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# ANALYSIS OF CRITERIA FOR SELECTION OF LOGISTICS SERVICE PROVIDERS BY REPRESENTATIVES OF SMALL BUSINESSES

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### Abstract

Successful entrepreneurship requires addressing a wide range of challenges, including the choice of logistics services within the company, specifically the method for managing material and associated flows from raw material sources to the end consumer. The choice may be made in favor of one of two options: independently managing logistics flows or involving additional participants, including logistics providers, in the supply chain management process.

**Keywords:** Entrepreneurship, logistics providers, raw material sources, small businesses, micro and small enterprises, international standards.

### Introduction

What criteria do small businesses use when choosing a logistics provider? What opportunities does a logistics provider offer small businesses? What direction should they take in future development? Why is delivery speed becoming the most important selection criterion today?

Small businesses are of significant interest to many today [1]. According to statistics from the Unified Register of Small and Medium-Sized Businesses, the number of small and medium-sized businesses, as well as micro and small enterprises, increased by 12% between August 1, 2020, and January 1, 2026,

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indicating dynamic growth. It is worth noting that this growth was primarily driven by microenterprises.

However, in our study, we will retain the terminology "small business," despite the fact that the enterprises we examined actually fall into the microenterprise category. There is no international standard for classifying enterprises as small businesses, which explains the large differences in the assessment of the role of small enterprises in the economies of different countries. Therefore, when speaking about small businesses, people mean microenterprises.

### Literature Review

Numerous studies have been conducted on this topic. Tuan Pham examined the factors influencing MRA negotiations for AEO programmes and, as a result, proposed the MRA Development Model to facilitate both bilateral and multilateral negotiations. This model was developed to support trade facilitation and secure global supply chains.[1]

Nkhahle and Baldavoo conducted an analysis of the implementation of the WCO SAFE Framework within the SARS, with particular emphasis on the AEO programme. The results noted that AEO compliance had increased and trade facilitation had improved in South Africa. [2]

Hanafi Amin Firdaus analysed the introduction of the Mutual Recognition Arrangement for Authorised Economic Operators (MRA AEO) between Indonesia and the UAE and its implications for economic growth. According to the research findings, the MRA AEO simplifies export-import operations. It was noted that the MRA AEO reduces complex procedures in customs clearance for entities with AEO status, lowers the proportion of inspections, and contributes to saving time in clearance procedures. It was also noted that this mechanism has a positive impact on foreign trade activity by reducing logistics costs and increasing the efficiency of processes. [3]

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Chang-Bong Kim, Il-Sok Chung and Hye-Young Joo examined the impact of the AEO MRA on the efficiency of exporters and importers in Korea using a structural equation model on a sample of companies. The results show that annual trade volume amplifies the effect of the AEO MRA. They demonstrated that the impact of the AEO MRA enhances logistics efficiency and does not directly affect operational efficiency, and that if logistics cooperation is low, the AEO MRA's effect on logistics efficiency may go unnoticed.[4]

Fazliddin Elmurodovich Khujayev analysed the development of transport infrastructure in states through the dynamics of freight and passenger traffic. The analyses have demonstrated that the problems in this area can be resolved by creating a single integrated transport space based on advanced infrastructure. Infrastructure-level disparities and the low degree of unification of regulatory and legal documents were identified as factors constraining integration.[5]

### Materials and Methods

This study empirically assesses the relationship between the extent of AEO MRAs and a country's logistics performance. The empirical design is based on a one-year cross-sectional comparison (2023), because the latest internationally comparable Logistics Performance Index (LPI) results reported by the World Bank correspond to the 2023 edition.[6] To measure the strength and direction of linear association between MRAs and LPI indicators, the analysis applies the Pearson correlation coefficient ( $r$ ), which ranges from  $-1$  to  $+1$ . The coefficient is defined using the standard Pearson correlation formulation between the country-level MRA count and the selected LPI rank indicators. All computations were carried out in MS Excel using the CORREL function, and statistical significance was evaluated via  $t$ -statistics. For visual interpretation, the relationship between MRA counts and the LPI grouped rank was illustrated using a scatter plot with a fitted trendline and corresponding goodness-of-fit measure.

