

**LOGISTICS OUTSOURCING: SOLUTION FOR  
SMALL AND MEDIUM ENTERPRISES IN VIETNAM**

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Small & Medium Enterprises  
in Vietnam

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## ABSTRACT

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After officially becoming the 150<sup>th</sup> member of World Trade Organization, Vietnam has been witnessed to rapidly grow. Together with the growth of the economy, the logistics market in Vietnam also operates ebulliently. Recently, the term logistics outsourcing has been mentioned together with the blossom of logistic service companies.

Despite a large number of logistics companies being established, the right meaning of logistics is hardly understood by a majority of population, even those who are currently working in this field. The abuse of the word "logistics" is manifested clearly when lots of companies change their names into Logistics Company even though their area of operations are purely freight forwarding.

This thesis deals with the logistics activities in Small and Medium Enterprises (SMEs) and the role of logistics service providers (LSPs) in Vietnam. Due to their small size and financial shortage, SMEs hardly have their logistics operations done effectively in house. And logistics outsourcing becomes a helpful tool for SMEs in terms of cost and time saving, increasing the efficiency and effectiveness.

In order to answer the research question "Should SMEs have their logistics operations outsourced?" the author has conducted a small survey and interview with staffs from both SMEs and LSPs. The result shows that logistics outsourcing is a common trend that nearly 80% companies have their activities done by external providers. However, despite the large demand, local logistics companies are not able to provide full range services and therefore lose for foreign opponents.

Based on the achieved data, the author ends the study with recommendations for SMEs and LSPs. Further researches on the development of LSPs are suggested.

Key words: logistics outsourcing, SMEs, LSPs, freight forwarding, Green Maple Ltd.

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## 1 INTRODUCTION

This chapter aims at giving an overall view of the global logistical activities in the current situation of the world. The structure of this first chapter begins with the background of logistics, the presentation of the case study. The objectives of this study and delimitation are followed up to narrow down the topic. The thesis outline follows up to give a sense of how this paper is structured will be the last section of this chapter.

### 1.1 Background

It is a recognized fact that logistics has become a critical part in domestic and international trade during the past decades. Countless books have been published and edited again and again to discuss on the importance of logistics and related matters. Talking about logistics, we can not deny the fact that logistics performs an essential role in all the human wars as from past histories. A typical example will be Alexander the Great, who used to quote that in any of his failure in war, the man who was in charge of logistics activities would be the first to blame. Another example, Napoleon learnt that the main reason for his failure to invade Russia was due to the poor of logistics management and the understanding of the enemy's situation. In the Vietnam War, the US government admitted their failure to stop the constant stream flow of people, food and arms along Hochiminh road which led to the April 30 1975 victory. However, in the peace time, people hardly remember or recognize what is the function of logistics until recently when the term logistics has been repeatedly mentioned by the media press. It is even worse in Vietnam. When being asked about logistics, many leaders of organizations think of logistics as desultory pieces of transportation, of warehouse, of delivery. Why is logistics so important?

Every organization produces products and delivers to its customers. Products can be described as goods or services. Waters (2007,1-2) views an organization as taking a variety of inputs (the raw materials people, equipment, information, money and other resources), doing operations (the manufacture, serving, transport,

selling, training, etc) and creating outputs. The flow of material from the initial suppliers, through many intermediates, to producers and to final customers forms a supply chain. And logistics plays an important role in controlling the supply chain flows in the most effective way.

How to measure the importance of logistics' activities? There have been many reports estimating the logistics costs in organizations and worldwide. Those figures somehow indicate that logistics is a crucial and inevitable activity in every organization.

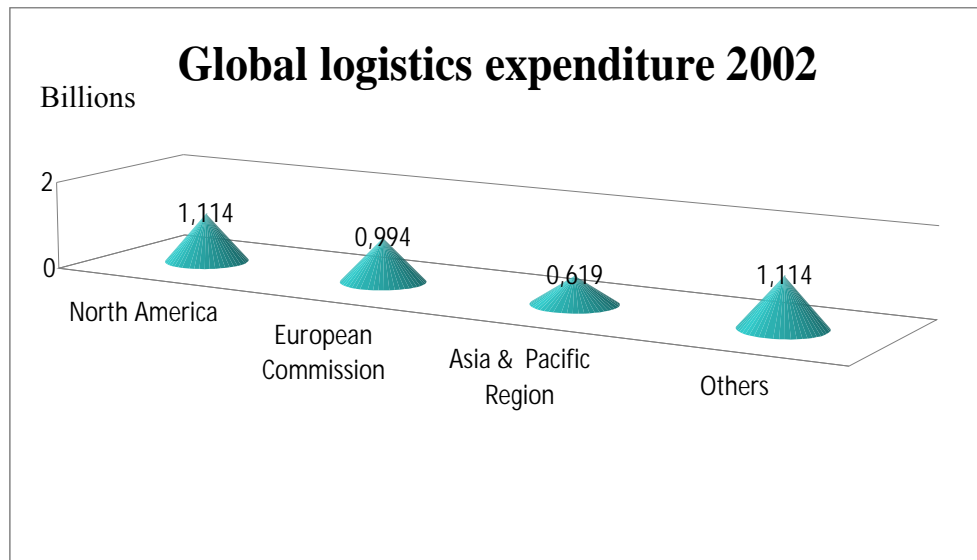


FIGURE 1. Global logistics expenditure 2002 (2001 Global Logistics Industry Survey).

Organizations have spent too much on logistics during the years and when the costs exceed the limit, they will start to find a way to reduce the expenditure. Rushton and Walker (2007,17) quote from Transport Intelligence reports in 2006 that the global logistics market has an estimated value of US\$ 972 billion in which the emerging market of Asia Pacific has the largest market with US\$ 412 billion spent on logistics. The second largest market is America with US\$ 270 billion and Europe, Middle East and Africa in total account for an estimated US\$ 290 billion.

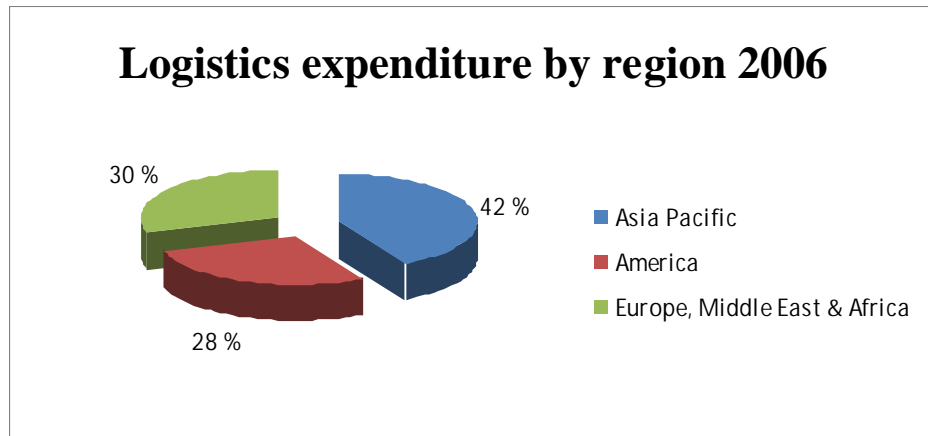


FIGURE 2. Logistics percentage spent by region (Rushton & Walker 2007, 17 originated from Transport Intelligence 2006).

The Vietnam logistics market, when compared with other markets in the same regions, not to mention the developed global markets, is very much in the early stage of development. Walking back to the past, when its economy was severely destroyed during the wars, Vietnam has been witnessed to improve noticeably after the “open” period and especially when it became one of the World Trade Organization (WTO)’s members. Building up the country from the post war mess is a long and complicated process that requires the whole country’s effort. It’s not surprising to know that Vietnam’s logistics market is decades behind the world’s.

On 11 January 2007, Vietnam officially became WTO’s 150<sup>th</sup> member and it is the critical turning point for the country not only in terms of economy but also all the other fields of the society. In a report of Asian Developing Bank (2007), Vietnam was seen not achieving any miracles but Viet Nam's economy was robust and would continue to expand rapidly with GDP growth of 8.3% in 2007, and 8.5% in 2008. Business relationships within the country and with the foreigners have increased the need of smoother and more efficient flow of goods and information. It’s not the only need in the current situation, however within this study; it is the question that has inspired the author with the thesis. Long-winded introduction is no other purpose than to provide a broad view of how different

Vietnam's logistics market and the world's are; therefore the author try to apply the theories in the Vietnam's market and find the solution for small and medium enterprises who seem to encounter more difficulties in this field. In chapter 3, there will be a thorough study of the world's logistics and logistics outsourcing market; however, those theories may be right to developed countries but may not right to Vietnam. The actual situation will be examined in chapter 4 to avoid ambiguity.

## 1.2 Presentation of the case study

GREEN MAPLE KNITWEAR CO.LTD is a joint venture formed by the PhucLam Co. Ltd of Vietnam and Fast link Co. Ltd of HongKong. The company acts as an outsourcing company that produces garment products for foreign clients. Even though the size of the company is quite small; however, it has done businesses with many famous companies such as Esprit, Mango, Dockers, Rafealla, The Children Place, and Disneyland etc...Major export markets of this company are The United States, Canada, Europe...

Established in 2000, when Vietnam's economy rose slightly after the Asian financial crisis in 1997, the company has achieved quite a huge success. The total number of workers currently working in this company is 400 and the registered capital is \$520,000 (approximately €400,000). On the advancing impetus, the company expanded its size with the extra associated factory; the first factory specializes in jeans, poly jackets and the other focus on T-shirts, polo shirts, sleeping wears, knit top and children's clothes. The total area of the two factories is 3,500 square meters. In order to meet the increasingly demands from the customers, the Board of Director has decided to import a lot of advanced technical machines. There are totally 300 machines including single needles, double needles, electric cutters, end cutters and button machines etc... The company does not manufacture their own products but depends on the clients' contracts.

Operation modes can be described as below:

-100% outwork: when the clients provide all the materials needed and the factory produces finished products.



-partial outwork: The clients provide primary materials; some minor ones are bought by the company to produce finished products.

-Furthermore, the company can do all the process from buying materials to producing finished products in accordance with the clients' samples.

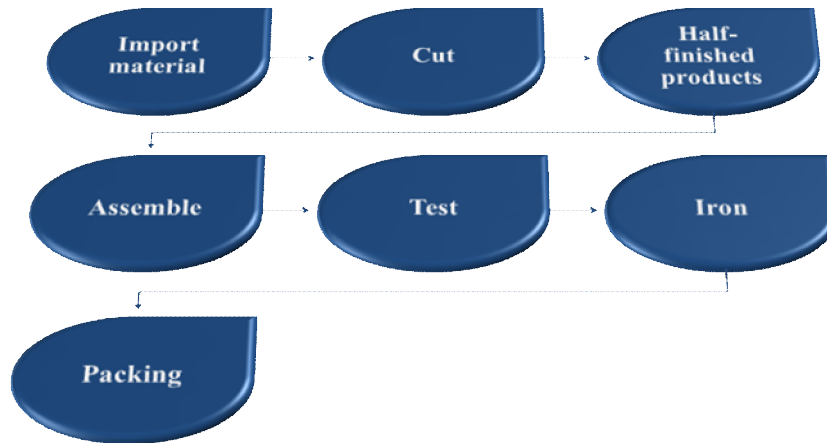


FIGURE 3. Factory's production process.

For years, the company has been using logistics providers for all of the activities in the supply chain such as warehouse, transport, custom clearance and so on. As it is going to expand, the board of directors is thinking of building its own logistics department to take care the operation. However, as the effect of the economic slump, they have to reconsider the cost factor since it is going to take a huge financial resource to have their own facilities. Moreover, the relationship between the company and logistics providers has been quite good. Hence, the most critical question for the company at the moment is shall or should not have outsourcing logistics.

### 1.3 Objectives of the study

Even though logistics is becoming more common in Vietnam, however not so many people really understand the meaning of logistics, even for those who are currently working in this field or related field. The main aim of this thesis research

is to study the role of Third Party Logistics (3PLs) and Fourth Party Logistics (4PLs) or in the other words the logistics service providers (LSPs) in Vietnam and the role of them in small and medium scale enterprises (SMEs).

Furthermore, this thesis attempts to weigh the pros and cons of whether SMEs should outsource their logistics activities or should they have their own logistics department which is in charge of all the activities concerning logistics. All the data obtained through secondary researches and information collected from interviews and surveys has answered the research question and will be presented in chapter 4 and 5.

### **Research questions**

As being stated above, this thesis will look at SMEs' logistics activities and the relationship between SMEs and LSPs in order to answer the question: **Should SMEs have logistics operation outsourced?**

Together with the main research question, a set of sub questions following will be thoroughly examined during the thesis:

- How are SMEs dealing with logistics activities in Vietnam?
- How effective are LSPs in Vietnam?
- What are the advantages and disadvantages of using LSPs?

### 1.4 Limitation

Logistics is a very broad topic that if not carefully studied, people easily get lost. The author is not going into details of how the logistics process is being carried out or examining all of the factors concerning logistics in international organizations, which many researchers have been conducting. Instead, a small study at SMEs in Vietnam is conducted to see how small enterprises deal with logistics matters and hence compare the benefits of outsourcing logistics with using own resources. A list of definitions of logistics service providers also gets related in this thesis. In general, with regards to this topic, the thesis aims at providing an objective recommendation for SMEs in operating logistics activities.

Logistics is a long process starting from suppliers through manufacturers to end users. In order to grasp the basic understanding of logistics management, it appears to have a lot of related matters such as logistics information system, purchasing and procurement, inventory, material handling, reverse logistics and so on. In this study, the author will examine only the core activities of logistics that are commonly seen in Vietnam. Those basic activities, despite their ordinary popularity, are the most vital elements in every manufacturing oriented company. Therefore, the author will focus on warehousing and transportation. Customs issue as part of the import and export process will be mentioned as well.

As stated in the objectives of the study above, the role of LSPs will be examined to see how effective they are in providing services to customers. Because of the large number of LSPs in the Vietnam's market, in order not to complicate this thesis, the author chooses to study only domestic service providers and bypasses the big international companies that come from abroad.

### 1.5 Thesis outline

This thesis includes three main parts with six chapters. The first three chapters in the introduction part is concerning mostly with thesis background, methodology and theoretical framework. Thesis background allows readers to understand where the thesis topic originates. Methodology explains how the thesis is proceeded, which method is chosen and how the author approaches the final result.

Theoretical framework provides the basic knowledge of the field this thesis is working on. The second part produces the result of findings and answer the research questioned which are raised in the first part. The author will end this thesis by giving recommendations and summary of the whole work in the last part. All the chapters are written in a hierarchical way that describes the process from the beginning to the end of the actual work. Figure 4 will summarize the whole process in one picture.

