Failed contract logistics projects *– and their root causes*

By Dr. Klaus-Peter Jung, Partner, Miebach

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Content

Follow the *five top recommendations* in this Whitepaper – and your outsourcing project won‘t automatically be a success, but the likelihood will increase immensely.

Foreword

Failed outsourcing projects in contract logistics are far from uncommon. Officially, almost none of these projects are declared unsuccessful; on the contrary, most are publicly celebrated as successes. Yet anyone with practical experience in the field knows that failures occur far more frequently than any of the parties involved would like to admit.

The reasons for the gap between official communication and operational reality are easy to understand for anyone familiar with internal politics, career incentives, and personal interests within organizations. However, what is far more interesting, and far more valuable, is to examine the underlying causes of failed contract logistics projects and to understand how these risks can be systematically reduced.

To do so, we must first clarify what actually constitutes “failure” in contract logistics outsourcing.

Dr. Klaus-Peter Jung
Partner, Miebach

How successful are *contract logistics projects* today?

Assessing the success of contract logistics projects requires two perspectives: that of the customer or shipper, and that of the logistics service provider.

The economic effects of outsourcing are generally viewed positively, but German shippers' satisfaction with quality is declining significantly – particularly in terms of information availability, agility, and innovative strength.

The customer perspective

For many years, we have observed a clear decline in customer satisfaction with outsourcing results (see also our long-running series of logistics outsourcing studies since 1998). This decline is driven primarily by a deterioration in qualitative success factors.

For example, in 2023, only 43% of respondents in Germany stated that they were satisfied with the qualitative outcome of their outsourcing projects – a significantly lower figure than in many other countries. In particular, customers expressed dissatisfaction with the logistics service provider's availability of information, agility, and willingness to innovate. Even core performance indicators show weaknesses: only 67% of respondents reported being satisfied or very satisfied with delivery reliability, and just 59% with overall quality.

The assessment of economic success is more positive, though still far from ideal. Overall, 73% of respondents are satisfied with the economic outcome of their outsourcing projects. After a sharp decline in 2020, German customers reached a level comparable to their international peers again in 2023, with a satisfaction rate of 71%.

However, when qualitative and economic success are viewed together, the picture becomes more sobering. While 73% of customers are satisfied with economic outcomes, only 43% are satisfied with quality. This means that only around 31% of customers are satisfied in both dimensions.

This means, nearly 70% of customers are dissatisfied with at least one of the two core success categories.

Only around a third of customers are satisfied in terms of cost and quality; service providers primarily evaluate success based on margin – supplemented by ramp-up, SLAs, and customer loyalty.

The Service Provider Perspective

From the perspective of logistics service providers, the evaluation of the success of an outsourcing project is easier to define at first glance: the key factor is whether the previously calculated margin is achieved. In addition, there are also other „soft“ criteria, such as:

- the quality of the project start-up,
- whether forecasted volumes materialize,
- compliance with defined service level agreements (SLAs),
- and customer satisfaction, particularly with regard to long-term cooperation or follow-on business.

Also logistics service providers are by no means consistently satisfied with their outsourcing projects.

Considering the main criteria „margin achieved“, it can be determined that around 20%-30% of the projects are to be classified as not commercially satisfactory from the logistics service providers‘ point of view, of which around 1/3 are to be evaluated as commercially negative, i.e. approximately 10% in total. From the service providers‘ perspective, this has dramatic consequences, as these 10% of projects often cost so much money that the majority of the results from the other 90% of projects are consumed. As a result, the typical total EBIT of a contract logistics provider is only 1/3 of the markup for overhead, margin, and risk.

Service providers are also often dissatisfied: even a few commercially negative projects can eat into the profits of the others and significantly reduce overall EBIT.

Even projects that are commercially successful can still be perceived as problematic when evaluated against the other criteria. Many projects experience a difficult start, marked by operational disruptions and tensions on both sides, before reaching a stable state. In some cases, SLAs are missed despite significant additional effort and cost. In others, SLAs are technically met, yet customer satisfaction remains low.

In summary: shippers are often not satisfied, nor are service providers – but why?

Why do contract logistics projects repeatedly *fail*?

Surveys among customers and logistics service providers reveal a wide range of factors that contribute to the failure of outsourcing projects. To bring structure to this complexity, it is helpful to follow the typical phases of an outsourcing project:

- Service provider pre-selection and preparation of tender documents
- Execution of the tender process
- Bid evaluation, clarification, negotiation, and award
- Project implementation and start-up
- Ongoing operations

Each phase offers numerous opportunities for failure, often on both sides.