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### Results and Discussion

When starting out, almost all small businesses face the issue of implementing logistics processes within the company,

to which the market responds with a variety of logistics intermediaries [2]. Based on the range of functions and services they provide, such companies can be divided into the following types: 1PL, 2PL, 3PL, 4PL, and 5PL providers.

The 1PL provider is the cargo owner company itself, meaning it implements logistics processes in-house. This approach is appropriate at the initial stage of business or if the company has its own logistics department.

Using 2PL provider services involves partial logistics outsourcing. In this case, the cargo owner company resorts to engaging a contractor (a third-party transport company), which provides limited functionality and uses its own fleet of vehicles, since the company itself does not have its own vehicles. With this service, the cargo owner company handles the remaining functions, such as organizing the logistics chain, warehousing, and planning. (Table 1).

**Table 1. Category of business entities**

Category of enterprises	Average headcount of employees	Income limits
Microenterprises	Up to 15 people.	120 million soums
Small businesses	Up to 100 people.	800 million soums
Medium-sized enterprises	From 101 to 250 people.	2 billion soums

A 3PL provider's involvement in a company's logistics chain involves outsourcing all external logistics operations for the cargo owner. Importantly, such an operator is not involved in the client's internal business operations, but is a specialized company with highly qualified employees providing services in the areas of transportation, warehousing, cross-docking, technical inventory management, packaging, and freight forwarding.

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Engaging a 4PL provider involves both the implementation of external integrated transport logistics and the management of the company's internal logistics business processes. Such an operator has the right to plan and design all supply chains for the client company. Using such a 4PL provider increases the company's competitiveness and expands its market presence.

Today, 5PL is called virtual logistics. 5PL providers are logistics outsourcers that provide a full range of services using the global information technology space. Such a provider becomes a virtual logistics partner, possessing complete information about the current logistics potential of market participants, and their high-tech IT infrastructure allows for the construction of optimal logistics chains. Such an operator may not have its own material, financial, labor, or other resources used directly in organizing transportation, but it ensures the interconnection of all the above-mentioned resources, automating and optimizing the search for logistics solutions. Such a provider not only simplifies business operations overall and reduces start-up costs, but also opens access to the global market thanks to the international focus of 5PL operators.

Choosing a logistics operator requires small business owners to evaluate many factors: the range of logistics functions they wish to provide to the provider, the most important criteria for cargo transportation, and more. This study was conducted to determine the most significant criteria for small business owners choosing logistics companies. The relevance of this work lies in identifying the real factors that influence small businesses' choice of logistics provider.

The study surveyed 70 micro and small business representatives to identify the specifics of using logistics providers. The results of the survey, conducted among companies operating in the trade and service sectors, were analyzed. The survey covered such businesses as online flower shops, food wholesalers, teen clothing stores, women's shoe stores, photo editing services, and the retail sale of European sweets. A number of reasons why small business owners use logistics providers

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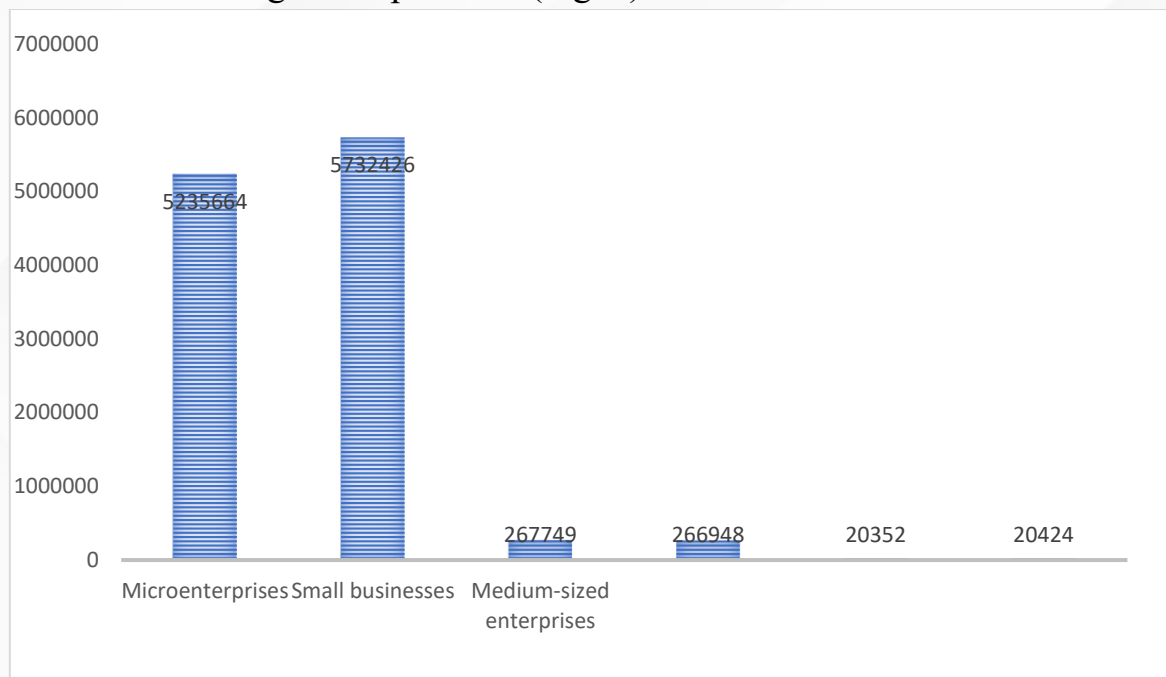


