



## Note no4

Issued  
12.12.2006

### Finland, State of Logistics 2006, the fourth national logistics survey

The 4th national logistics survey in Finland, Finland, State of Logistics 2006 was ordered by the Ministry of Transport and Communications and conducted by Turku School of Economics. The survey examines the state of logistics in the Finnish economy and the factors affecting the competitiveness of Finnish business. The survey focuses on the logistics solutions and key figures in industry, construction and trade. The logistics service providers were also included in the survey.

The following themes were analyzed in the survey: Logistics costs and other logistics indicators, logistics outsourcing, logistics IT-systems, logistics competence and operational preconditions.

A total number of 2,255 companies took part on the survey. Of those companies 44% operated in manufacturing and construction, 35% were engaged in commerce and trade and 21% were logistics service providers. The total number of respondents is probably one of the largest, if not the largest in the world on this field of research.

The role of logistics as a competitive factor in companies' operations continues to grow. The significance of logistics becomes particularly pronounced when operating in international markets.

The share of logistics costs in companies' turnover shows no sign of decreasing in Finland; on the contrary, since the 2001 survey the percentage share has grown. There has been an increase in both the volume of logistics activity and the quality requirements imposed by customers.

The logistics sector has been the target of global structural reform. As a result of corporate acquisitions, some major Finnish operators have been taken over by foreign players. Structural reorganisation is ongoing in the sector.

Available comparative material indicates that competence in logistics in medium-sized and major industrial firms in Finland is of a good international standard. Furthermore, several companies were identified that apply some of the most efficient logistics solutions in their sector anywhere in the world.

It is becoming ever more important for companies to have the capabilities to operate in an increasingly challenging business environment. Up to now, Finnish companies have kept fairly well abreast of the "moving goal posts", and their flexible solutions have given them the competitive edge, particularly when operating from Finland. However, keeping that competitive edge depends on enhancing their logistics competence. The companies concerned appear to have understood this point. This was reflected in the emphasis that the survey results place on the need for advanced multiple logistics skills.



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#### Logistics costs are high and rising

According to the survey results, the logistics costs of Finnish companies account for 13% of company turnover on average. The 2006 survey differs from previous surveys in a way that two

Indicator / year of comparison	1990	1995	2000	2005	International comparative value
Logistics costs in industry and trade	€19.1 billion	€15.4 billion	€19.6 billion	€26.4 billion	-
Logistics costs, share of turnover	11.0%	10.3%	10.2%	11.5%	OECD 7% - 10%
Transport costs, share of turnover	4.8%	4.7%	4.5%	5.0%	3% - 5%
Logistics costs in relation to GDP	17-18%	14-15%	14-15%	17%	10-17%

Figure 1. Key indicators of the Finnish logistics markets (in 2006 prices) in relation to results from previous surveys



additional components of logistics costs have been taken into account. The last survey differs from previous surveys in that two new cost components (logistics packaging costs and indirect costs of logistics) have been taken into account. However, even if the two new components are discounted from the results, the share of logistics costs as a percentage of turnover seem to have risen.

The rising trend of costs can at least partly be explained by the fact that the latest survey in 2006 has covered the field of Finnish business more widely than the previous surveys. The previous surveys covered only medium-sized and large Finnish companies, whereas this survey has tried to, and also succeeded to cover also the group that forms the large majority of Finnish companies, the micro sized and small companies.

Another thing explaining the rise of logistics costs is the fact that Finnish companies operate more internationally than five years ago. Longer and more complex supply chains create more pressure to logistics costs as well.

One of the major findings of the survey is that despite the complexity of international business, the companies that operate outside the domestic market seem to have lower logistics costs than companies operating only in domestic business. One explanation to this is that most of the international companies are also larger companies that have better resources and more diverse competence to respond to different challenges.

The largest single cost, the transport costs account for 5% of turnover on average; this represents about one-third of total logistics costs. The portion of transport costs is slightly smaller than it was in the previous survey five years ago.

The future development of logistics costs reflects the uncertainty surrounding the price development of oil. The rising trend in the price of oil seems to have caused negative expectations about the transport costs. Most of the companies regardless of the industry expect the transport costs to rise during the next five years.

The expectations about other logistics costs components are not as pessimistic. One explanation to this could be that the companies see cutting of other costs as a way to react to the rising transport costs.

### Finnish companies are "good payers" in international comparisons

The survey focuses on those key logistics indicators of industrial and commercial companies that relate to faultless customer deliveries by the target companies and to the period of time for which funds are tied up. Large companies and international companies seem to

be performing best on these indicators. Another interesting thing is that when compared internationally, Finnish companies seem to have relatively short "cash-to-cash" cycle times. This is due to the fact that Finnish companies have very short times of both "days of payables and days of sales outstanding". One could say that Finnish companies are "good payers" compared to their international reference groups.

the technology in the nearest future. Of course one has to remember that there has always been optimism with new technologies, and that the optimism has later on been left unrealised, or at least been transferred into a moving target.