Outsourcing rarely fails because of one big mistake – it is usually the sum of many small stumbling blocks along the entire course of the project.

Service provider pre-selection and creation of tender documents

This is the only phase in which customers or shippers alone bear responsibility for critical mistakes, as both provider pre-selection and tender preparation typically take place without the direct involvement of logistics service providers..

The goal of pre-selection is to create a long list of potential providers, usually 10 to 12 companies, to be invited to the tender. This requires a structured market overview covering service portfolios, industry expertise, regional presence, and project-specific criteria such as company size, investment capability, and IT competence.

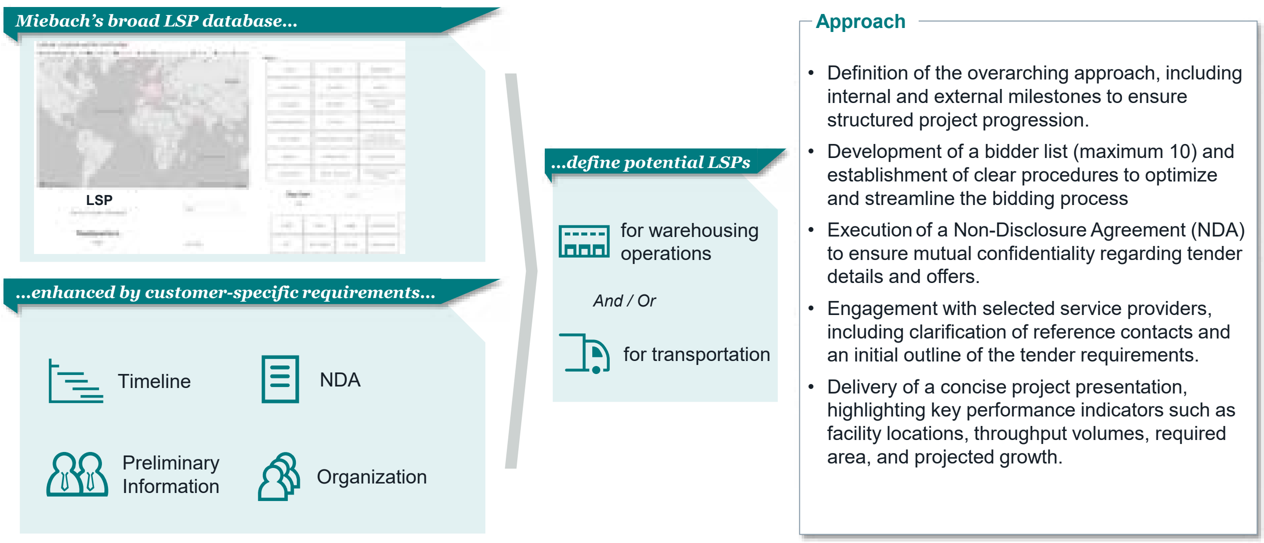

Figure 1: Logistics service providers - pre-selection and RFI during tender preparation

If unsuitable providers are included at this stage, the likelihood of finding a capable and appropriate partner is significantly reduced. If in-depth market knowledge is lacking, a Request for Information (RFI) can help close this gap. An RFI supports not only provider screening, but also early communication of project scope, timelines, references, and general willingness to participate.

The objective should be to narrow the field to no more than eight to ten providers at the end of the RFI process, who receive the tender documents after signing a non-disclosure agreement.

The tender documents themselves represent one of the four primary root causes of project failure.

Incomplete, outdated, overly generic, or inconsistent tender documentation leads to incorrect assumptions by service providers, misunderstood requirements, and ultimately to under- or over-dimensioned solutions.

Typical issues include outdated data, poor item master data quality, use of averages instead of mass data, and confusion between sales growth, volume growth, SKU growth, order lines, picks, packaging units, and pieces.

Unclear or overly generic tender documents force service providers to make incorrect assumptions, resulting in misunderstandings.