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were identified, as well as the most important criteria when choosing a transport company.

All respondents were divided into two groups: the first group included 57.1% of respondents who used logistics providers, while the second group included 42.9% who did not use logistics operators. (Fig. 1)



The first group of respondents cited the lack of in-house freight transportation capabilities (75.7%) and optimization of logistics processes (24.3%) as their motivation for using logistics providers. The key criteria for selecting logistics providers (multiple responses) were identified. Speed of delivery was considered the most important by 75% of respondents, while 70% emphasized advantages for small businesses.

More than half of respondents (approximately 55%) cited simplified documentation, delivery service costs, and cargo safety in transit as important. Only a third of respondents noted the company's reputation, availability of additional services (labeling, packaging, etc.), and service quality.

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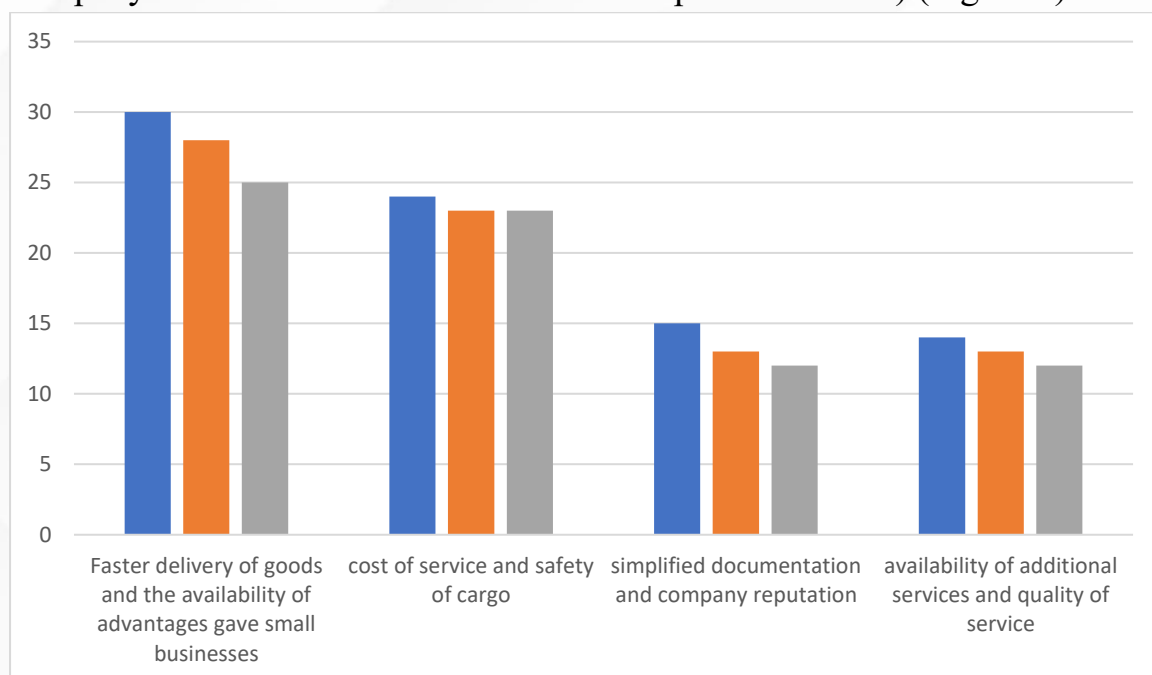
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Overall, the criteria for selecting logistics providers by small business owners were distributed as follows (as a percentage of the total number of criteria. A company could select several of the most important criteria) (Figure 2).