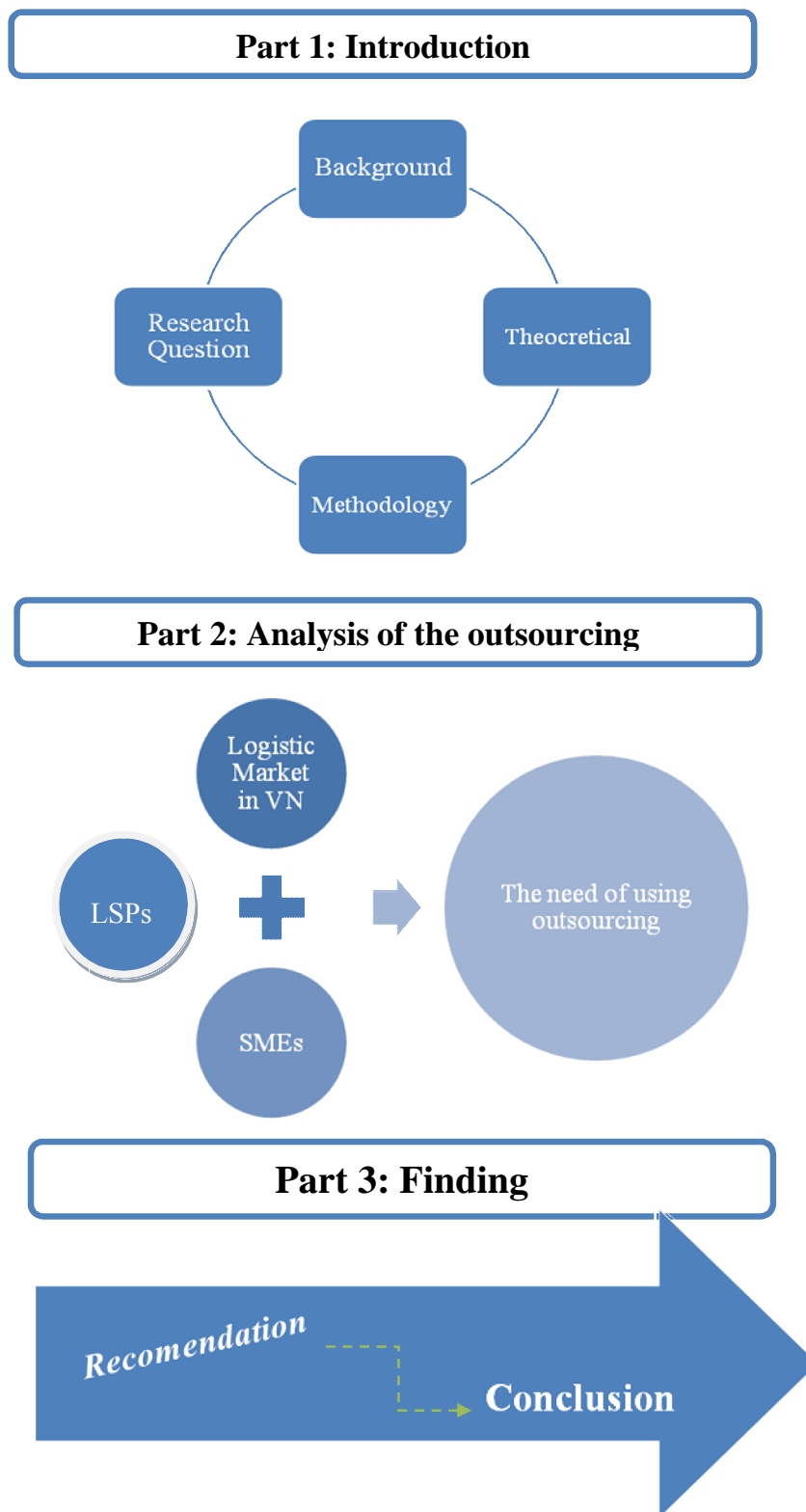


FIGURE 4. Thesis outline.

## 2 RESEARCH METHODOLOGY

Chapter 2's purpose is to describe the process of research methodology adopted in this thesis. First of all, the author introduces the information needs and sources. Then, definitions of two different kinds of research method are carried out in section 2.3 and then the choice of method is discussed in section 2.4. The data collection process will be described in section 2.5. Research challenges will be highlighted in the last section to end this chapter.

### 2.1 Information needs

As regard to the topic, the information needed to analyze the topic has been defined by the author as followed:

-Small and medium enterprises

- Background
- Current situation
- Problems occur
- Cost analyses

-Logistics service providers

- 3PLs and 4PLs
- Main activities
- Network

### 2.2 Information source

All the information acquired can be tracked from the three main sources:

-Theoretical framework:

- Primary data: company reports
- Secondary data: books, journals, internet, articles...
- Tertiary data: abstracts, dictionary, encyclopedias

-Outsourcing logistics market in Vietnam:

- Primary data: annual reports, interviews with some managers from both SMEs and LSPs, questionnaires sent via emails...
- Secondary data: internet, newspapers, books...

### 2.3 Research process

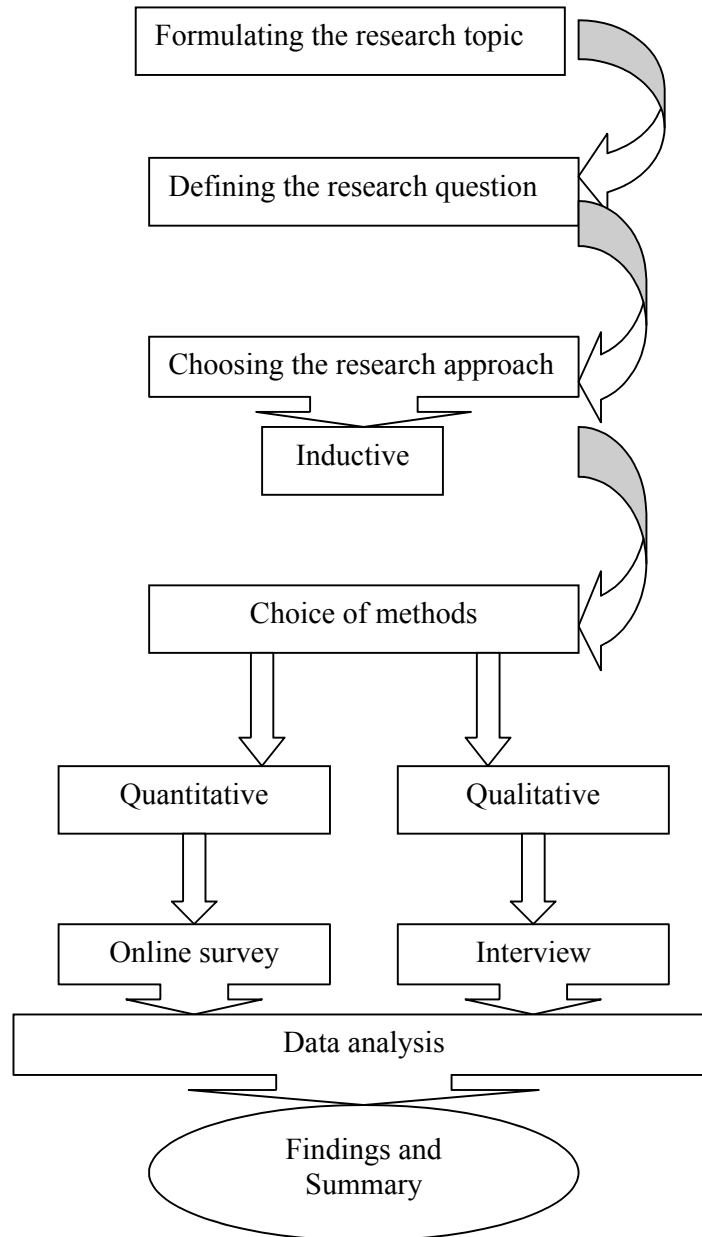


FIGURE 5. Research process.

## 2.4 Research approach: Inductive versus deductive

Research methodology is the crucial part of all theses. It explains how writers come up with the thesis topic and step by step build up the research. Phillips and Burbules (2000,31) define research as the process of making knowledge claims and then refining or abandoning some of them for claims that are more strongly warranted. Another definition found explains that research is the process of answering unanswered questions or creating that which does not exist (Goddard & Melville 2004, 1).

After formulating the research questions, the next step of the research is to design the research strategy. However, before getting any further, the question below should be considered. Is the purpose of the research to describe or to explain? Punch (1998) states that description and explanation represent two different levels of understanding. To describe is to draw a picture of what has happened or how things are proceeding. To explain is to find the reason for things and events, to answer why and how they have come to be what they are. This study concentrates on description that describes the roles of LSPs and the logistics activities in SMEs.

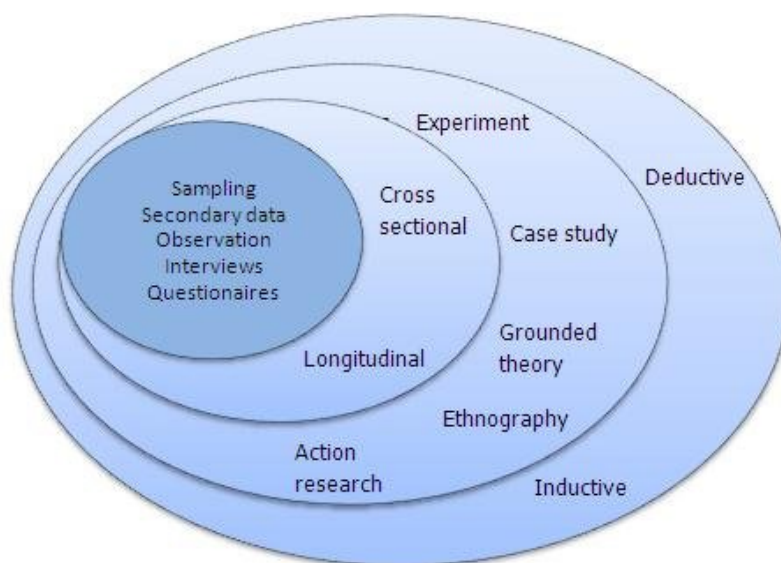


FIGURE 6. Research process onion (Saunders, Lewis & Thronhill 2003, 83).

The choice of research approach is necessary and should be done at the beginning of the research method. As shown in Figure 6, there are two kinds of research approach involving the use of theory. Research approach defines the way in which the research is developed. Should the research start with theory or should theory itself result from the research? In deductive approach, a theory or hypothesis is developed first, and then a research strategy is designed to test the hypothesis. On the contrary, in inductive approach, data are collected and analyzed to produce the theory. (Saunders et al 2003, 85.)

In this study, the author did not formulate any theory from the beginning, but instead having some questions in mind and then using the data collected to form the theory. In this case, inductive approach is applied.

## 2.5 Choice of methods

Before discussing the research strategy and the data collection process in the next chapter, this chapter concerns the method that will be applied in this study. When discussing about doing research, usually questions on which methods to be used gain lots of concerns. In order to understand the difference between quantitative and qualitative research, we should start with their definitions.

When thinking of quantitative research, people will probably think of numbers. People are in favor of quantitative research as they think numbers are more accurate. Our life is surrounded by numbers such as temperature, age, population, scores and so on. Muiji (2004, 1-2) defines that quantitative research is explaining phenomena by collecting numerical data that are analyzed using mathematically based methods, particularly statistics (Aliaga & Gunderson 2002). Another explain by Antonius (2003, 2) describes quantitative method is procedures and techniques used to analyzed data numerically. And quantitative data are measurable date.

On the contrary, qualitative research deals with non-numerical data. People are doing research to understand what, how and why things happen. If people only need to know what happened, quantitative satisfies this purpose. However,



qualitative research goes further than that; it is used to explore deeper inside people's awareness, understanding and motivation. If we can easily define quantitative research as a process of collecting and analyzing numerical data, then it is not that simple to have an exact definition for qualitative research. Countless authors have been working to draw different pictures of qualitative method. Cooper and Schindler (2008, 162) think qualitative research includes an array of interpretative techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world. This definition is hard to understand as we are not expertise in this field. There is no one size fits all. In order to lessen its complication, they explain that qualitative research aims to achieve an in-depth understanding of a situation by using focus group, individual interviews, case studies, ethnography, grounded theory, action research and observation. There is no clear difference between quantitative research and qualitative research. Even though Padgett (1998, 2) identifies that quantitative studies are characterized by the use of numerical data and qualitative studies by the use of non-numerical data; he also points out that many researchers transform qualitative data into numerical data. The table below will show us how Padgett distinguishes both methods.

TABLE 1. Distinctions between quantitative and qualitative research (Padgett 1998, 3).

Qualitative	Quantitative
Inductive	Deductive
Naturalistic, in vivo	Scientific method, decontextualizing
Uncontrolled conditions	Controlled conditions
Open systems	Closed systems
Holistic, thick description	Particularistic
Dynamic reality	Stable reality
Researchers as instrument of Data collection	Standardized data collection instrument
Categories result from data analysis	Categories precede data analysis

The argument for combining quantitative and qualitative methods has been well-accepted as many authors support this idea. Cooper and Schindler (2008, 185-186) advocate the merge of qualitative and quantitative methodologies to increase the perceived quality of the research. A quantitative study may follow a qualitative one to provide validation for the qualitative findings. Gacitúa-Marió and Wodon (2001, 2) work together in a project that uses combined method. They claim that methods based on statistics provide robustness to the results if they rely only on appropriate samples and regression analysis helps to control a large number of other variables when measuring the impact of a specific variable on a given outcome. However, quantitative data can not fully capture causality because they fail to provide contextual information. Therefore, they approve the combination of quantitative and qualitative method for a better understanding of perceptions. Creswell (2003), G. Axinn and Pearce (2006) and Mertens (2004) appreciate the use of mixed method in doing research in order to mutual supplement each other.

Due to the advantages of combined study, this thesis is using mixed method during the research process. Interviews with some managers or staffs provide an insight of logistics market situation in Vietnam and the difficulties that SMEs in Vietnam are encountering. Moreover, a small survey is carried out to achieve a more precisely understanding of logistics outsourcing. The combination of quantitative and qualitative methods allows the author to grasp the core problem by providing answers on what, how and why they are happening.

## 2.6 Data collection process

There are three types of data that can be gathered during a research; however, the author only mentions the two major approaches and passes the third one because tertiary data is seen uncommonly in this study.

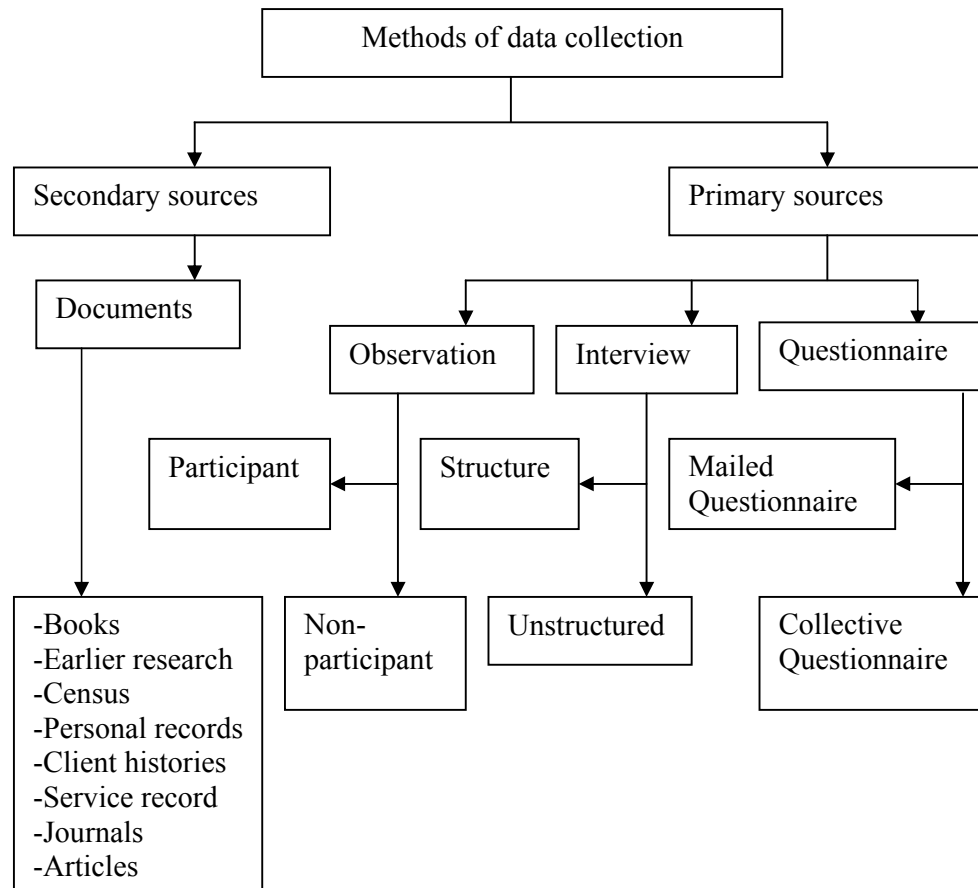


FIGURE 7. Methods of data collection (Kumar 2005, 118).