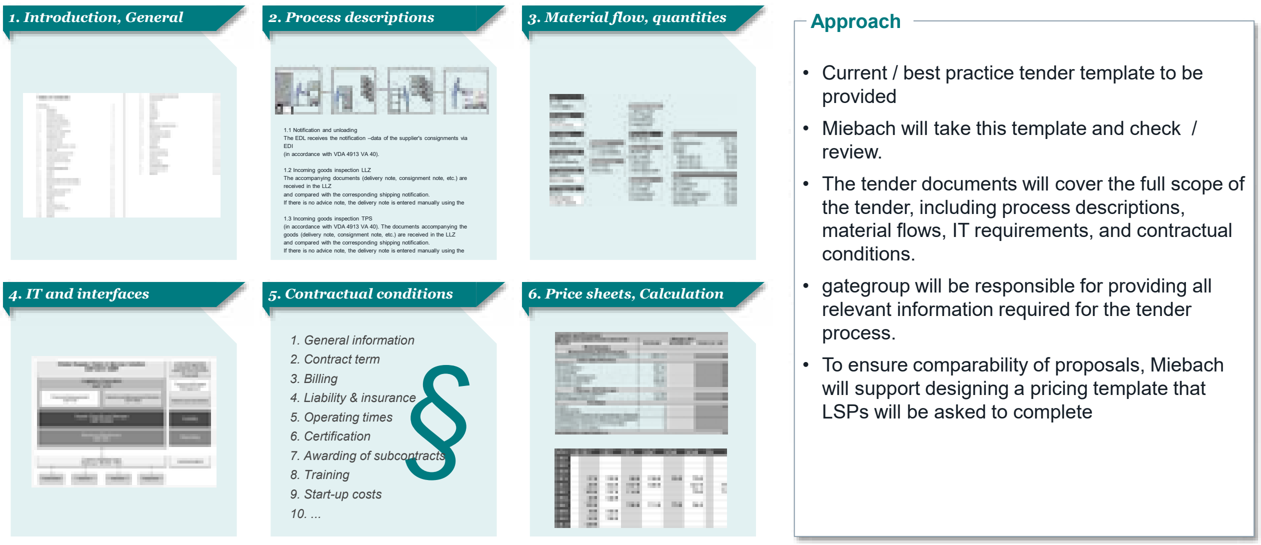

Figure 2: Minimum requirements for scope and content of tender documents

Insufficient detail in process descriptions or unclear expectations regarding IT functionality further undermine the quality of provider planning.

Put simply: poor tender documents inevitably result in poor offers.

Conducting the tender

Whenever possible, we recommend allowing for on-site inspections as part of the bidding process. Shippers follow this recommendation only inadequately, either to avoid upsetting their own personnel in the current warehouse, or because a current logistics partner does not want this. However, without an inspection, many questions remain unanswered and assumptions must be made.

On-site visits and targeted Q&As are the most effective means of clarifying contract award requirements clearly at an early stage.

Logistics service providers do not always make effective use of Q&A sessions and site visits to fully understand customer requirements, including those not explicitly stated in the tender but still relevant for the award decision. We are always surprised by how much or little is asked in the Q&A sessions, especially when relevant topics are not touched upon, but rather unimportant details are discussed repeatedly – which does not indicate a high level of professionalism on the part of the provider.

Offer evaluations, clarification, negotiation, and award

Errors in tenders are the primary cause of failed projects

This phase provides the last opportunity to correct errors in the tender documents and during the tender process – at the latest during the clarification discussions. However, this requires openness and honesty on both sides, which is not always the case. Customers may identify incorrect assumptions in provider offers but choose not to address them, while service providers may later exploit ambiguities in the tender to justify additional claims.

Main Criteria	Sub Criteria	Weighting
Location (30%)	• Location/Size/Distance • Quality • Expandability • Exclusive Use	• 20% • 40% • 25% • 15%
Concept / Scope of offers (35%)	• Warehouse Layout • IT expertise • Accuracy • Start-up concept • Certification QM offer	• 35% • 20% • 20% • 15% • 10%
Quality of offers (15%)	• Representation of structuring • Completeness • Calculation / Traceability • Recognized Benchmark	• 25% • 30% • 15% • 30%
Service provider (20%)	• References • Knowledge of industry • Experience from previous cooperation	• 50% • 30% • 20%

Both **qualitative** and **quantitative** aspects will be equally considered

Approach

Main Criteria
- The primary evaluation criteria are predefined and fixed

Sub Criteria
- Can be adjusted (added or removed) flexibly

Weighting:
- Will be determined collaboratively

Offer Benchmarking
- Offers will be benchmarked against one another

Recommendation
- Based on the updated business case, Miebach will provide a recommendation for short-listed LSP providers to start contract negotiations.

