

Logistics Service provider (LSP) relationships

Understanding the spectrum of LSP relationships

The success of achieving organizational targets and meeting customer needs is tied to the effectiveness of the LSPs. This requires engaging capable LSPs, having comprehensive contracts, and managing performance effectively. The type of relationship with the LSP can range from transactional (traditional supplier) to collaborative (partner), and depends on the criticality, complexity, and strategic importance of the logistics activities.

Supplier vs. partner:

- **Supplier:** Utilized for standard services with standard terms. Emphasis is on transactional and routine interactions.
- **Partner:** Provides more tailored services, necessitating a closer working relationship, coordination, collaboration, and shared risk.

Kraljic Matrix application: The Kraljic Matrix method¹, developed by Peter Kraljic, is a useful tool for classifying services and determining the appropriate type of relationship. It helps organizations adapt their procurement strategies by identifying the strategic weight of various purchasing categories.

Categories of LSP services

1. **Routine Services:** Services with multiple providers and clear specifications. Strategies include minimizing effort, using standard terms, and maintaining competitiveness.
2. **Strategic Services:** Services with significant impact on customer satisfaction and organizational goals. Strategies include developing strong partnerships, aligning objectives, and robust performance management.
3. **Bottleneck Services:** Services with limited market choice and significant supply risk. Strategies include seeking alternative suppliers, simplifying requirements, and securing continuity.
4. **Leverage Services:** Services with significant operational impact and abundant supply. Strategies include market research, leveraging purchasing power, and ensuring supplier expertise.

¹ Kraljic, P. (1983). "Purchasing must become supply management." Harvard Business Review, 61(5), 109-117.

Recommendation for application

Organizations should review their LSP relationships annually, reclassifying services as needed, and developing strategies for each service or group of services based on their categorization.