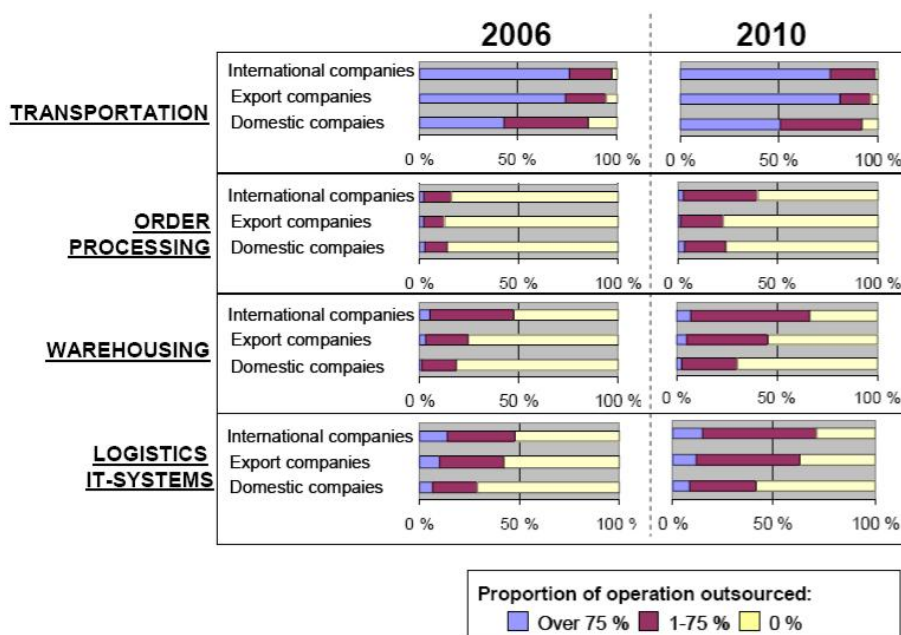


Figure 2. The influence of internationalisation on outsourcing of logistics activities

Large and international companies lead the way in ICT - development, RFID is still a technology of the future

Logistics outsourcing, from transportation towards service packages

One of the themes of the survey was the ICT-systems that companies use with different stakeholders. Logically the survey results indicate that Large and medium-sized companies utilise more advanced information system solutions (ERP, EDI, extranet, intranet). In small companies, the Internet and traditional methods (telephone, fax) of transferring data relating to orders and deliveries still predominate.

What is interesting to notice that despite all the hype around the RFID (radio frequency identification)-theme, only a small minority of companies exploit RFID technology.

The companies were also asked to indicate whether they agreed or disagreed with the statement that "In five years time the company will be using RFID-technology". According to the answers, there would be significant growth in the usage of the RFID-technology during the next five years. Especially large and international companies seem to anticipate the breakthrough of

The greatest degree of outsourcing can be found in transport services, and in this field outsourcing has almost come up against its limits. Most of the companies have outsourced at least a part of their transport services. Another widely outsourced logistics function is freight forwarding. Because of the special nature of forwarding, it seems natural that the companies have not wasted resources, but have used an outside provider with sufficient knowledge to deal with their forwarding functions.

The next wave of outsourcing will be on the information logistics functions and more complex service combinations. This will at least to some extent create pressure on the smaller logistics service providers that have been dealing with a small variety of independent services.

The providers and buyers of logistics services appear to have similar views on the motives for outsourcing logistics activities. Of the buyers of logistics services, 60% believed that the reason



for outsourcing is the need to focus on core competence, 50% cited the need for a flexible service capacity and 40% the need to cut logistics costs. Over 60% of the respondents in logistics companies cited these same reasons.

There are some differences in the views on obstacles to outsourcing. About 30% of industrial and commercial businesses doubt the ability of outsourcing to improve levels of service or to lower costs. They also believe that it is difficult to evaluate and monitor the service provision.

Half of the logistics companies believed that the greatest obstacle to outsourcing is the increased dependency on service providers, while about 40% believed that companies find it difficult to purchase logistics services or that purchased services would result in less control over the logistics operation.

Although the results show that the companies consider the operating conditions to be fairly good, one challenge rises. In comparing their location with those of their competitors, internationally active industrial companies were clearly less satisfied than export companies or companies operating solely in the domestic markets. The old saying about Finland being "an island" seems to realize with the international companies position. The geographical and logistical distance to main markets is seen to be a clear strain to companies' competitiveness.

Full report is available at the website of Ministry of Transport and Communications of Finland  
[http://www.mintc.fi/oliver/upl367-Julkaisu%2045\\_2006.pdf](http://www.mintc.fi/oliver/upl367-Julkaisu%2045_2006.pdf) (4,4MB)

#### About the author

M.Sc. Tomi Solakivi works as a researcher in Turku School of Economics. He has previously been acting as a researcher for the University of Turku. His field of expertise include logistics, cost-benefit analysis of investment projects and cost analysis of maritime transportation.

### Operational preconditions a challenge for international companies

According to the companies that responded to the survey, the regions in Southern Finland provide the best general and logistical, regional operating conditions for manufacturing industry. It was not possible to identify similarly decisive regional differences in the operating conditions of trade and commerce. The Helsinki-Oulu axis, on the other hand, provides the best operating conditions for logistics companies.



Developing Regions through Spatial Planning and Logistics & ICT Competence - 2006-2007

Baltic Sea Region INTERREG III B, Neighbourhood Programme  
Measure: 2.2. Creating sustainable communication links for improved spatial integration  
Community Initiative Programme 2000-2006

LogOn Baltic aims at improving spatial integration by transferring knowledge in ICT and logistics competence.

The main objective is to produce and disseminate information for regional development agencies on how to support enterprises in the participating regions in their effort to improve ICT and logistics competence, thus improving regional development.

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