There is no guarantee that all of the collection methods are 100 per cent accurate and reliable. The challenges occurred during the data collection process will be discussed later in section 2.6. In this section, the author will describe how the process of collecting primary data is conducted.

### 2.6.1 Interviews

Due to the time constraint and the geographical distance, all the interviews were conducted via messenger chatting device. Even though face-to-face interaction allows interviewers to observe and analyze interviewees' expression and hence produce a more precisely evaluation, email interview is more and more gaining attention. According to the latest internet usage statistics (Internet World Statistics

2008.), there are 1,574,313,184 internet users in the world. It increases the use of email interviews and many authors really support this kind of interview. Some strong advantages of email interview are discovered by Rozakis (2004, 142) include time and cost saving and the disappearance of making a cold call to strangers.

Thanks to the wide network that the author has built during her internship in Vietnam, a number of important staff of a few companies is willing to do the online interview. A few questions concerning logistics service companies and the current situation of SMEs in Vietnam as well have been asked. All the interviewees are either working in logistics companies or in other small companies that are using logistics services. On the one hand, interviewees that are currently working in logistics companies provide more insightful opinions about the logistics outsourcing situation in Vietnam and they know exactly what is going on in the market, how effectively their companies are operating. On the other hand, interviewees coming from small and medium enterprises have other responses from their point of views of being users of logistics outsourcing. All of the opinions are mutually supplement each other and provide the author with better understanding of the market.

Even though the relationship between the author and interviewees has been established, the interview happened in a proper way. A letter was sent before the online interview to inform the date and time the interview would happen and also to thank for their co-operation. The language used in the interview was Vietnamese to guarantee the smooth of the conversation and to show respect to interviewees. It is not nice to use English in an interview that both interviewer and interviewees are Vietnamese. Since logistics is a hot topic in Vietnam, it is easy to access many websites and forums discussing about it and the information gathered from surfing the internet contributes a lot to the design of interview's questions. There are only seven questions per interview and some of them are open-ended to offer participants more space for their feelings, attitudes and understanding of the subject. The list of participants and interview questions can be tracked in Reference and Appendix 1.

### 2.6.2 Email questionnaires

A questionnaire is a written list of questions submitted to respondents to gain information. In a questionnaire, respondents read the questions, interpret what is expected and then write down the answer (Kumar 2005, 126). The only distinction between an interview and a questionnaire is that in the interview, the interviewer will ask and sometimes explain the questions, observe the participants and record the replies. Since there is no one to explain ambiguous or vague questions in questionnaires, the questions must be clear and easy to understand.

Of three different ways of administering a questionnaire, the mail questionnaire was chosen for its convenience. With this method, the author was supposed to have access to respondents' addresses. Until this moment, there is no specific list of small and medium enterprises in Vietnam even though 80 per cent of enterprises in Vietnam are of small or medium scale. Some companies in the yellow pages may violate the rule of being SMEs; therefore, the author did not use the list of companies provided by internet webpage. Thanks for the manager of the case company, Ms Nguyen, a list of the company's business partners was formed. And with Ms Nguyen's help, the author easily accessed the relevant staff in those companies.

A covering letter was sent together with the mail questionnaire to relevant recipients. Since all the recipients are in connection with Ms Nguyen, it guarantees the high response from the respondents. The questionnaire contains only 5 common questions that are being employed by many research companies. The analysis of the survey will be explained later in chapter 4, section 4.5 and please go to Appendix 2 & 3 for the cover letter and questions. However, due to the confidential agreement between the author and the respondents, the author is not allowed to publicize contact information of the respondents.

### 2.6.3 Secondary sources

Most of the secondary sources in the theoretical framework of this study come from books. The school library has an abundant of logistics and relevant books for references and from the library's network, a considerable number of full text articles and journals available are easily to access. The information found in those books and articles contribute more than 70 percent of the theory that this study is applying.

It would be a mistake not to mention that the friendly internet has helped the author in finding books and newspapers related to the study. Google has been becoming a useful search engine for webs, images, maps, news, books, documents, finance, scholars and many other products. Within a second, thousands of results will be displayed after a mouse's click and from there the author selected which suits her most to apply in the study. Google books search is a big collection of books which provide limited or snippet preview. Generally speaking, the two major secondary sources that are used in this thesis are available at the school library and the internet. The discussion of data collection process will end here and in the next section, the stumbling block occurred during the research will be brought up.

## 2.7 Research challenges

Carrying out research always brings along with it a number of obstacles which causes tardy progress for the research. And this thesis is not an exception. In this small section, the author will describe the stumbling blocks occurring during the acquirement of the necessary information.

First of all, during the secondary data collection process, the author met up with problems involving the validity, availability and quality of data. With the fast growing of advanced technology, people are able to easily access information as long as they have an internet connection. But there is no guarantee that information caught from the internet is valid and reliable. For those more reliable ones, we sometimes have to pay to access the full report and off course the price is not cheap for students. When using information from newspapers, personal

homepages or forums, the author found that it may be bias to some extent as the personal opinion may lean toward one side. But half a loaf is better than no bread, from that information the author can read and extract to suit the thesis's content. And last but not least is the availability of data. Before really carrying out the research, the author supposed that she could access the required data; however, it turned out later that the information about SMEs in Vietnam is scarce resource.

Secondly, when reaching the primary data, the author faced similar problems. Even though the interview went quite smoothly, the interviewees' opinion may be bias as well. All the interviewees are people who are somehow in charge of logistics activities in logistics service companies; therefore their knowledge is worth considering. Yet, they depend upon their experience and instinct while answering the questions. Another obstacle coming from the questionnaire is the time consuming. Even though questionnaires are notorious for their low response rates, the author did not have any trouble with it because of receiving support from the Green Maple manager. It is just the matter of time to wait for the response. The respondents did not fail to return the questionnaires; they just return them late which delayed the process a little. However, at the end, all the responses were gathered and so are the results.

### 3. LOGISTICS OUTSOURCING – THE GLOBAL TREND

This chapter covers the theoretical framework of the study. The chapter starts with the overall introduction of international logistics in section 3.1. Section 3.2 consists of several sub-sections which made up the main topic of this chapter. It discusses logistics outsourcing, the operations and services, the logistics service providers and the last two sub sections deal with the pros and cons of having logistics outsourcing. Section 3.3 is coming up for the discussion of SMEs.

#### 3.1 International logistics as a whole

When using search engine Google to look for the word “Logistics Definition”, there would be approximately 8.420.000 results related to the term logistics. A collection from an internet webpage including 19 definitions describes that logistics is the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from point of origin to point of consumption for the purpose of conforming to customer requirements including inbound, outbound, internal, and external movements, and return of materials for environmental purposes (Council of Logistics Management 1991).

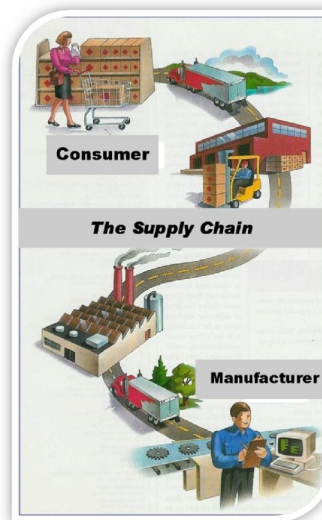


FIGURE 8. The movement of goods (Performance plus consultant).



The description mentioned above is not the only definition that can be found in the internet or in several other sources, however, it defines clearly how a logistics system operates. According to the BestLogisticsGuide webpage, logistics originated from the ancient war time of Greek and Roman empires when military officers were serving as providing services related to supply and distribution of resources. This was done to enable the soldiers to move from their base position to a new forward position efficiently, which could be a crucial factor in determining the outcome of wars.

Over decades, logistics has become widely recognized by the general public especially in this new millennium when companies expand their business in terms of range and volume of products. As market opens, global organizations look at the whole world as one potential market- sourcing, manufacturing, researching, raising capital and selling wherever the job can be done best (Gourdin 2001, 14). When business is expanded, two questions have been raised for managers that they need to increase the efficiency in manufacturing and distribution while seeking ways to reduce costs. International companies are motivated to switch their business operation to emerging markets where lower cost is competitive advantage.

Logistics, nowadays, is no longer an internal function within the organization. The environment which is related to logistics fields is realized to be much more immense than imagined. When the world-wide businesses expand, logistics expands its roots over the borders as well. The movement of goods from the point of manufacture to the point of consume happens in the international basic. And when we are talking about international logistics, we are talking about shipping the goods overseas. One definition found in the online free dictionary identifies international logistics as the negotiating, planning, and implementation of supporting logistic arrangements between nations, their forces, and agencies. It includes furnishing logistic support (major end items, material, and/or services) to, or receiving logistic support from, one or more friendly foreign governments, international organizations, or military forces, with or without reimbursement.

In this study, the author is not going into detail of how marvelous the global market is or how the general logistics works but instead, is going to explore one side of global logistics trend: contract logistics or in other words, outsourcing logistics in small and medium enterprises context. In order to narrow down this broad topic, the author is going to focus on some fields of logistics operation that are famous in the Vietnamese context. As Vietnamese market is relatively new and small, some up-to-date definitions and advanced information technology can not be applied in this study, therefore transportation, warehousing, freight forwarding will be examined as the core functions.

### 3.2 Logistics outsourcing

This section is concerned with all the matters related to logistics outsourcing. All the sub sections are written in a way that readers can easily get the basic idea. It will start first with the basic knowledge of logistics outsourcing, service providers, services, advantages and disadvantages are followed up.

#### 3.2.1 Understanding logistics outsourcing

Together with the development of logistics and wide spreading global market, a number of new definitions arise and become commonly used. One of the core concept defined and analyzed in this study is the outsourcing of logistics activities. So what is outsourcing? Outsourcing can be understood that it is the act of transferring some of an organization's recurring internal activities and decision rights to outside providers as set forth in the contract (Maurice F.Greaver 1999,3).

The growing trend of logistics outsourcing over the past few decades has raised the question of outsourcing all or part of the logistics management function in any firm, which should be the result of an extensive, strategically driven decision by a business enterprise's top management (Sollish & Semanik 2007, 281).

Using a contract with outside parties for services such as transport, warehousing and other distribution functions seems to be a good definition provided by Sadler (2007, 200). However, outsourcing is not an easy decision and every organization has to answer two questions before considering the outsourcing process (Deepen 2007, 21):

1. Will the firm outsource part or full logistics?
2. Who will provide the services?

Before jumping into examining the drivers of the growth of logistics outsourcing and answering those two questions above, let's have a look at the outsourcing market. According to the report by Transport Intelligence (<http://www.allbusiness.com/trade-development/economic-development-emerging-markets/5314443-1.htm>), the global contract logistics market grew by just under 10% in 2006 and the main growth has been observed in the Asia Pacific region which overtook the North America for the first time to become the world's second largest market. Revising the global logistics expenditure in figure 1 in chapter 1, apparently the whole market's logistics value was approximately US\$972 billion, in which around US\$265 billion was outsourced to contract logistics providers and freight forwarders (Rushton & Walker 2007, 17). Another report also revealed the leading services that are often outsourced.

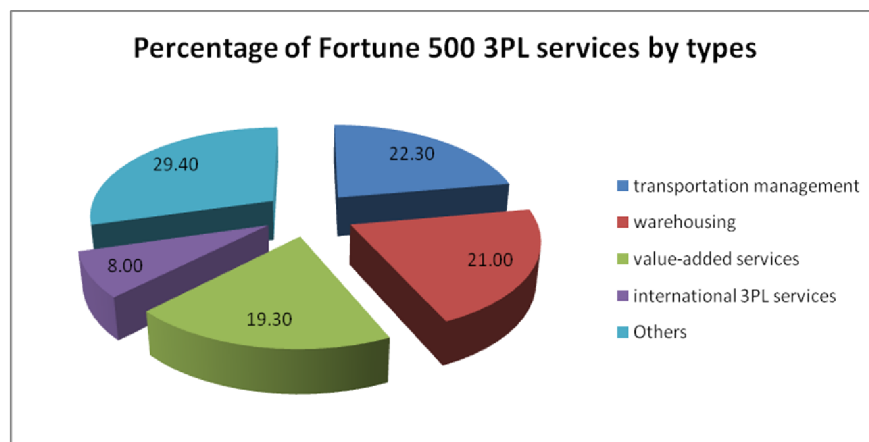


FIGURE 9. Services offered by 3PLs (Rushton & Walker 2007, 18. Original from Armstrong and Associates 2006b).

According to the figure 9, logistics service providers mostly offer customers with transportation, warehousing and value added services such as inventory, packaging and unitization. In order for readers to get clearly, the next part of this chapter is coming with the description of operations and services.

### 3.2.2 Logistics service providers

Logistics service providers (LSPs) are the general term used to indicate companies that offer contract logistics (3PL and 4PL services). It means that these providers will perform some or all logistics activities of clients' companies. Originally, these providers only offered transportation and warehousing services. However, in order to meet the increasingly demands of customers, they have started to engage in the integrated logistics which includes different kinds of services (Cahill 2007, 28). There are at least five types of logistics service providers which will be examined later in this chapter. The figure below illustrates the interaction between all the entities engaged in the logistics process.

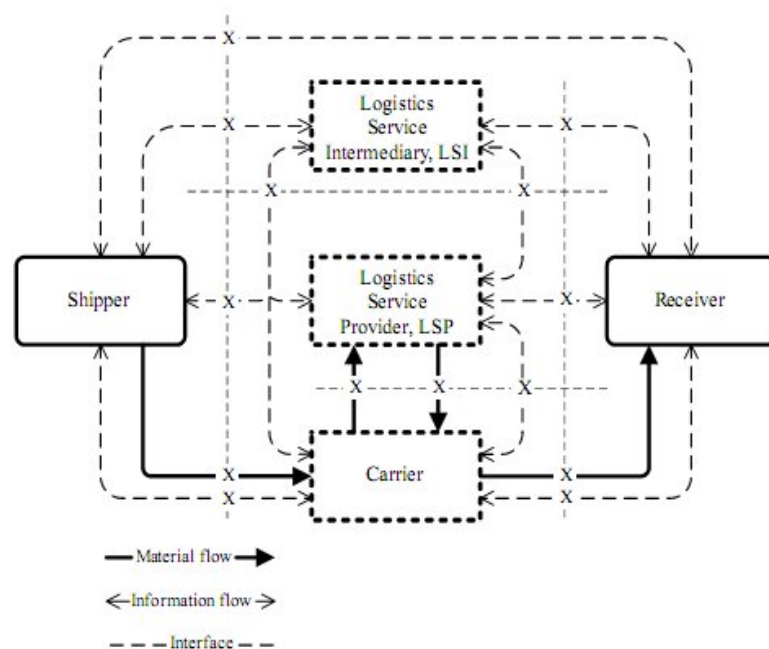


FIGURE 10. Collaborative logistics management. (Stefansson 2006, 85).

Third party logistics (3PL) are companies that provide full range of transportation and related services (Frank Reynolds 2003, 229). 3PL is commonly used as the term to describe an external provider who manages outsourced activities on behalf of the shippers or customers whose business processes they support (Rushton & Walker 2007, 5). Services provided include inbound and outbound transportation, warehousing, payment, customs brokerage, freight forwarding and customs clearance.