This diagram is interesting in terms of the leading importance of delivery speed and the emergence of simplified documentation, which also impacts order processing speed. For microenterprises, one of the competitive advantages is the speed of response to customer requests, both in the production of new products and in the delivery of existing products [3]. It's no secret that millennials, who will soon make up the majority of consumers, are very demanding of immediate satisfaction of their needs [2].

The presence of advantages for small businesses indicates a desire for a personalized approach and financial advantages. We will examine this criterion in more detail below. Service cost and cargo safety received equal shares in the overall responses of respondents, as service costs have become comparable across many companies, and differentiation occurs on an individual basis, depending on

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the company's specific needs and turnover volume. Cargo safety is also high, although it does not reach 100%.

Company reputation is also far from being a leading supplier selection criterion; here, market forces and intense competition weed out less successful participants. Not all companies require additional services, so this criterion isn't a top priority. While service quality is important to everyone, it ranks last because service quality is relatively comparable across companies, and it's more a matter of the politeness and punctuality of individual couriers. A small business will readily switch logistics providers if their couriers receive customer complaints. This is also supported by the results of the study "Logistics Services for Online Stores: Customer Opinions and Expectations."

Respondents in the second group, who do not use logistics services, unanimously stated that they plan to do so in the future. Based on the importance of criteria for selecting a transport provider, the following conclusions can be drawn: first, the vast majority (93% of this group) chose cost, delivery speed, and benefits for small businesses, indicating a lack of in-house resources;

60% of respondents emphasized the importance of simplified documentation and the availability of additional services such as labeling and packaging with these operators. From the above, it can be concluded that the main criteria are the possibility of fast, low-cost delivery with simplified paperwork and high-quality cargo storage. This, in turn, underlies the development trend of small businesses, which strive to act more quickly in a dynamic market environment while reducing their costs.

It is worth noting that one of the controversial criteria for selecting a logistics service provider is the availability of benefits for small businesses. In the initial stages of starting a business, entrepreneurs face high costs, which motivates them to seek out potential advantages and gain some benefits along the way. Respondents cited the following as potential advantages when communicating with a logistics operator:

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- 1) Receive a discount on transportation (reduce the minimum volume of goods for small businesses that can be transported with a discount);
- 2) Receive benefits (for long-term cooperation, a specific invoice shipment is provided free of charge);
- 3) Opportunity for logistics providers to advertise a specific small business (for example, by listing the company on their website as a regular customer);
- 4) Opportunity to receive free consultations from logistics providers on optimizing logistics processes;
- 5) Information support for small businesses (assistance in selecting the right logistics provider, necessary transport, and transportation routes).

The first three listed opportunities are actively utilized by small businesses, but the issue of information support is not yet clearly addressed. This is more the prerogative of government organizations and associations that support small businesses [8], although the latter expect information support from real businesses.

#### 4. Conclusion

If we consider the relationship between small businesses and logistics providers as a whole, the main advantage is the ability to deliver to end consumers in a short time and at a lower cost than an entrepreneur could manage on their own at the initial stage of running a business, without investing in fixed assets. Furthermore, using the services of logistics providers allows for the implementation of various supply chain management operations under a single contract, including international transportation, customs clearance, safekeeping, and delivery to the end consumer. The above demonstrates the significant role of logistics operators in small businesses. Due to limited resources, small businesses are forced to resort to logistics providers for the most effective operation. It's clear that, along with the speed and cost of cargo delivery, respondents also value advantages for small businesses, which significantly influence their choice of logistics provider. The

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most popular among small businesses are 3PL operators, which offer external logistics outsourcing, significantly simplifying business operations from both a financial and organizational perspective. When establishing a logistics services company, it's important to target small businesses, the number of which continues to increase each year, while large logistics providers should offer products tailored to small businesses.

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