COSTING A FREIGHT FORWARDER’S OUTSOURCING DECISION

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ABSTRACT

Any international Freight Forwarder in Thailand faces tough competition. Airfreight is needed for some goods. The cost is high, but can be offset by low inventory cost. FF Company, the focus firm, provides airfreight services to manufacturers. To keep prices competitive, FF’s total airfreight operation cost has to be contained. This research examined whether to outsource part of its airfreight operation or retain it in-house. The total cost of ownership (TCO) concept is used to evaluate this decision. Service quality had to be maintained, outsourced or not. Three TCO models, one for insourcing and two for outsourcing, compared costs per kilogram, service quality, and pros and cons. The finding were that the operation should be retained in-house, not outsourced.

Keywords: Freight forwarder, insourcing, outsourcing, total cost of ownership

INTRODUCTION

A freight forwarder, which is a type of logistics service provider, transports goods across national borders, from exporters of manufactured goods, to importers. This vital supply chain service allows manufacturers to concentrate on their core production competency by transferring the delivery process to a specialist forwarder whose own core competence is delivery. For manufacturers, logistics costs are significant to their own competitiveness, so they continually try to reduce this cost, thus sorely testing a freight forwarder’s own competitiveness.