Fourth party logistics (4PL) is explained by Rushton, Croucher and Baker (2006,81) that is where an external organization is able to provide a user with an overall supply chain wide solution by incorporating the resources and expertise of any number of third parties to best effect. Most 4PLs do not own warehouses, transportation fleet, etc. and they provide services to customers in forms of responsibilities and knowledge of how to get the logistics process go in a smooth way. To make it simpler, 4PL's activities may consist of consultant, IT service providers, e market place, financial solution and etc...

Carriers are firms that own assets for transportation purposes. Normally carriers focus on either one of these transportation: road, rail, air, sea and pipeline or in some cases carriers own combined transportation assets. Carriers receive bookings from shippers or freight forwarders and advance them to meet the customers' demands (Deepen 2007, 27). In short, services provided by carriers are:

- Inbound and outbound transportation;
- Door-to-door transportation service; and
- Contract delivery;

Or in addition, some extra services can be fulfilled:

- Transportation administration;
- Documentation handling;
- Transport scheduling;
- Tracking and tracing information; and
- Delivery performance tools.

(Stefansson 2006, 86)

Couriers and express and parcel/ postal (CEP) are also transportation providers but they focus on small units and time critical shipments. CEP has a wide network which integrates all kinds of transportation for the distribution of goods.

Employing several kinds of transportation vehicles allows CEP to offer door to door services anywhere in the world. (Cahill 2007, 28.)

Freight Forwarder is a person or company that arranges the carriage of goods and the associated formalities on behalf of a shipper. The duties of a freight forwarder include booking space on a ship, providing all the necessary documentation and arranging Customs clearance. (Port of Brisbane glossary.)

### 3.2.3 Operation and services

Before getting to know different kinds of logistics operations and services, it would be nice a picture out the supply chain that involves all the activities. Supply chain was defined by Simchi-Levi and Kaminsky (2004, 2) as a set of approaches used to efficiently integrate suppliers, managers, warehouses and stores so that merchandise is produced and distributed at the right quantities, to the right locations and at the right time in order to minimize system costs while satisfying service-level requirement. Supply chain is not just logistics; it involves also marketing, financing and countless other works that join together for a smoother operation.

It is true that all companies work with outsourced logistics in some ways. In every point in the supply chain, whether they are buying small package or hiring the whole truckload services, they are dealing with logistics outsourcing (Goldsby & Martichenko 2005, 161). And it is when the collaborative relationship between companies and a number of suppliers, trucking companies, warehousing companies and so on develops. Figure 11 shows the stages in which logistics activities are involved.

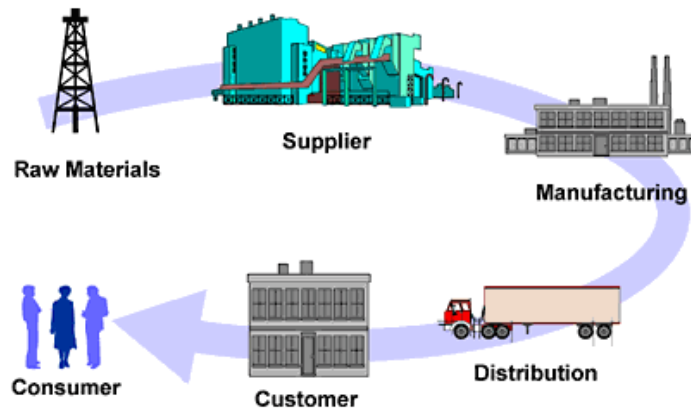


FIGURE 11. Supply Chain Model (Weber State University)

A supply chain starts from raw materials which are moved from suppliers to manufacturing points and from there, raw materials are used to produce finished products. Finished products are then dispatched to distribution centers where they will be delivered to customers. That is how logistics works in the supply chain. In this part, a number of standard types of operation that are provided by logistics service providers will be taken into consideration.

**Warehouses and distribution centers** are used as places for storage and sorting function. Johnson (1999, 337) explains that warehouses and distribution centers are the point at which goods are concentrated, and from this concentration a new and different assortment of goods is selected and moves forward to be dispersed to the next level. Warehouses are normally involved in the production process where materials or finished goods are being stored. Distribution centers are closed to the consumption process from which finished products will be distributed to the end users. Warehouses and distribution centers play an important role in logistics outsourcing as they are one of the reasons for companies, especially small and medium companies to outsource because lack of facilities does not allow them to manage the operations properly. The functions of warehouses also include excess storage, cross-docking, transshipment and break bulk.

**Transport management** influences the move of goods from points to points. For years, transportation is the most expensive logistics activities, representing over 40 percent of the most corporations' logistics expenses.

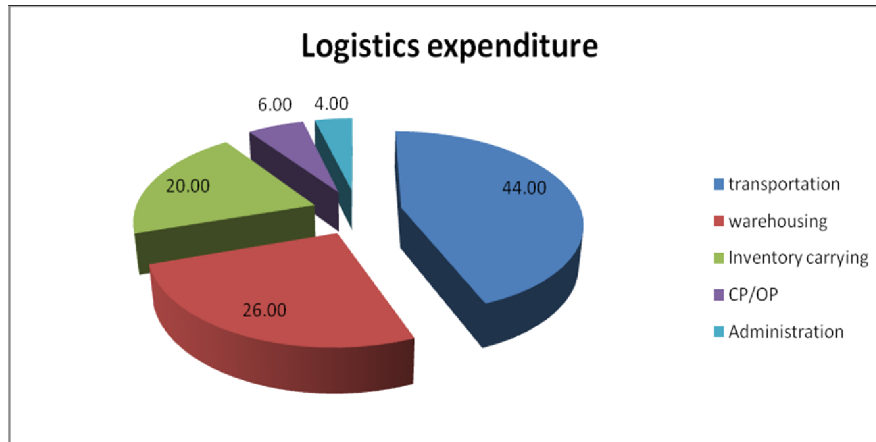


FIGURE 12. Logistics expenditure (Frazelle 2001, 170; originated from Bob Delaney, Cass Logistics)

Transport is the link between suppliers and manufacturers and consumers. Most companies are geographically divorced from their supply sources, thereby making them dependent upon transportation to connect the supply source to the consumption point (Coyle, Bardi & Langley Jr 2003, 339). Labor specialization, mass production and production economies do not coincide with the area where demand for the good exists. It is the reason why transportation is the bridge that connects seller-buyer gap. There are five different types of transportation: truck, rail, air, water and pipeline. It is common that intermodal transportation is used in the supply chain to utilize the advantages of two or more modes. Logistics service providers that offer transportation services are likely to focus on cost reduction as it is one of the competitive edges. In terms of transportation, a number of special carriers that offer specialized or intermediate transportation services are engaged for the economy of scale. It means that many small shipments are consolidated into larger ones for the smoother and faster moving of goods. Service providers that offer transportation services might include small package carriers, consolidators, freight forwarders, shipper associations, and brokers and so on.



**Packaging** is more and more increasing its role in the logistics process. In the past, it used to be neglected by the operators but nowadays people realize how much important it is in marketing and logistics. As a logistics function, the package organizes, protects and identifies the product so that it can move effectively and efficiently within the supply chain (Taylor 2007, 25). Coyle et al (2003, 315) point out that the package has an impact on the stacking height of product in the warehouse and thereby on the utilization and cost of the warehouse. That is why packaging may contribute nothing to a product's value, but its influence on logistics cost is considerable. According to a survey, 75 percent of the companies claim that the packaging helps to withstand structural loads during the distribution phase and 60 percent of the companies agreed that better packaging could contribute significantly to the cost reduction (Culley 2001, 383). For some special requirements in packaging that are really difficult to be undertaken in house, companies have opportunities to outsource packaging operations.

**Freight forwarding** is the service used by companies that deal in international or multi-nation import or export (Wisegeek webpage). The freight forwarder does not either send the ship by himself or own any kind of transport but he acts as an intermediary between carriers and clients. International logistics involves multimode transportation, documentation and legalities, which impedes the shipping. Freight forwarding services guarantee that the clients get their shipping in the right place, at the right place with the lowest cost. Freight forwarding is a logistics outsourcing service that is commonly used by companies.

#### 3.2.4 Key drivers of logistics outsourcing

It is not difficult to enumerate the benefits of having logistics activities outsourced since countless books have been discussing about it from time to time. Anderson (1998, 24) finds out that one of the driving forces is the cost reduction and service improvement.

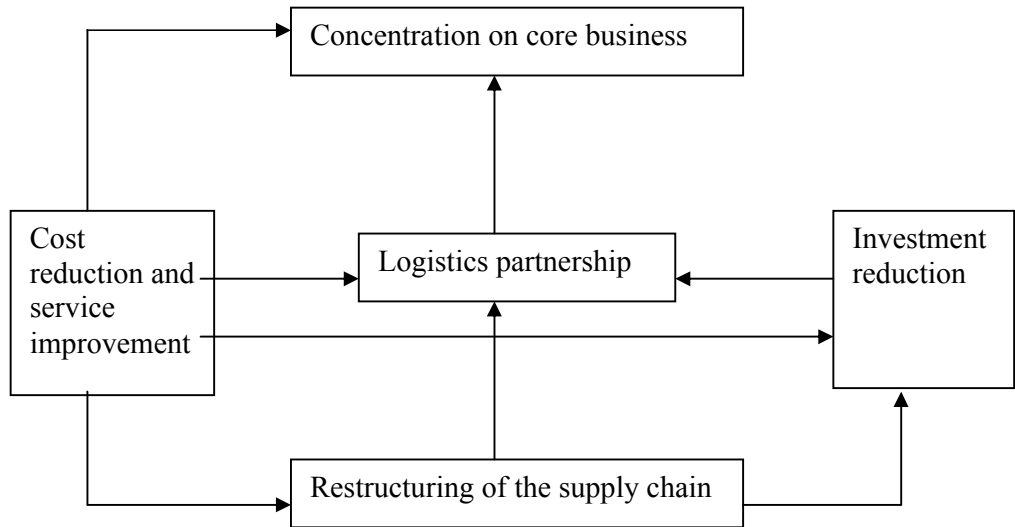
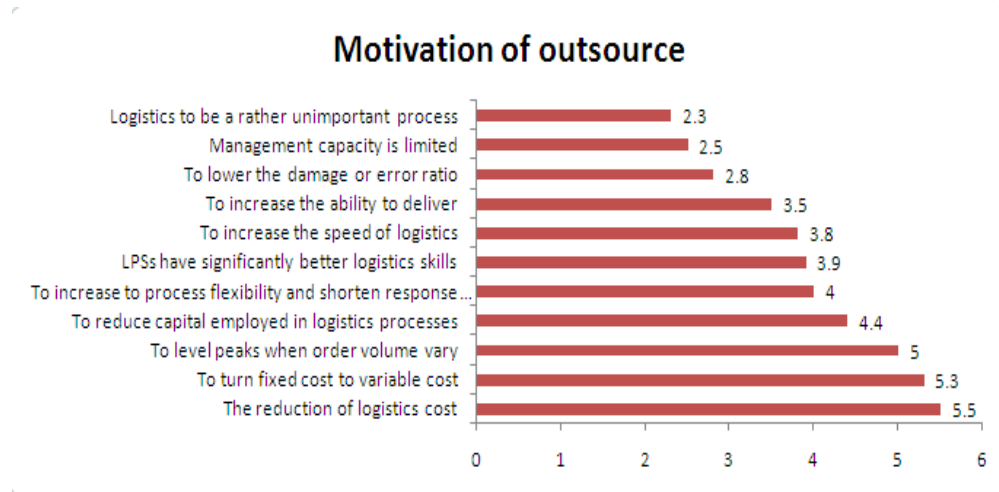


FIGURE 13. Driving force of outsourcing (Anderson 1998, 24).

Bragg (2006, 252) broadens the idea of cost reduction by giving an example of how logistics cost is reduced. Many companies have small volume of the shipments or shipments are too sporadic that the full truck can not be utilized. If shipments do not fill up the truck, the company has to incur full cost of the shipment if using own trucks. However, it only bears part of the full cost if using service of outside companies who can merge partial shipments with shipments from other companies. This is the solution for small businesses who can not afford to build their own trucking fleets due to financial constraint. In addition, many larger businesses prefer having this function done outside because they want to concentrate on their core business and do not want to get involved in the trucking process.

Surprisingly, there is an enormous paperwork related to maintaining the trucking fleets which can lead to government's fines. Only those who are expertise in the industry know how to deal with the complicated "red tape" that is very common in Asian world. Furthermore, many companies realize that they do not have the competent sets of skill to put in place a re-engineered e-supply chain that take advantage of internet technology and links across all members of the firm. Or they lack the technology base or the software applications to initial change process.

Naturally, these firms seek helps from experts (Boyson, Harrington & Corsi 2004, 23). Outsourcing non core business allows companies to reduce senior management time required in non core activities, improve customer service, financial benefits and simplify of the industrial relations environment (Gattorna 1998, 430).



1= does not apply

7= fully apply

FIGURE 14. Motivation for outsourcing (Cahill 2007,26)

In conclusion, Cahill (2007, 26) collects the motivation for outsourcing from different sources and points out that companies that are using outsourcing can enjoy the benefit of cost saving and performance improvement as shown in figure 14. They are not the only benefits that companies are experiencing but the most significant ones to be considered. However, there are always two sides of a matter. When we talk about advantages, we also have to be aware of the associated problems.

### 3.2.5 Risks of having logistics outsourcing

Most outsourcing relationships are noticed to be in a long term base; therefore, it is very necessary that both customers (companies) and providers are able to communicate with each other about the pros and cons of the relationship.

Enarsson (2006, 102-104) summarizes the possible disadvantages of using outsourcing services by the table below.

TABLE 2. Risks of outsourcing.

Category	Contents
Main problems	Loss of control Loss of knowledge or skills
Supplier related	Dependency Loss of supplier commitment
People related	Loss of employee motivation

Many authors also agreed that the most common risk in having logistics outsourcing is the loss of control (Cahill 2007, 27; Brindley 2004, 162; Simchi-Levi & Kaminsky 2004, 120). The loss of control can be seen in terms of quality, service, efficiency and price. The management now stands outside the outsourced functions and has to trust the suppliers. Some changes in the firm occur due to the transfer of management and therefore, if there is adjustment from the company, discussion with the providers is needed. Everything related to the outsourced function is now very much relied on the providers, which leads to loss of knowledge from the company's perspectives. This risk seems not to affect much unless the outsourcing project fails and the company has to take on in-house logistics again. It always costs a huge amount of finance to train current staffs or to hire new staffs (Enarsson 2006, 103). Furthermore, many outsourcing decisions are made in order to lower costs but changes in company objectives and rising prices can take costs far than those expected. The inflexible contract without long term pricing and appropriate incentives can cause the outsource providers lose motivation to control costs or maintain quality (Burt, Dobler & Starling 2003, 322). It might also end up in bringing a function or service back in house. These

are main problems; not to mention the exposure of confidential which leads to the leaking of, for example, clients' production plans, customer list, business plan; which should be taken into account (Ayers 2001, 687).

Another big risk, according to Enarsson (2006, 103), is the performance of suppliers. Depending too much on providers is not a wise decision, especially in case of outsourcing main functions. As author Tom Peters has said, "Do what you do best and outsource the rest", should the companies be more aware that providers' performance might fail in some extent.

Some authors are aware of the risk of double outsourcing. It is more likely the practice of subcontracting of an outsourcing contract. The outsourcing provider may not have all the necessary technical skills to perform all of the outsourced work and will subcontract to fulfill the requirements. If the outsourcing provider does not involve the client company in the subcontract, the client firm will have little control over problems caused by the subcontractor (Burt et al. 2003, 323).

And last but not least is the employee related problem. When discussing about outsourcing in organizations that already run in-house logistics, it often means the disinvestment of some or all resources necessary for the operation of in-house logistics. There could be an increasingly fear of lay-offs among staffs who are working in this department. As a result of this, employees become loss of motivation and morale for their jobs. The level of risk increases in accordance with the longer the contract is and the less number of providers used.