Figure 3: Typical evaluation and selection criteria in logistics tenders

Negotiations pose a project risk when they are left to purchasing and are seen as a way to reduce prices. Shopping should be done at a reasonable price, not cheap. Every euro negotiated away will eventually be recovered through reduced implementation effort or constrained operational resources. To a certain extent, this works well – but once a threshold is reached, project quality and ongoing operations inevitably suffer.

Figure 4: Focus of contract negotiations – more than just price reduction

Unrealistic schedules are the second major cause of project failure .

Although this issue originates in the tender phase, it typically crystallizes during award and negotiation. Tender processes almost always take longer than planned, yet the originally defined go-live date is often maintained. Reasons range from internal political pressure and management expectations to property availability or personal performance targets.

Importantly, logistics service providers also share responsibility by accepting unrealistic timelines instead of pushing back with professional realism.

Project implementation & start-up

During implementation and start-up, earlier mistakes become fully visible. Unrealistic timelines persist, and deficiencies in tendering and award decisions begin to impact execution. But this phase also brings its own, unique challenges.

The third major cause of project failure emerges: insufficient budgets and inadequate, inexperienced project resources on both sides.

On the customer/shipper side, this often results in insufficient support for the service provider, limited knowledge transfer, and a lack of experienced subject-matter experts. Also, IT resources frequently become bottlenecks.

On the service provider side, the consequences are even more severe. Project success depends heavily on the experience, availability, and authority of the project manager, as well as their ability to mobilize internal and external resources and ensure proper training and qualification. If this role is understaffed, underqualified, or underfunded, failure is almost inevitable.

Likewise, a lack of budget for one-time costs such as project management, external support, training & hypercare, etc. now takes its revenge, regardless of whether this was not calculated from the beginning in order to offer a more competitive price, or was cut during procurement negotiations.

The success of the project depends largely on having sufficient qualified and available key resources, as well as realistically budgeted one-time costs for project management, training, and hypercare.

Our outsourcing studies consistently show a declining level of investment in training and qualification over time, and insufficient staff qualification remains the most frequently cited cause of customer dissatisfaction. Many project managers know what needs to be done, but they don‘t do it because they do not have the time and/or money.

Ongoing operations

Unrealistic customer expectations represent the fourth major cause of project failure.

A common mistake is underestimating the ongoing effort required for effective service provider management. A logistics partner can only perform as well as the support they receive from the customer. This requires time, resources, and budget – factors often excluded from the customer’s business case.

However, it is not only the underestimation of the expenditure of service provider management that causes dissatisfaction with the ongoing operations. Many customers are basically satisfied with the “normal” operation; if there is reason for complaint, it is usually due to the lack of innovation on the part of the logistics service provider. Customers often expect continuous improvement and ongoing innovation, only to find these expectations unmet.

A service provider is only as efficient as the customer team that actively manages it – and without the necessary resources, innovation usually fails to materialize.

To understand why many logistics service providers struggle with continuous improvement in their ongoing business, you have to put yourself in their situation:

- The business margin is relatively low, and additional resources for continuous improvement are difficult to finance.
- There is one or another business of the logistics service provider that is commercially negative – the few available resources are used for distressed businesses and not for stable businesses.
- After the sometimes bumpy start of a business, the logistics service provider is trying not to jeopardize the now stable business with process changes, etc. right away.
- The contract terms, even in contract logistics, are usually still relatively short. Knowledge of an upcoming re-tender in three to five years prompts logistics service providers to hold back potential innovations, and use it strategically for contract extensions.

For many service providers, continuous improvements fail less because of a lack of will than because of tight margins, risk priorities, and short contract terms.

Top 5 measures to significantly reduce outsourcing risks

If you look at the main causes of project failures, the question arises of how they can be countered. The following five measures can substantially improve the likelihood of a stable, high-performing logistics partnership.

1. Partnership requires cultural fit

Hardly any term is overused in the context of logistics outsourcing as much as „partnership“. If an outsourcing is to go beyond a classic customer-supplier relationship, a cultural fit between both companies is indispensable. This applies to fundamental criteria such as size and regional focus, but also to the value system and long-term orientation.

True “partnership” does not arise from the label, but from cultural fit and stable, trusting relationships – often driven more by individuals than by organizations.

While collaborations between corporates and family-owned businesses can be successful, they often depend heavily on individual relationships. Cultural fit helps anchor cooperation beyond individuals and provides a foundation for long-term stability.

