supply chain and to appreciate their individual contributions towards achievement of superior service delivery.

#### 4.6 Impact of Outsourcing on Customer Service

From the in-depth interviews with the respondents, customer service was highlighted as a key deliverable for UKL - Tea. The respondents expressed concern that outsourcing hardly played a great and direct role in improving customer service. The respondents were asked to rate the level of UKL – Tea’s customer service on a 5; point Likert type scale, where 1 = very poor, 2 = poor, 3 = average, 4 = good and 5 = Excellent. The results were as follows.

**Table 4.1: Measure of level of customer service**

Rating	Frequency	Percentage Score
1	0	0%
2	0	0%
3	7	88%
4	1	13%
5	0	0%

*Source: Research data*

From Table 4.1; it is evident that a majority of the respondents (88%) felt that the level of customer service with an outsourced service was fair. They respondents interviewed concurred that most of the customer service improvements realized recently were more as a result of UTK – Tea staff initiatives rather than as a result of outsourcing.

From the interview discussion with respondent it was revealed that out of the four service variables highlight in the interview guide, outsourcing had not

impacted on increased service delivery and on increased perception of competency from our UKL – Tea customer's point of view. In addition, the study revealed that the impact of outsourcing on reduced customer complaint and on improved responsiveness to the customers was not significant.

## CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

### 5.1 Introduction

This chapter represents the summary, conclusions and recommendations for the research findings covered in the previous chapter and in line with the objectives of the study. It also contains recommendations and suggestions for further research. This study attempted to identify challenges facing outsourcing of outbound logistics in Tea Division of Unilever Kenya Limited, to establish the strategies the Tea Division of Unilever Kenya Limited has adopted to cope with the challenges of outsourcing and thirdly to determine the impact of outsourcing on the level of customer service.

### 5.2 Summary and Discussions

This chapter represents the summary, discussion and conclusion of the research findings in line with the objective of the study. It also contains recommendations for policy and practice, recommendation for further study and limitations of the study. The summary of findings is divided into three key areas that were the focus of this study. These were to identify challenges facing outsourcing of outbound logistics in Tea Division of Unilever Kenya Limited, to establish the strategies the Tea Division of Unilever Kenya Limited has adopted to cope with the challenges of outsourcing and thirdly to determine the impact of outsourcing on the level of customer service.

#### 5.2.1 Challenge Facing Outsourcing of Outbound Logistics

The findings generally indicate that Unilever Kenya Limited – Tea Division has faced a number of challenges as a result of outsourcing. The main ones

include too much management intervention, loss of control, substandard quality of service, lack of performance measures, poor communication and low skill level of the 3PL personnel. Other challenges cited by the respondents were differences in strategy and structure, lack of cost savings and a poorly developed outsourcing sector to serve the tea export industry.

### **5.2.2 Strategies Adopted to Deal with the Challenges**

To cope and deal with the challenges indentified, the respondents identified a number of strategies that UKL – Tea has adopted. This included; implementing key performance measures, improving communication channels and modes, regular operational meetings and intensive training of the 3PL employees. All these initiatives have gone a long way in helping to overcome the challenges and most importantly improving outbound logistics performance and customer service.

### **5.2.3 Impact of Outsourcing on Customer Service**

The study revealed that the level of customer service at UKL – Tea has tremendously improved over the years. While outsourcing has brought in some benefits especially in terms of shipping and clearing and forwarding expertise, it has not significantly contributed to the overall customer service improvement. Improvement in customer service has mainly been attributed to initiatives by UKL – Tea management and staff rather than on outsourcing itself.



### 5.3 Conclusion

The research findings point to the fact that UKL – Tea heavily relies on outsourcing to deliver superior service to its end customers. It is apparent from the study that UKL – Tea has in place a coherent and sound outsourcing program and the appointed third party logistics service providers have their roles clearly defined. The key players exhibit a high sense of commitment and dedication and that has tremendously improved over the years.

Outsourcing of outbound logistics will continue to be a critical part of UKL – Tea supply chain. As technology changes and customers become more sophisticated and demanding for superior service, past experience in dealing with and managing the third party will help the organization to further strengthen the partnership. This should also stir the organization to forge better working relationships with the 3PL to ensure that service standards are met. Cultivating a culture of continuous improvement will go a long way in guaranteeing superior performance and successful partnership between the 3PL and UKL – Tea.

Outsourcing as a concept was highly appreciated by the respondents as brilliant way of managing the supply chain. However they noted that getting a service provider who will give consistent superior performance was a great challenge yet a mandatory requirement for an organization to be able to reap maximum benefits from outsourcing.

#### **5.4 Limitation of the Study**

The study was constrained by limited amount of time available to the researcher. All the respondents are also very busy people and could only allocate limited time to the interviews.

The case study relied solely on employees of Unilever Kenya Limited Tea Division to obtain the findings. This kind of reliance is prone to some level of subjectivity as respondents might tend to respond in a certain way to portray a certain image of their organization.

#### **5.5 Recommendations for Further Study**

Desirably, it would be interesting to carry a similar study from a third party logistics provider's point of view. This would help to demystify the view that 3PL's never stretch themselves enough to give superior service. It would also serve to help outsourcing companies understand the 3PL's better and consequently strengthen outsourcing partnerships.