### 3.3 Small and medium sized enterprises and the role of logistics activities

Recently, we have heard a lot about the term "small and medium sized enterprises", shortly called SMEs, in the business world. We can find in Google book search the result of 3147 books which are partially or fully related to SMEs. What are they and why are they becoming an interesting topic for many authors? This chapter is going to explore the function of SMEs and the role of logistics activities in these companies.

There is no common definition for SMEs but each country has a different way to define it. For example, in Finland, there is no official definition of SMEs existing. However, they adopt the latest official definition by the European Union and use it widely through the country. Currently, SMEs refer to the firms with less than 500 employees; medium-sized companies having 100-499 employees and small-sized companies having less than 100 employees (Globalization and Small and Medium Enterprises 1997, 69). Another definition used in Austria defines that small companies have less than 100 employees in manufacturing and less than 20 employees in non-manufacturing industries (Globalization and Small and Medium Enterprises 1997, 7). According to European Commission (2003), SMEs represent 99% of all enterprises in EU and provide around 65 million jobs. The following table shows the modified definition adopted by European Commission, which increases the financial ceiling and keeps the headcount ceilings fixed.

TABLE 3. Definition of SMEs (European Commission).

Enterprise category	Head count	Turnover OR	Balance sheet total
Medium	<250	≤ € 50 million	≤ € 43 million
Small	<50	≤ € 10 million	≤ € 10 million
Micro	<10	≤ € 2 million	≤ € 2 million

SMEs contribute substantially to their countries' economy. It is not surprised to know that SMEs can contribute to poverty alleviation and helps to improve the distribution of income in a country. In developing countries, they play a vital role in the economic growth, which accounts for over 90% business establishment and about more than half of output and export share (Pang, 6 May 2008). Pang also states that in some developing countries, SMEs account for as much as 70% of the labor force.

TABLE 4. The importance of SMEs in selected Asian Countries

(The development of E-Financing: Implications for SMEs 2003, originated from Asia-Pacific Economic Cooperation, Guide for SMEs in the APEC Region, 2000).

	Share of SMEs ( in percentage)	
	Total output	Total employment
Brunei Darussalam	98.0(1997)	92.0(1997)
China	99.0 (1993)	78.3 (1993)
Hong kong	98.2 (1995)	60.7 (1995)
Indonesia	98.0 (1996)	88.3 (1996)
Japan	98.8 (1996)	77.6 (1996)
Malaysia	84.0 (1997)	12.3 (1997)
Papua New Guinea	Not available	52.9 (1997)
Philippine	99.5 (1988)	66.2 (1996)
Republic of Korea	99.0 (1993)	69.0 (1993)
Singapore	91.5 (1995)	51.8 (1995)
Thailand	95.8 (1997)	18.1 (1996)
<b>Vietnam</b>	Not available	<b>8.0 (1998)</b>

Table 4 shows how much SMEs contribute to their countries in terms of output and employment. However, despite the important role of SMEs in the economy, their growth is often constrained by the lack of capital, among other hindrances such as regulatory red tape. Their small size, lack of credit ratings and the generally underdeveloped capital markets in the region deny SMEs access to bond and equity financing. SMEs tend to have higher risk profile due to the lack of track records, informational asymmetries, shortage of assets and collaterals, insufficient management skills (Business for development 2007, 89- 91). The difficulties in accessing funds also originate from the incomplete range of financial products and services. Banks or other funding organizations may refuse to provide finance to certain types of SMEs because they lack substantial collaterals or fail to prove the better future performance.

In this chapter, the author is not going to explore too much about the SMEs' financing gap; instead, a small research has been carried out to understand how SMEs has been dealing with logistics activities and the impact of logistics in SMEs' performance. We all know that logistics contributes a lot to enterprises' performance. The firm becomes efficient if, with its partners, it is able to reduce cost applicable to logistics activities (supplies, warehousing, production, transportation, delivery, etc.) and if it satisfies its customers. A research on the logistics behavior of small enterprises (Halley and Guilhon 1997, 484) points out that more than 80 percent of the sample companies that had logistics activities done by outside consultants especially management consultants and 72 percent advertised on the basis of existing logistics structure. The reason for being outsourced is that even though there are apparently benefits of having own logistics functions in the supply chain, SMEs are less able to harness the benefits of supply chain or encounter greater obstacles when trying to introduce supply chain practices. Vaaland and Heide (2007, 21) show that different implementation in supply chain causes the lack of performance of SMEs. Financial shortage and lack of experience management lead to failure in logistics adoption. Usually, SMEs want to concentrate on their core competent business; therefore, they expect to seek operational assistance in their day to day business. The implementation of logistics in the whole supply chain requires a lot but due to the lack of resources, SMEs prefer simple methods and concepts which need less specialized knowledge (Wang, Kovacs, Wozny and Fang 2006, 390-391). The author is going to dig deeper into the Vietnamese SMEs' difficulties in the next chapter, section 4.4. Next chapter will present also the big picture of Vietnam logistics market and how the theory applies in the real life.



## 4 ANALYSIS OF THE OUTSOURCING LOGISTICS MARKET IN VIETNAM

This chapter is aiming at providing knowledge of the current situation of the Vietnamese logistics market and the result of findings coming from the interviews and survey. The first section starts with the overall introduction about the domestic market, its difficulties and opportunities for improvement. Section 4.2 discusses the role of SMEs in Vietnam's economy, their problems of being too small and the financial shortage. The controversial topic on customs issues will be mentioned in section 4.3. Section 4.4 deals with the domestic logistics service providers in Vietnam. This section will talk about how those domestic providers operate in a competitive market and a small comparison between the services provided by Vietnamese companies and international companies. And the last section provides readers with the result of survey. This chapter is written based on the secondary and primary sources. Interviews with staffs from SMEs increase the author's awareness of SMEs' difficulties in accessing financial support which obstructs their logistics activities. Respondents from the survey help the author to explore deeper into the logistics outsourcing market. The secondary sources are primarily from the newspaper and forums that concerning the topic. Some facts about Vietnamese are drawn from reliable websites. Please refer to the reference for websites' addresses.

### 4.1 Logistics market in Vietnam

It has been clear that Vietnam is a developing country and its economy is a developing economy. An agricultural-based economy has witnessed a noticeable growth after its World Trade Organization membership. Its growing economy is an attraction to international business partners who are seeking a lower cost but fairly good market. Recently, many newspapers and researches have predicted that Vietnam has potentials of being the most exciting market in Southeast Asia. An interview with the managing director of Maersk Logistics for Asia Pacific points out that Vietnam possesses a number of very good factors that make it an attractive market (<http://www.vnbusinessnews.com/2008/12/vietnam-seen-becoming-exciting.html>). A wider access to the world trade is one of the factors

because it provides the country with a good base for export. Recently, a rising number of companies look at Vietnam as an outsourcing destination which also results from its ideal location. Another factor is Vietnam's good long term economic fundamentals which supports a positive future for Vietnam's logistics industry. Despite the global economic slump, it is forecasted that real GDP growth is 3% in 2009 and will reach 4% in 2010; also the inflation is expected to slow sharply to 5.1% in 2009 and to 3.6% in 2010 (Economist Intelligent Unit).

TABLE 5. Vietnam-Logistics Infrastructure

([http://www.business-in-asia.com/infrastructure\\_asean.html#vietnam](http://www.business-in-asia.com/infrastructure_asean.html#vietnam)).

Modes	Value	Characteristics
Port	Fair	<ul style="list-style-type: none"> <li>-Ports and terminal: Hai Phong, Ho Chi Minh city</li> <li>-The major ports are in Hai Phong in the north, Ho Chi Minh city and Can Tho in the South.</li> <li>-Major ports in the South are estuarine ports that large vessels can not pass by.</li> <li>-Major ports have advanced and sufficient facilities including EDI systems and ample handling capacity against the present demand.</li> <li>-Merchant marine:               <ul style="list-style-type: none"> <li>Total: 267 ships (1000 GRT or over) 1,423,936 GRT/2,191,858 DWT</li> <li>-by type: bulk carrier 23, cargo 202, chemical tanker 4, container 5, liquefied gas 5, petroleum tanker 24, refrigerated cargo 2, roll on/roll off 1, specialized tanker 1</li> <li>-foreign-owned: 1 (Denmark 1)</li> <li>-registered in other countries: 17 (Antigua and Barbuda 1, Honduras 1, Mongolia 8, Panama 4, Saint Vincent and the Grenadines 1, unknown 2) (2006)</li> </ul> </li> </ul>
Airport	Fair	<ul style="list-style-type: none"> <li>-Major international airports include HoChiMinh city, Hanoi and Da Nang.</li> </ul>

		<p>-Airports: 32 (2006)</p> <p><i>Airports - with paved runways:</i></p> <p>Total: 26</p> <p>over 3,047 m: 8</p> <p>2,438 to 3,047 m: 5</p> <p>1,524 to 2,437 m: 11</p> <p>914 to 1,523 m: 2 (2006)</p> <p><i>Airports - with unpaved runways:</i></p> <p>Total: 6</p> <p>1,524 to 2,437 m: 2</p> <p>914 to 1,523 m: 2</p> <p>under 914 m: 2 (2006)</p>
Road	Fair	<p>Total: 222,179 km</p> <p>paved: 42,167 km</p> <p>unpaved: 180,012 km</p>
Railway	Fair	<p>-Two international routes to China are available from hanoi through Lao Cai and Dong Dan without cargo transfer.</p> <p>-Higher utilization of Lao Cai to Hanoi section: unable to respond to the increasing demand and future requirements for cargo transfer at the China border due to change of gauge width.</p> <p>Total: 2,600 km</p> <p>standard gauge: 178 km 1.435-m gauge</p> <p>narrow gauge : 2,169 km 1.000-m gauge</p>

Despite the growth in economy, we can not deny the fact that Vietnam is very much in the early stage of logistics. Lack of infrastructure is the most concerned topic that the government and foreign investors have been worrying. The table 5 shows the evaluation the logistics infrastructure of Vietnam. According to a newspaper (<http://english.vietnamnet.vn/biz/2008/09/804950/>), Vietnam faces an extra cost of more than 1.7 billion because the lack of port logistics leads local companies have their shipments transshipped via ports in Hong Kong and Singapore. Vietnam has totally 114 seaports but only 14 of them are considered

internationally such as ports in Hai Phong, Cat Lai and they are, unfortunately, just river ports.

In explaining for the annual loss of US\$1.7 billion, Nguyen Tuan Hoa, deputy director of the Development Study Center under the HCMC government, points out at a conference that logistics expenses in the US made up 9.5% of GDP, 11% in Japan, 16% in South Korea, 21.6% in China and 25% of GDP in Vietnam. Poor infrastructure, in particular, the lack of deep-water ports serving as international transshipment points forces all the shipments to be transferred to other ports in the same area before heading to foreign markets. Consequently, the extra cost for every container is approximately US\$400.

5<sup>th</sup> November 2007, World Bank released the Logistics Performance Index (LPI) which is based on the survey of operators all over the world. The survey combines all the feedbacks on the logistics performance of the country they are operating or trading. The result is evaluated from 1 to 5 (5 is the highest) and Vietnam is placed 53<sup>rd</sup> in the ranking. Once again, the ranking shows that the domestic logistics cost in Vietnam have been too much. Cost is always the most concern for either foreign or domestic operators. According to the LPI provided by World Bank, Vietnam has an average score of 2.89. All of the factors determining logistics performance include customs and other border agencies, infrastructure, competence of private and public logistics service providers, corruption and transparency and last but not least the reliability of trading system and supply chain (The logistics performance Index and its indicators 2007, 13-14).

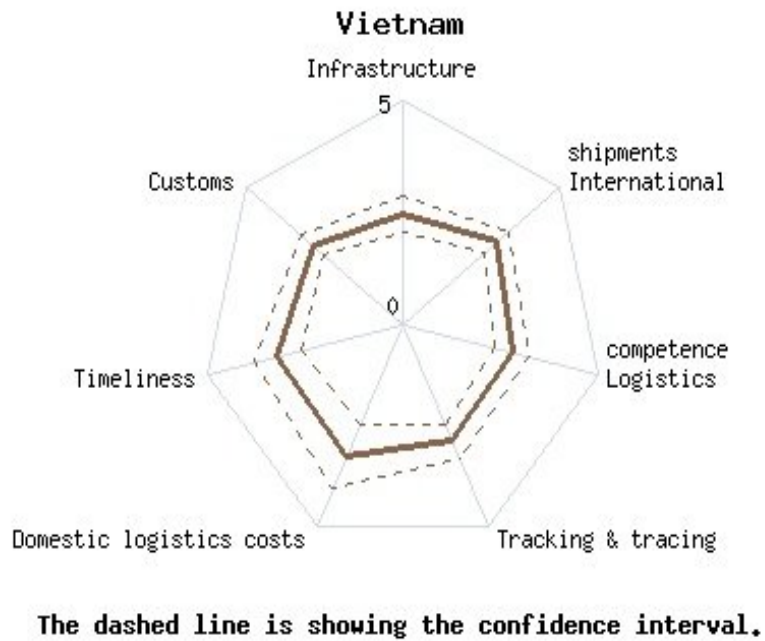


FIGURE 15. LPI of Vietnam (World Bank 2007)

		Vietnam	
Overall LPI	score	2.89	
	rank	53	
	conf	0.18	
Customs	score	2.89	
	rank	37	
	conf	0.37	
Infrastructure	score	2.5	
	rank	60	
	conf	0.41	
International shipments	score	3	
	rank	47	
	conf	0.39	
Logistics competence	score	2.8	
	rank	56	
	conf	0.46	
Tracking & tracing	score	2.9	
	rank	53	
	conf	0.43	
Domestic logistics costs	score	3.3	
	rank	17	
	conf	0.78	
Timeliness	score	3.22	
	rank	65	
	conf	0.6	

FIGURE 16. LPI of Vietnam (World Bank 2007)

There is a positive signal for logistics market in Vietnam when The Transport Ministry plans to develop sea port and shipping facilities, push up training of personnel and IT application to boost logistics industry (Vietnam Maritime Social Network 2007). Anyway, Vietnam is still in the first steps of building a better market for domestic and foreign players, there is a long path waiting ahead if Vietnam wants to reach its goal. Some Vietnamese economists forecast that despite the economic slump, Vietnam is very little affected and will grow steadily. We can not say any thing in advance now, let's wait and see for the change.

#### 4.2 Small and medium sized enterprises in Vietnam

The Vietnamese economy is characterized by a large number of small and medium sized enterprises with little capital, total SME capital accounts for just 20 percent of the total business capital value of all enterprises, and a small number of state-owned enterprises holding most of the capital of the whole country (Harvie 2001, 13). According to Government Decree 90/2001/ND-CP, SMEs in Vietnam are defined as independent production and business establishments, which make business registration according to the current law provisions, each with registered capital not exceeding VND 10 billion (equivalent to €451,710) or annual labor not exceeding 300 people.

TABLE 6. Establishment and Employment in Vietnam (General Statistic Office Establishment Census 2002).