Therefore, it is all the more important to take a look at this during the initial and subsequent selection.

2. Invest in high-quality tender documents

Accurate, complete, and up-to-date tender documents are essential for realistic concepts and offers. Make sure that your tender documentation meets these criteria – if you are unsure, ask for information. You can consult DIN

Spec 1001, ask your company network, contact the providers yourself, or seek professional advisory support. The time and money you invest in this phase will pay for themselves many times over in a very short time.

3. Set realistic timelines

For the customer or shipper: Familiarize yourself with the operational realities and check the resources available internally and externally or with the logistics partner. If the property is already available and ready for use, this provides ideal conditions. If there is at least one building permit, this is a good starting point. But if a site still needs to be found, zoning plans prepared and permits obtained, additional 18 to 24 months should be expected. The same applies to the procurement of equipment: manual warehouses can be equipped quite quickly; with automatic warehouses, the process of tendering, awarding, delivery times, installation, testing, and go-live can take up to 12 to 18 months.

IT is another critical factor. What changes are needed on the customer side – within ERP and OMS systems? How long will they take? Who provides the WMS and YMS, and with which resources?

For logistics service providers, the message is clear: do not agree to unrealistic timelines. Be honest and shine with detailed knowledge. You know how long these projects really take and what it takes to deliver them. Transparency and expertise build trust, overpromising does not.

Investing in clean, up-to-date, and complete documentation during the tendering phase saves many times over later on thanks to realistic bids, robust concepts, and less rework.

4. Ensure sufficient budget and project resources on both sides

An honest budget for the necessary measures within the scope of project implementation and ramp-up is essential. This applies to both parties, customer and logistics service provider. We have too often seen that a necessary simulation was skipped during the project implementation, for example, due to cost reasons. Training for blue-collar employees often falls victim to budget pressure during the startup phase. The money supposedly saved at this stage is often paid back by both sides later in the startup phase – with additional staff, extra shifts on Saturdays, hypercare expenses, but also lost sales, contract penalties, and, in the worst case, customer cancellations. This is the typical example of „saving in the wrong place."

Realistic schedules and resource assumptions – especially for automation and IT integrations – are the best protection against costly delays and disappointed expectations.

Make sure the project is staffed with sufficient, experienced, and qualified personnel on both sides. Customers or shippers must be aware that the actual work only begins with the award and does not end. Who in the organization has successfully delivered similar projects? And who can realistically be freed up to support the project?

Logistics service providers face an additional challenge. Many are transitioning towards highly automated facilities, while experienced employees often lack hands-on expertise with new automation technologies.

Who manages the automation supplier? Who reviews scope changes and claims? Who tests the systems and manages commissioning?

If these capabilities are not fully available internally, external support is often the smarter option. While this adds cost, under-resourcing a project will almost always be far more expensive in the long run.

5. Keep realistic expectations

Outsourcing is not fixing everything. However, it can be the right way in many situations if the goals are clearly formulated, the framework conditions are understood, a reliable, complete business case has been calculated, and expectations are realistic.

Most outsourcing projects do not deliver cost savings in the first year. In fact, costs often increase initially. Project expenses, one-off investments, relocations and parallel operations should be seen as an investment in future efficiency.

Outsourcing also does not fix internal issues such as poor product availability or delivery reliability. A service provider can only ship what is actually available. Operational quality does not improve automatically either. Your internal logistics team knows your products and customers well. The service provider's team needs time, and support, to build this knowledge.

Outsourcing projects are successful not because they are outsourced, but because there are sufficient experienced teams available on both sides – especially in the context of increasing automation.

In the end, a service provider performs only as well as it is managed and supported. Without active involvement from the customer, results will fall short of expectations. Therefore, be realistic in your expectations and understand what it means to enter into a logistics partnership in the short, medium, and long term.

Follow these five recommendations, and your outsourcing project won't automatically be a success, but the likelihood will increase immensely.

Outsourcing only works with clear goals, realistic expectations, and a robust business case – and is initially an investment, not an immediate savings program

Dr. Klaus-Peter Jung
Partner, Miebach
jung@miebach.com

Are you facing challenges in contract logistics or looking to increase performance?

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We build supply chains that move at the speed of your business.

Author and contact:

Miebach Consulting GmbH,
Rotfeder-Ring 7-9
60327 Frankfurt am Main, Germany
www.miebach.com
sales@miebach.com

Dr. Klaus-Peter Jung, Miebach
jung@miebach.com

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