It could also be interesting to carry out similar studies on other tea industry players to compare their experiences with those of UKL - Tea.

#### **5.6 Recommendations for Policy and Practice**

From the findings of this study several challenges were identified and strategies to deal with them established. The impact of outsourcing on customer service was also identified. It is apparent that for outsourcing to thrive, the outsourcing company and its partners must build a true partnership. This is more than just technology and capabilities; it is about a

shared vision. The company and its outsourcing partners should be aligned with common interests in all their dealings. Almost any relationship can navigate calm seas. But when the seas get rough only those relationships that are true partnerships built on trust, confidence and shared mutual interest will be able to achieve their goals.

To further improve the outsourcing program, UKL – Tea would benefit immensely from benchmarking its shipping and customer service efficiency with other industry players both those who have outsourced and those that have internal outbound logistics departments. This would help the organization to determine its position against competition and come up with improvement plans.

There is also need for UKL – Tea to have a full fledge dedicated manager to manage the 3PL's operations. This should go a long way to improve accountability and level of service delivery. In terms of performance metrics, there is need to ensure they are consistently closely monitored and feedback given to the 3PL. Regular and honest reviews, challenging the 3PL to be a leader in innovation and greater capacity building between the two partners to work towards same goals should go a long way to build confidence and trust and help sustain the relationship.

UKL – Tea should finally prevail upon the 3PL to engage highly competent and skilled employees who have passion for the job and ability to go an extra mile to delight the customers. Motivational programs in conjunction with the

3PL management and reward schemes by the 3PL to its employees who exceed their targets should be instituted.

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## APPENDICES

### Appendix 1: Introductory Letter

Pauline A. Tiema  
P.O. Box 83067  
80100 - Mombasa

2<sup>nd</sup> September 2009

Dear Sir/Madam

#### **RE: REQUEST FOR RESEARCH DATA**

I am a student pursuing a Master of Business Administration degree of the University of Nairobi. I am carrying out a research project in partial fulfilment of the requirements of the degree. The topic of the research is on outsourcing of outbound logistics in the tea industry: a case study of Unilever Kenya Limited - Tea Division.

I kindly request for an appointment to carry out a personal interview as per the interview guide that accompanies this letter. The information obtained is for academic purposes only and will be strictly confidential.

A copy of the final project will be available to you on request.

Thank you for your support.

Yours faithfully

Pauline Tiema

## Appendix 2: Interview Guide

### Part A: Personal Details

1. Name of respondent \_\_\_\_\_
2. Position in company \_\_\_\_\_
3. Years of experience \_\_\_\_\_

### Part B: Background

1. When and why did Unilever outsource its outbound logistics services?
2. What benefits has the company realized from outsourcing?

### Part C: Challenges of outsourcing and strategies adopted to cope with them

1. What are the major challenges the Tea Division of Unilever Kenya Limited has faced as a result of outsourcing?
2. How would you rank these in order of severity?
3. To what extent has the organization faced the following challenges as far as outsourcing is concerned?
  - (a) Perceived lack of cost savings
  - (b) Price increase after start of the contract
  - (c) Lack of performance measures
  - (d) Non achievement of set key performance indicators/substandard work quality
  - (e) Loss of control
  - (f) Lack of skills to manage a third party logistics service provider
  - (g) Low skill level of the third party logistics service provider staff/lack of experienced talent a the third party logistics provider



- (h) Poor communication
- (i) Poor customer service/Increased customer complaints
- (j) Third party logistics provider's complacency
- (k) Need for too much management intervention
- (l) Lack of understanding of the contract obligation by the third party logistics service provider
- (m) Slow decision making
- (n) Lack of trust

4. For each of the challenges listed in point 3 above;
  - (a) Why did the organization regard it as a challenge?
  - (b) What was the exact nature of the challenge?
  - (c) To what extent was the challenge felt by the organization?
5. What other challenges has the organization faced?
6. What strategies has the Tea Division of Unilever used to cope with the each of the challenges?
7. How aggressive has the company been in dealing with the challenges?
8. Are there some challenges that the organization has not responded to?
9. If so, why and what is the organization intending to do in future about these challenges?

**Part D: Customer Service**

1. How can you rate the level of customer service before and after outsourcing? (use 1 for very poor and 5 for excellent)

Before outsourcing: 1    2    3    4    5  
                           ( ) ( ) ( ) ( ) ( )

After outsourcing: 1 2 3 4 5

( ) ( ) ( ) ( ) ( )

2. What particular areas of customer service have benefited from outsourcing?
3. To what extent has outsourcing contributed to the following:
  - (a) Increased service reliability (ability to perform the promised service dependably and accurately)
  - (b) Increased responsiveness (willingness to help customers on time)
  - (c) Increased perception of competency (possession of the skill and knowledge required to perform the service)
  - (d) Reduced customer complaints
4. To what extent do the third party logistics service provider's employees understand how their roles contribute to customer satisfaction?
5. What else should the Tea Division of Unilever do to ensure outsourcing remains relevant?

**Thank you for your time.**