<b>Vietnam, 2002</b>	<b>SME</b>				<b>LSE</b>	<b>Total</b>
<b>Establishments</b>	<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Sub-Total</b>		
Number of business establishments (1,000)	2,660	46.7	11	2,718	2.5	2,720
Percentage of all establishments (%)	<b>97.8</b>	<b>1.7</b>	<b>0.4</b>	<b>99.9</b>	<b>0.09</b>	<b>100</b>
<b>Employment</b>						
Employment (1,000)	4,375	887	1,221	6,483	1,909	8,392
Percentage of persons engaged (%)	<b>52.7</b>	<b>10.5</b>	<b>14.5</b>	<b>77.3</b>	<b>22.7</b>	<b>100</b>
<b>Average Size of Establishments</b>						
Persons engaged per establishment	<b>1.6</b>	<b>19</b>	<b>112</b>	<b>2.4</b>	<b>773</b>	<b>3</b>

As shown in the table, of those registered companies, 99.9% accounts for small and medium enterprises. However, there is almost no figure available for the contribution of SMEs to the economy. In an estimation, SME's account for approximately 26% of Vietnam's GDP, 31% industrial output, 78% retail turnover, 64% transportation value, 49% non-agricultural employment and 25% of labor force (Vietnam's Report on the Integrated Plan of Action for SME development (SPAN) March 2004). Despite the great contribution of SMEs to the development of the economy, SMEs are the first ones that bare disadvantages the most. SMEs in Vietnam are described as young, low competitive with 80% small sizes. In a domestic basis, SMEs' low competitiveness may include small capital investment, lack of investments skills, low productivity, high price, lack of perception about international law, not pay enough attention to brand names and lack of entrepreneurship trend. (Tran 2006, 4.)

Another report from National Center for Science and Technology (Le 2005.) supplement his ideas to the problems of SMEs in Vietnam. According to the report, like other SMEs in the world, SMEs in Vietnam is also having a hard time accessing to finance. However, operating in a developing country, they encounter more difficulties than others in the same fields. Those problems can be figured out as constraint in land, shortage of information, disadvantages in technology, machines and equipment, deficiency in human capital and playing fields have not been level.

Apparently, the financial shortage has affected on the logistics activities in SMEs. Ms Dang, customer service assistant of Yamoto Logistics company, admits that only big companies owning their own trucks, warehouses and enough staff to have in house logistics, most of the SMEs rely on outside services to some extent either transportation, warehousing or paper works. Talking about logistics outsourcing in Vietnam, we are talking about the phenomenon. Interviews with some managers and assistants of both logistics companies and their client companies (small and medium companies in this context) show that outsourcing is a global trend. Mr. Phong, import coordinator of Logistics Solution Co., ensures

that more than 80% of companies have one or more logistics activities outsourced. This encourages the growing of logistics service companies.

It is easily noticed that from the providers' point of view, there are a lot of reasons to outsource. Anonymous respondent points out that outsourcing logistics helps companies to save both operation and labor cost. "When you have your own logistics department or let's say, a few staffs in charge of logistics activities, you have to explore their full capacity or else you will waste your money for hiring them. However, using external services is more flexible. You buy service whenever you need and pay for only what you use", he says. Another reason that seems to be unreasonable to other countries but very true in Vietnam that customs officials are more friendly with those who are from logistics companies. This is admitted by most of the interviewees. It is simply because the corruption in Vietnam is still a sting smart and corrupted officials live on the network with logistics service companies. It is supported vigorously by SMEs.

In conclusion, due to the small scale and lack of finance, SMEs are likely to have their logistics activities done by external providers. There are many reasons for them not to operate in house. To some extent, using service providers for logistics operation benefits both parties in terms of efficiency, cost and time saving. Next section is concerned with the biggest reason, as most of the interviewees reckon, of using logistics service providers.

#### 4.3 Custom issues: the main reason for outsourcing logistics in SMEs

There is nothing new when discussing about customs in Vietnam, still it is one of the controversial topic that has been talked over and over. Customs would not become a hot topic unless Red tape exists. Philip Shenon (The New York Times, 1994.), in a piece of news about Vietnam, describes red tape as a bureaucratic elephant sits on the back of a potential economic tiger. Like most of the countries in South-East Asia, Vietnam possesses a long tradition of red tape which hinders the development of both economy and social life.



Considered to be one of the fastest growing economies in the area, Vietnam attracts lots of foreign investors. Unfortunately, those investors find themselves hesitate to join the country due to the disreputable red tape. They admit that before participating into the game, they have prepared that the cost could be overwhelming than expected. The cost of opening and running a business, the cost of getting through the customs and the cost of thousands of miscellaneous business emerge during the establishment, which can push investors in dilemma. Worse still, red tape affects even the native people. Too many stamps and seals required for unimportant matters makes government offices avoiding places. Even though the media press has been publicizing this problem for a long time, nothing seems to change.

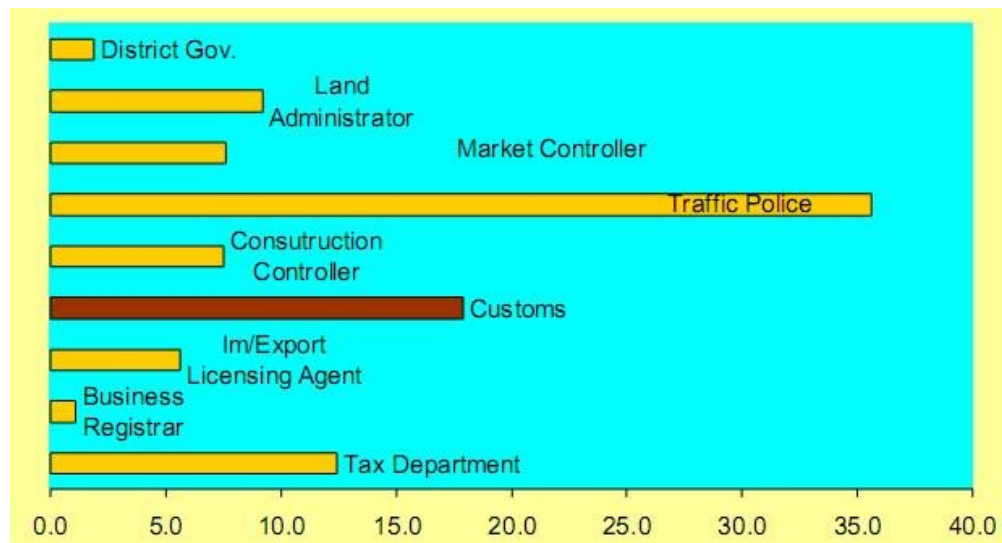


FIGURE 17. Vietnam customs: Vulnerability to Corruption (Pham 2005, original from Vietnam ICA Database, 2005).

Coming back to logistics, where the international movement of goods has so many things to do with customs. Interviews with managers and staffs of many logistics companies show that customs is their most concern even they are professional in the field, dealing with customs almost every day. Not to mention amateur people from small and medium enterprises who struggle themselves with

the complicated paper works. Mr. Phong, who is in charge of export goods in Logistics Solution Company, said “customs red tape is a disease that seems never to be healed, all you can do is to live with it and adapt yourself to survive”. With five years experiences in customs clearance, Mr. Phong has been dealing with corruption quite well. It is a shame to admit that the customs procedure is prolonged so that the customs officers can earn money from declarants. Every single step in the procedure, every custom officer to be met, every single person involving the system has to do with money. However, it is not that simple. A wise declarant knows how much money is given out in each step and how to impress the customs officers by the way money is transferred in order to establish a kind of relationship for future cooperation.

It is not an exaggeration to say that customs is the reason for most of the logistics outsourcing in small and medium companies. As present above, SMEs in Vietnam have quite small size in comparison with those in developed countries. They do not deal with tremendous amount of bulky goods every day but a very small amount on a random basic instead. Staffs that are not trained to cope with this problem will lose more time and money for going nowhere. Logistics service providers are good at solving the customs problems with less money as they have built a wide network. Ms Nguyen Thi Hong Hanh, manager of Green Maple Knitwear Company, admits the difficulties in attaining all the appropriate documents for export. Any delay in the procedure can delay the movement of export goods which is supposed to send to customers at the agreed time. Therefore, the company has a separate finance for customs, which can be used to get the process going smoothly.

TABLE 7. Customs clearance times (International Exhibition Logistics Associates <http://www.iela.org>).

	Average days for customs clearance		
	Air	Sea LCL	Sea FCL
France	1	4	2

Germany	1	1	1
Greece	1	1	1
Netherlands	1	2	2
Spain	2	2	2
Sweden	1	2	2
USA	2	3	3
China	4	30	5
Hongkong	2	4	3
Indonesia	3	4	4
Malaysia	4	4	4
Philippines	4	5	3
Singapore	2	3	3
Taiwan	4	10	7
Thailand	5	5	5
<b>Vietnam</b>	<b>5</b>	<b>7</b>	<b>7</b>
Argentina	7	15	12
Brazil	10	10	10
India	8	10	12
Russia	10	12	15
Mexico	4	7	4
Mozambique	5	8	8
Zimbabwe	4	5	5

Notes: LCL is Less than Container Load; FCL is Full Container Load

SMEs that operate on a domestic basis might think that they do not have anything to do with export and import. However, even though their market is totally within the country, they somehow deal with the customs for importing machines or accessories needed for the business. Eventually, no matter how often they have goods imported, they are related to the huge amount of paperwork in customs procedure. Not to mention that it even requires more documents for import goods than export goods, which prolongs the customs clearance time. Most of the interviewees from logistics companies, when being asked, agreed that more than 60% of the job they are doing is related to customs clearance. It appears that,

complicated customs procedure has led SMEs to a difficult situation so that they prefer using outside services to doing on their own.

#### 4.4 The role of domestic logistics service providers in the Vietnam market

According to Vietnam Freight Forwarders' Association, there are about 800-900 companies engaging in the logistics industry. All those companies are quite young with an average operation time of five years and many of them are small-scales with 80% of Vietnamese logistics firms have registered capital of less than 1.5 billion VND (approximately €63,000). The in-depth interview with Ms Dang shows that logistics outsourcing is a growing phenomenon which attracts approximately 70-80 percent of all the SMEs in Vietnam. It is a remarkable trend that supports the growing of logistic companies. Describing the establishment of logistics companies in Vietnam, Ms Dang said that it was like mushrooms after rains. The deregulation of policy contributes a lot to the growing phenomenon. According to her, in the 1990s, in order to establish a new business, the registration capital was \$200,000 but it only takes VND 10 million nowadays. Another reason for the growing of logistics companies is that logistics outsourcing is more and more developing. As mentioned above, about 70-80 percent of companies are likely to have logistics activities done by external partners. It makes logistics become a profitable pie.

Logistics service providers are no longer strange to the market with the presence of many famous international companies such as APL Logistics, Maersk Logistics, Exel, El, Schenker, Fritz Forwarding. The most common thing among those service providers is that they provide a wide range of services, from A to Z and have long time experiences in satisfying customers' needs. However, domestically logistics companies just stop in one of many logistics chains. It is easily noticed that in the profitable logistics pie, domestic companies account for a very small portion. Mostly, domestic companies operate in warehousing services, domestic transport and freight forwarding. It shows that there is no right third party logistics in Vietnam, not to mention the international companies that are operating in Vietnam' market. Why is that?

If we think about the definition of 3PLs given by Protrans, a project examines the role of third party logistics service providers and their impact on transport; we will get a clearer role of 3PLs. Third-party logistics (3PL) are activities carried out by an external company on behalf of a shipper and consisting of at least the provision of management of multiple logistics services. These activities are offered in an integrated way, not on a stand-alone-basis. The co-operation between the shipper and the external company is an intended continuous relationship (Protrans 2000). It means that 3PLs are companies that provide customers with one stop shop logistics services even though not all the customers are willing to outsource their whole logistics activities. 3PL is a developing process that includes transportation, delivery, warehousing and also consultant and technology services. 3PLs are those who are competent at providing the whole package of logistics, which involves the movement of goods and information, the management of suppliers. Warehousing providers, transportation providers or delivery service providers are just 3PLs' suppliers.

Most of the domestic logistics companies in Vietnam are purely logistics companies that offer one or more services in the logistics chain. According to Mr. Kurt Binh (Vietnam's supply chain and logistics blog 2008.), reasons for the failure in the home battle can be described by the following factors:

- Vietnamese companies are founded very much later in comparison with foreign companies which have long standing history of development such as Maersk, APL...
- Limited network limits the development of domestic companies. Foreign companies have a wide network all over the world, for instance APL Logistics connects with nearly 100 countries, Maersk Logistics 60 countries, the same to Exel; while Vietnamese enterprises reach only some neighbor countries at the furthest.
- Domestic logistics companies operate only part of the logistics chain and the most commonly one is freight forwarding. There are still many services that domestic logistic companies leave open such as PO management, consolidation/cross docking, vendor management, Value added warehousing, production compliance, Electronic Data Interchange

clearing house and so on. These are value added services that big 3PLs in the world have been offering to their customers but in this research paper, the author is not going to delve into their functions.

- Trading in Vietnam mostly follows Free On Board (FOB) term which terminates sellers' responsibilities when goods are delivered on board. The foreign sellers will decide the transportation operation on their own and mostly they will choose logistics company in their country to operate.
- Poor infrastructure contributes to the high cost in logistics activities; therefore logistics companies have to invest more money, which lessens their profit and the ability to expand.
- Poor information infrastructure limits the ability to control and manage orders, track and trace, ship schedules, e booking, records and so on.
- Lack of association of related enterprises. Warehousing, transportation, freight forwarding seem to work alone and do not link to create a one-stop shop.
- The role of government. The government did not put so much effort in supporting domestic firms by innovating infrastructure, building a good network and a healthy competitive environment.

It is not surprising when Ms Dang says that most of the logistics companies in Vietnam work as freight forwarders. It is understandable that small domestic logistics companies do not have enough competence to compete over their own home battle and they have to concede the large portion in the logistics pie to foreign opponents. There is no real third party logistics or fourth party logistics in Vietnam, but only freight forwarders who name their companies Logistics Companies. Services provided by Vietnamese companies are mostly booking or arranging space for shipments using business relationship with all kinds of carriers such as air, rail freighter, trucking companies and ocean liners. Other services may be documentation works such as customs clearance. It is not complicated to point out the difference between domestic and foreign logistics service providers. Big players in the field absolutely come from abroad and hold most of the market shares including DHL, Kuehne-Nagel, Maersk Logistics, Schenker, and APL Log and so on.

The Vietnam Freight Forwarders Association blames that domestic logistic companies have failed to build a global supply network which hampers their efforts to acquire market share. Apparently, local logistics firms fail to compete in all aspects. The Vietnamese market is an unfair battle field as the competence between domestic and international LSPs for market shares is like to throw rock over the eggs. Foreign logistics companies when preparing to fight in the Vietnam's market receive much supports from their home logistics association in commercial information, potential market and so on while the Vietnam Freight Forwarders Association has not manifested its full potentiality. Let's have a look at the comparison table demonstrating both parties' characteristics.

TABLE 8. Distinction between domestic and international logistics service providers.

Domestic	International
-Small scale	-Large size
-Shortage of funding	-Big investment
-Limited and simple services	-Variety of services
-Inexperienced staff	-Skillful and knowledgeable staff
-Operating in a domestic base and some neighboring countries	-International base
-Newly established (only a few years)	-Long-standing established ( over 100 years)
-Poor information base	-Advanced information infrastructure
-Operating separately	-Cooperating

The table above summarizes the difference between domestic and international logistics service providers. The difference also answers the questions of why domestic logistics companies lost in their home battle. For the development of domestic logistics service providers, please refer to chapter 5 where the authors gives recommendations for both SMEs and domestic LSPs.

#### 4.5 Results of survey

A small survey has been carried out and the result gathers some information from participants about logistics services in Vietnam such as outsourcing activities, logistics demand, logistics-related IT. Twenty companies respond to the survey help to answer the logistics outsourcing problems. As expected, 77.8 percent of respondents say that they are having one or more logistics activities outsourced. Once more, the result is evidence that affirms the constant growing tendency to outsourcing. For those who do not outsource their logistics activities, 50 percent of respondents said they would outsource, 25 percent would consider outsourcing possibilities in the near future while the rest would not be willing to outsource logistics activities because they feared that it did not reduce costs.

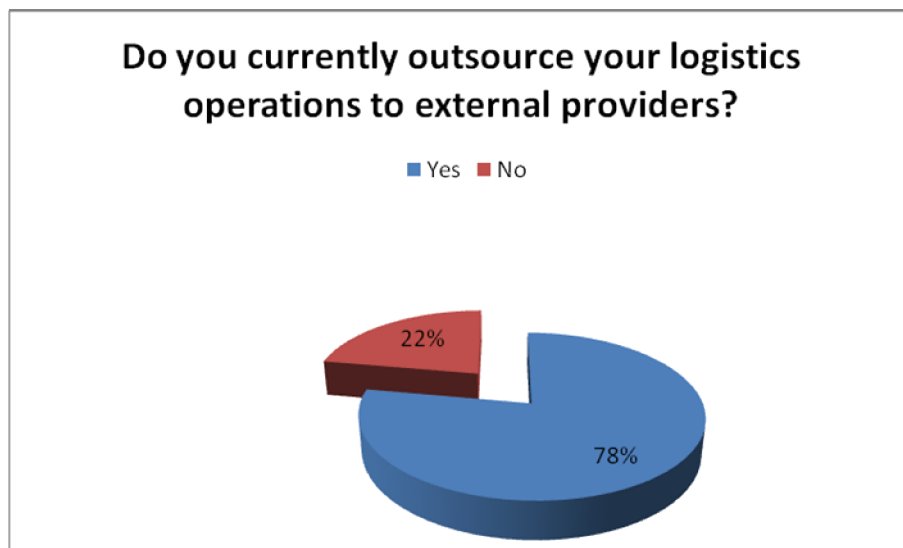


FIGURE 18. Users and non users of logistics services.

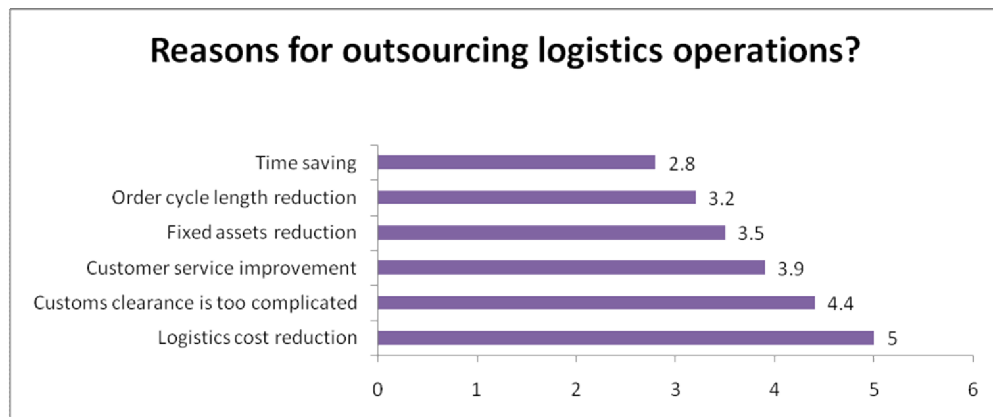


When being asked about the reasons for outsourcing logistics operations, all of the respondents agreed that cost reduction is what they desire the most. Mrs Vo, accountant of Xin Da Cheng Co., states that her company has spent a lot in logistics activities especially transportation cost and now they hope to cut the redundant cost by cooperating with external logistics companies. In addition to cost reduction, customs clearance is the second most concerned factor.

Responding to customs factor, some interviewees highlight their point of views: “No one in my company knows much about customs. We have our own tasks to do and do not bother to study those that are not our majors.”

“We used to hire one man to be in charge of documentation. But it did not work out because we lost than we expected. One day, we discovered that he raised the price in order to pocket the surplus”.

Another important factor is the improvement of customer service. In time delivery contributes a lot to customer satisfaction. In Vietnam, late delivery is still an unsolved problem, properly because of the country’s monochronic character. Other factors are taken into account are fixed assets reduction, order cycle length reduction and time saving.



Scale from 1 to 5, 5 is the most important factor, 1 is the least.

FIGURE 19. Motivation for outsourcing logistics activities.

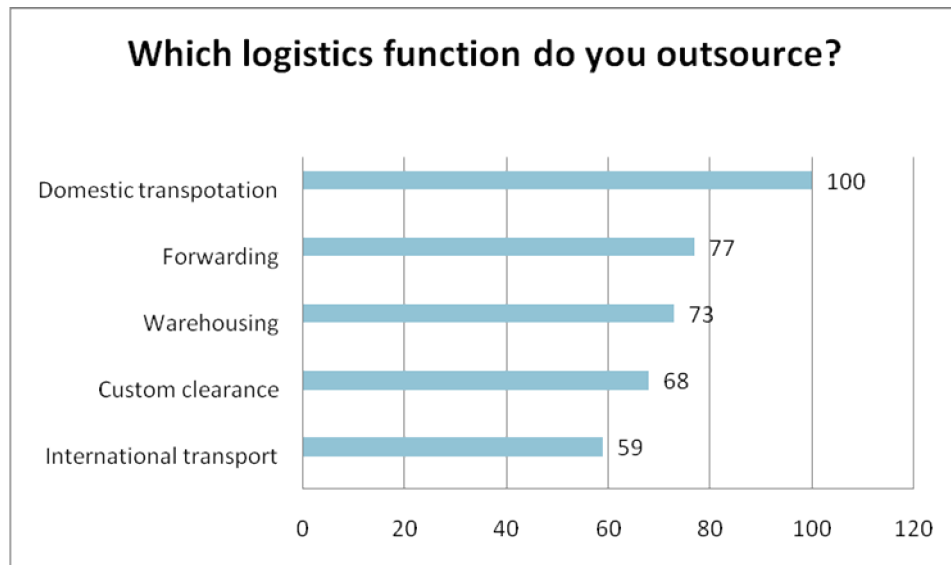


FIGURE 20. Top 5 logistics activities outsourced.

Top five logistics activities outsourced include domestic transportation (100% respondents), forwarding service, warehousing, customs clearance service, and international transportation. Domestic transportation requires big investment and good management such as trucking fleet investment, driver management, and fleet maintenance; therefore, all customers outsourced the activity to domestic trucking companies. Explaining for the popular use of domestic transportation, Mr. Phong says that because most of the trading contracts between Vietnamese companies and foreign partners follow FOB in the Incoterm, which states that seller must load the goods on board the ship nominated by the buyer, cost and risk being divided at ship's rail; so only domestic transportation required to the transfer the goods to the port. That is why 100% respondent companies outsource their domestic transport. Warehousing, which accounts for 73% of the top five logistics outsourced, answers the problem of SMEs in land constraint and the inability to achieve enough financial support for expanding.

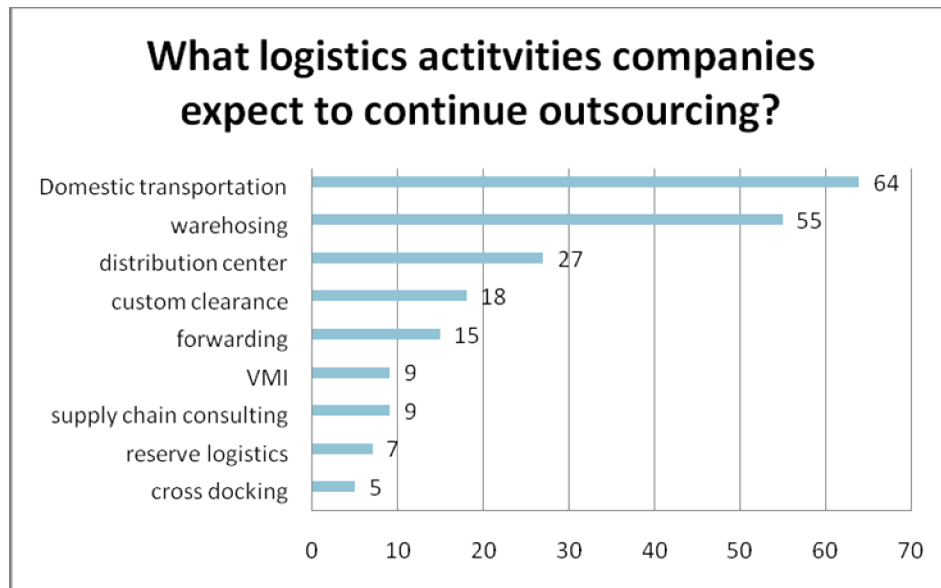


FIGURE 21. Activities expected to continue outsourcing.

As expected, domestic transportation is always in the first place. In the country context, the constantly growing of outsourcing domestic transport is understandable since the financial shortage hinders companies from building their own truck fleet. Respondents are considering possibility of outsourcing several complicated activities like Vendor Management Inventory, reverse logistics, cross-docking, and supply chain consulting in the future.



Scale: 5 is the most important, 1 is the least.

FIGURE 22. Factors affecting the choice of logistics service providers.

Respondents rate eleven factors based on their importance when considering the collaboration with logistics service providers. It is found that service quality and price are considered the most important factors. It is not surprising as they are always set first when contracting for services. Continuous improvement and experience, expertise and innovation are the third and fourth important factors respectively. All of the factors above are relatively important when customers have an overall evaluation on logistics service providers as they are all rated above 3 in the scale.

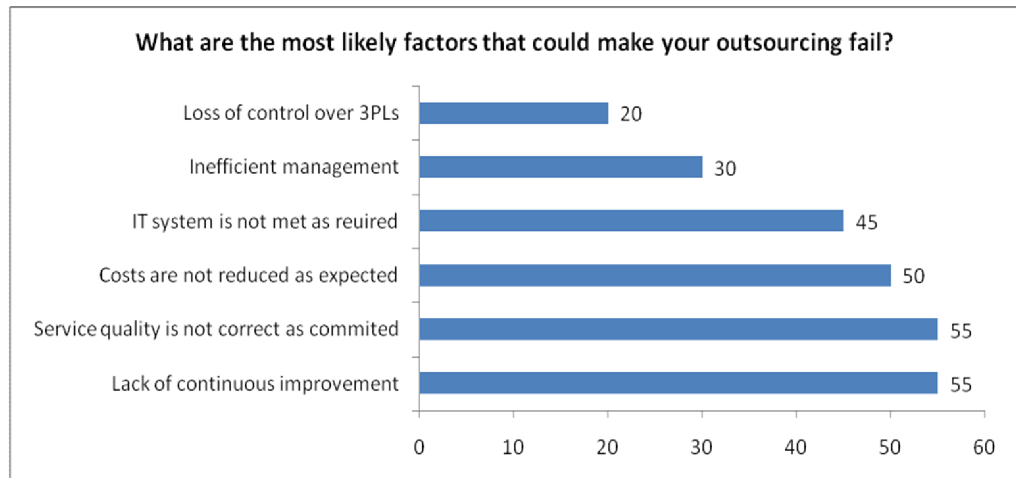


FIGURE 23. Existing problems experienced with logistics service providers.

Despite getting the certain benefits, the companies report frustrating problems with logistics service providers as indicated in Figure 23. Stayed at the top of the list are the problems one would naturally expect – "service quality is not correct as committed" (55%) "lack of continuous improvement" (55%), and "costs are not reduced as expected" (50%). The main problem that almost all the books report is the loss of control over 3PLs is quite under estimated in this survey (20%). Vietnamese companies start to appreciate the role of Information Technology system as 45 percent of respondents express their disappointment in logistics providers' IT system.

## 5 RECOMMENDATIONS

This chapter will present the author's ideas based on the results of the survey and the interview. The ideas, which can be considered as recommendations for the improvement of the logistics market in Vietnam, will be divided into two parts. The first part is recommendations for SMEs and the second part is concerned with the points of view of SMEs for the improvement of LSPs.

### 5.1 Solutions for SMEs

Throughout the study and the results provided by the online survey, the author takes the liberty of giving her own personal opinions. Knowing that opinions may be found as too abstract, the author will try to keep them as short and understandable as possible. As operating in a developing country, SMEs in Vietnam encounters more problems in accessing supports from the government and social organizations. To manufacturing-oriented companies and other companies that are related in logistics activities to some extent, some suggestions are raised to temporarily solve their problems.

**Outsource.** It can be an immediate solution for SMEs. Shortage of financial support to invest in building own truck fleets and warehouses, SMEs have no other ways than having used services from external providers. It is an inevitable phenomenon. Traditional logistics activities such as transportation, warehousing, customs clearance and forwarding are the most outsourced activities as illustrated in the survey. While having those logistics activities outsourced, companies can concentrate on their core business which affects the turnover the most. However, the author will not recommend all SMEs to outsource their logistics activities, in this case are transportation and warehouses. The most important thing before getting into the correlative relationship with logistics providers is that SMEs have to calculate the pros and cons of using external services. Cost will be the most concern for SMEs as it plays an essential role in getting the business move on. In some cases, outsourcing does not help to reduce cost but in reserve costs more than expected. For instance, a micro scale company that produces greeting cards is

capable to have in house logistics activities as greeting cards do not require lots of space for storage and can be transferred by small trucks or even motorbikes (the most common vehicle in Vietnam). It does not make sense for that company to rely on service companies. Therefore, SMEs should really understand their situation and consideration should be taken before final decision is made. In any case, outsourcing or not is the companies' own interests, cost analysis should be taken into account to reach the best solution.

**To what extent should companies outsource their logistics activities?** SMEs that can not afford to have their own transport means and warehouses will rent them from service providers. It is the fact that we can not avoid; however in the logistics chain, there are lots of other activities that need to be paid attention. Since the logistics market in Vietnam is very much younger than other markets in the world, we only care about the core logistics operations. It means that in the Vietnam context and also in many people's understanding, logistics is synonymous with transportation, warehousing, customs. And that's all. When talking about logistics outsourcing in Vietnam, we understand that companies hire trucks and warehouses for the conveyance and storage of their goods. In Vietnam, there seems to be no absolute logistics outsourcing, companies only count on service providers for those activities that they are unable to do. As discussed above, customs clearance is one of the main reasons for SMEs to use service of providers. SMEs are likely to transfer all the customs related matters to service providers because they do not want to get involve in it or just because they are fed up going back and forth to the customs office. It is good to have those documents handled and it helps to save time and money. However, it happens that some service providers take advantage of their clients' ignorance to raise the cost of service. Companies may have to pay more than they should. In this case, having a staff in charge of customs clearance is a better solution. Even though one interviewee said that hiring staffs to be in charge of logistics operation was a waste of money if the company did not explore their full capacity, the author still thinks that companies should avoid being overpaying by exploring their own staffs. It will cost more at the beginning of course, but in the long run, the cost reduction will be seen dramatically. Otherwise, companies need to really know their partners and trust them enough to rely on.

**Set clear goals.** Outsourcing or not is still a big questions to companies. Some support, some don't. Even though outsourcing is a global trend, SMEs should not follow the crowd. A clear goal helps companies to know where their strengths are and therefore, guides them to right destination. An analysis of companies' strong and weak points answers whether they should outsource or not.

## 5.2 Improvements from the SMEs' point of view

By studying the logistics outsourcing market in Vietnam, the author found out that domestic logistics service providers still have weaknesses and shortcoming. In order to gain attention from the potential customers, the author would like to take the liberty to evolve some suggestions that may help LSPs. These suggestions are based on the SMEs' point of views in expecting better services. Even this study focus on SMEs but with valuable point of views of respondents, the author thinks it would be nice to raise the topic a little bit wider.

**Improve quality and reduce cost.** Obviously from the survey, service quality and service price are the first factors coming in minds of respondents when being asked which factors considered to choose service providers. To attract customers, there is no other ways for LSPs than to improve themselves. The improvement should start from the staff by training them with logistics skills and companies should put more efforts in building a better customer service.

**Associate to build all in service chain.** The logistics market in Vietnam is in a dispersive period. Local logistics service providers operate purely in a narrow and traditional sphere such as transportation, freight-forwarding, warehousing without having a profound strategy. It is a high time for domestic logistics companies to co-operate to build an all-in-one service. It helps to create a better competitive ability over foreign opponents and intensive investment in human resource and information system.



**Standardization – foundation for a solid development.** Lacking of united regulations remains the big problem in logistics service industry. Until now, the definition of logistics only is mentioned in the Commercial Law as an official text admitting the presence of this field. However, there are no specific regulations for this service industry. It requires a long process because logistics has just appeared in Vietnam in the past few years. A standard regulation helps to create a friendly competitive environment and support local logistics firms to build a stronger foundation for future development.

**Improve the role of the government.** It is evident truth that government plays an essential role in fostering the development of logistics in general and local companies in specific. Singapore is a typical example of how government gets involved in the logistics industry by improving infrastructure, protecting local firms, passing clear and fair legislation. Until now, the Vietnamese government has not showed any practical plan for the development of the internal logistics, namely innovating logistics structure, building ports of international stature, deregulating sophisticated customs procedure, assisting local logistics companies in terms of finance, information and technology, etc...Further improvement is very much necessary if Vietnam wants to keep pace with the whole world.

## 6. SUMMARY

Originating from the actual demand of logistics outsourcing in Vietnam as well as in the world, this thesis's topic answers one part of the huge logistics chain.

Chapter 6 is the last chapter of the study and will summarize the author's work from the flash of the very first idea to the end of the study.

Vietnam is a developing country with the rapid development speed. After officially becoming member of World Trade Organization, the economy was seen as steadily growing. Following the world trend, logistics gradually appears in the country's market. However, not so many people really understand the functions of logistics even those who work in the field. Many leaders of organizations in Vietnam when being asked answered that logistics was transportation, warehousing and delivery. As logistics shows its influence in organizations, a new trend arises and it is logistics outsourcing. Logistics outsourcing is nothing new in Europe, America and other developed countries but its role in Vietnam is hardly realized until recent years.

The 1990s witnessed a lot of logistics companies coming out into the society together with the blossom of small and medium enterprises in Vietnam. SMEs account for 99.9% of the total business establishment. However, despite their enormous contribution to the country's GDP, they are having a hard time accessing financial assistance which hampers their expansion ability. In terms of logistics, SMEs have to rely too much on external providers as they are lacking in capital to invest in their own logistics operations. In doing interview and online survey, the author finds out that logistics as well as logistics outsourcing are not well recognized. The survey had to be written in a way that respondents understand that logistics outsourcing is using service from external providers as they are not familiar with logistics jargon.

The survey answers that in Vietnam when SMEs use service from logistics companies; they mostly rent warehouses, trucks or have their customs procedure done. There are no complete logistics services offered by local logistics companies but unconnected and inconsistent parts instead. The sophisticated

customs procedure has been contributing to the use of services according to respondents and interviewees. The author suggests that SMEs should have their logistics activities outsourced to a level that it helps to considerably cut costs and save time. However, outsourcing should start from companies' own need and should be thought over depending on the cost analysis. Do not follow the crowd.

Due to the small size and financial shortage, local logistics companies can not afford to provide their client with all-in-one service. They struggle to vie with foreign opponents for a small piece of logistics cake. Logistics market in Vietnam still has a lot of space to develop; however, in order to win or at least tie with foreign competitors, domestic logistics service providers need a visible pull from themselves and other related associations.

This thesis is just a small study exploring the logistics outsourcing market in Vietnam. The results were achieved through interviewees' own experience and knowledge; it may conflict with experts in this field. The recommendation could be helpful in some ways for SMEs as well as LSPs. However, this study only examines a very small part of the whole logistics chain. Future studies on logistics service providers and their strategic plans will be useful for further development of Vietnam's economy.

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## **INTERVIEW**

Online interview with Ms Nguyen Thi Hong Hanh, manager of Green Maple Ltd. (20 January 2009)

Online interview with Mr Pham Vu Phong, export coordinator of Logistics Solution Co. (1 February 2009)

Online interview with Ms Dang Phuong Nguyen, customer service assistant of Yamato Global Logistics. (15 February 2009)

Name of interview	Company	Address
Nguyen Thi Hong Hanh	Green Maple Knitwear Co. Ltd.	177/52 Luy Ban Bich St, Hiep Tan Ward, Tan Phu Dist., Hochiminh City, Vietnam.
Pham Vu Phong	Logistics Solution Co.	48 Hoang Dieu, Ward 10, District 4. Hochiminh city, Vietnam.
Dang Phuong Nguyen	Yamato Global Logistics Japan, HCM representative office	# 1202 Sunwah tower, 115 Nguyen Hue, District 1. Hochiminh city, Vietnam.

## APPENDIX 1

### List of interview questions

1. In your opinion, how many percent of companies in Vietnam have their logistics activities outsourced?
2. Does the complexity of customs system in Vietnam obstruct companies from getting their jobs done? If yes, how is the effect?
3. What kind of services your clients often use? Please rank them descending
4. Do you know the reasons why your clients use your services? Why don't they operate on their own?
5. Do you encounter any problems when providing services to your customers? If yes, what are those problems?
6. Please tell me your opinion about the logistics outsourcing market in Vietnam? Are you optimistic about its future?
7. In your opinion, why do local logistics companies lose for foreign companies in the home market?

## APPENDIX 2

Cover letter of email questionnaires

Dear Mr. (or Madam)

My name is Nguyen Hoang Bao Khuyen, last year student of Faculty of Business Studies, Lahti University of Applied Sciences. I am currently working on my thesis about logistics outsourcing in Vietnam. This study concerns with all the logistics matters occurring in small and medium enterprises (SMEs) and the main purpose is to find a solution for logistics operations in small scale enterprises. In order to achieve objective opinions, I conduct this small survey to get the opinions from SMEs' point of views. Thanks to Ms Nguyen Thi Hong Hanh, manager of Green Maple Knitwear Co. Ltd, I get your information and contact. I would like to thank you for your effort to express your opinions in my survey. All the information I get from the survey will be used only for the thesis and will not be published for profit.

Once again, I would like to say thank you for your participant in my survey.

Nguyen Hoang Bao Khuyen

List of questions of the email questionnaires

1. Do you currently outsource your logistics operations to external providers?

Yes

No

2. Reasons for outsourcing logistics operations?

	Least important				Most important
Time saving	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Order cycle length reduction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fixed assets reduction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customer service improvement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Custom clearance is too complicated	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Logistics cost reduction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

3. Which logistics functions do you outsource?

Domestic transportation

International transportation

Freight forwarding

Custom clearance

Warehousing

Fleet management

Customer support

Reverse logistics

Information system

Order processing

4. What logistics activities company expect to continue outsourcing?

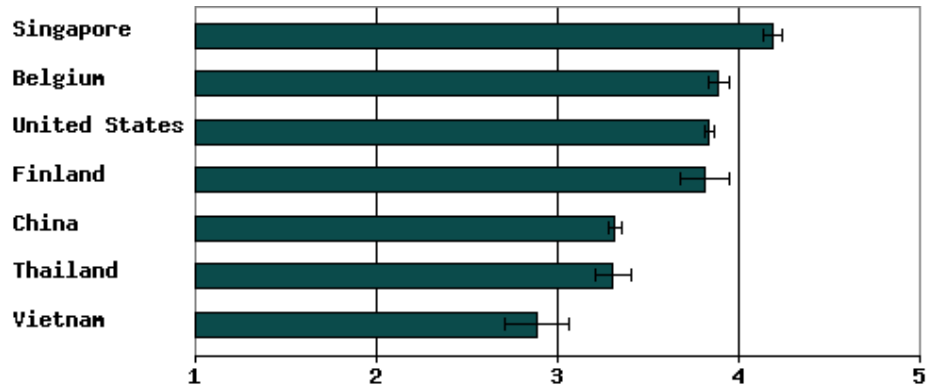
- |  |  |
|--|--|
| <input type="checkbox"/> Domestic transportation | <input type="checkbox"/> Reverse logistics           |
| <input type="checkbox"/> Distribution center     | <input type="checkbox"/> Vendor Management Inventory |
| <input type="checkbox"/> Forwarding              | <input type="checkbox"/> Custom clearance            |
| <input type="checkbox"/> Supply chain consulting | <input type="checkbox"/> Warehousing                 |
| <input type="checkbox"/> Cross docking           |  |

5. What are the factors considered when deciding logistics service providers?

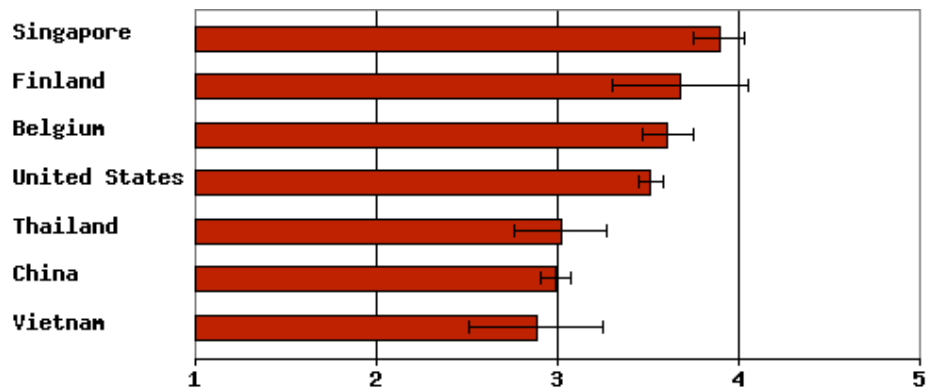
	Least important				Most important
Service quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Service price	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Continuous improvement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Experience, expertise, innovation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business scope and market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Supporting business expansion	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Professional and staff	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Culture and strategy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Suitable IT system	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business type	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Multiple service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Vietnam's Logistics Performance Index

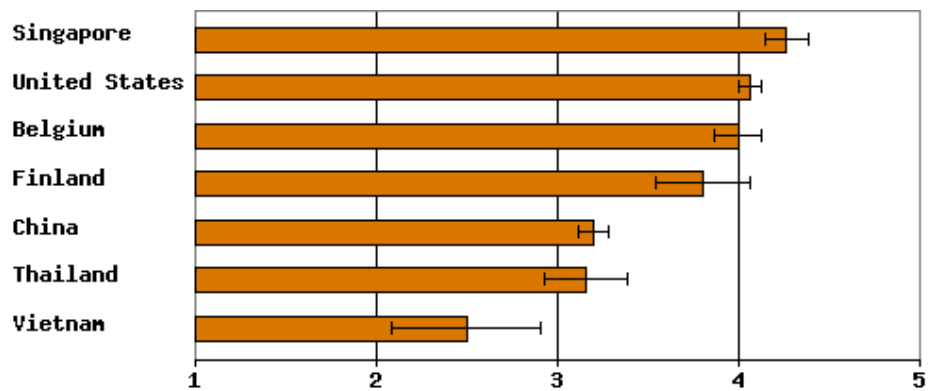
Logistics Index Performance of Vietnam in comparison with some other countries



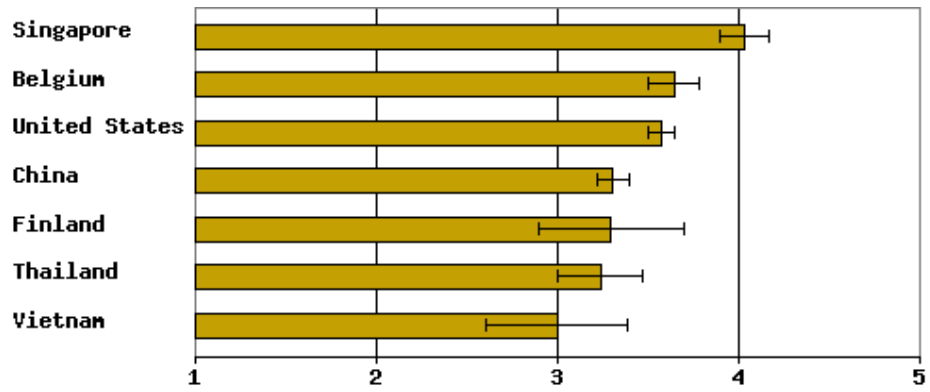
Customs



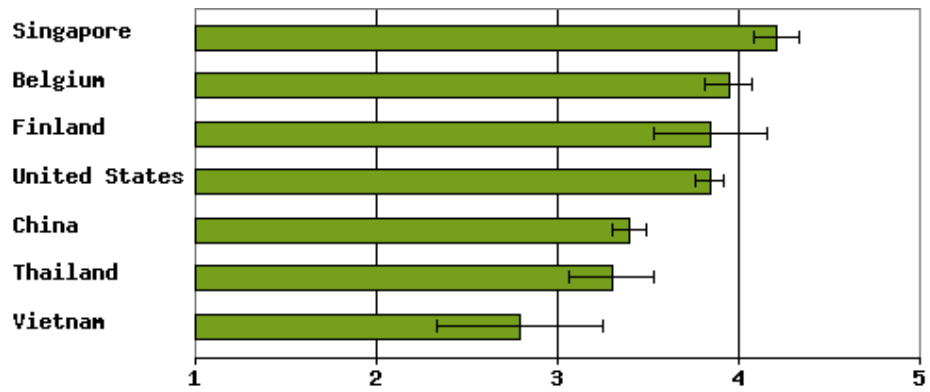
Infrastructure



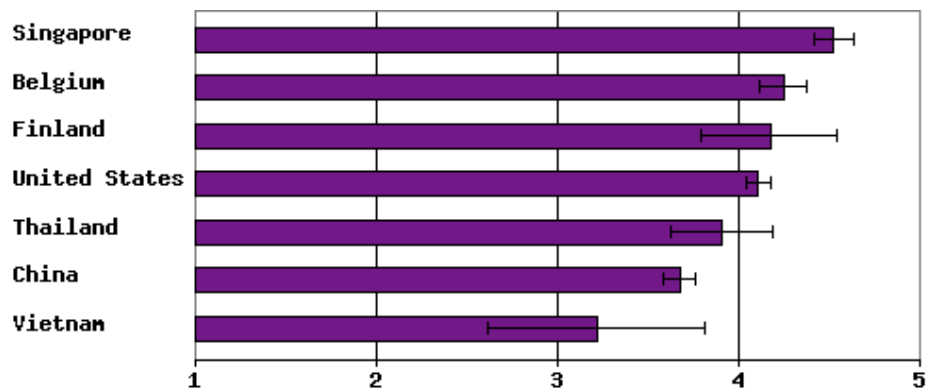
International shipping



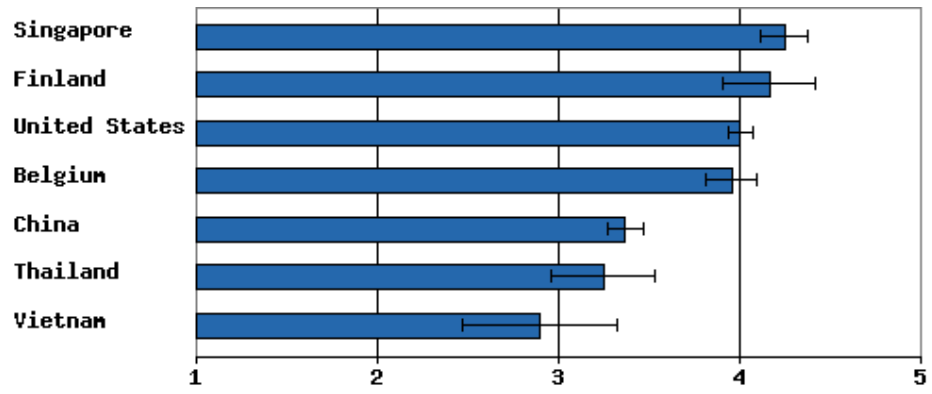
Logistics competence



Timeless



Tracking and tracing



Domestic logistics cost

