

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

Logistics service providers in Egypt

Challenges & opportunities

By: Ahmed salem saber

College of International transport & (Arab Academy for
science & technology & maritime transport)

El mosheer Ahmed Ismail Street, Misr El gdeeda, shiraton,
Cairo,Egypt

Email: Ahmedsalem.saber@gmail.com

Abstract :

A third-party logistics(3PL) provider is a firm that provide outsourced or "third party" logistics services to companies for part, or sometimes all of their supply chain management function.3PL typically specialized in integrated operation, warehousing and transportation services that can be scaled and customized to customer needs.

Many companies are deviating from having their own warehouses and transportation services to that of contracting with various services providers such as UPS (United Parcel Service). The use of third party logistics, or 3PL, means a substantial cost savings to companies who would ordinarily have to lease or otherwise contract these services.

Introduction:

For many companies, contracting with services providers is easier and cheaper than doing the work themselves. After all, they don't have to worry about storage, transportation, or distribution of the material. With a phone call to the 3PL company, they arrange for the material to be shipped to their customer or they pre-arrange a schedule for a specified amount of product to be released to the customer on certain days of the week or month. They don't even have to call a trucking company, since most of 3PL have their own fleet of trucks for transportation of goods. The \$100 billion 3PL market has experienced dramatic growth of approximately 15% per year over the last decade and shows no signs of slowing down. statistics shows that 42% of shippers are currently planning to switch to 3PL; 17% because of cost, 25% because of services (saving time and money) Many experts within the industry have observed that only 10% of logistics services are currently outsourced in the U.S. and believe that the U.S. will

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

transition to a model more similar to that of European countries, where approximately 40% of logistics services are outsourced to 3PL service providers. 3PL service providers will propel growth into the future.

More companies are choosing to contract services with 3PL Company, so they don't have to concern themselves with the warehouse, distribution, and transportation activities. Delegating these functions to someone else gives the company more opportunity to concentrate on their core activities. It's a function that companies tend to find time consuming and often boring from a paperwork standpoint, so if they can leave all that up to a third party, that improves their efficiency. Depending on the terms of the contract, sometimes the 3PL company also handles billing and collecting payments from company's customers for the products it ships. This frees time that your accounting department can use to take care of other financial matters. Freeing the company of continually hiring warehouse workers, replacing fleets of trucks, and paying bills for shipments to customers will allow them to operate more economically, as they will be able to operate with less staff.

As there are varieties of demands and requirements from the customers, the third party logistics (3PL) services providers are facing different new challenges in their operating environment. Therefore, the supply chain visibility, supply chain collaboration and supply chain optimization are important issues for the services providers.

Besides, there are also lots of uncertainties and unexpected issues from customers, for example, last minute changes and last minute notifications. These situations always lead re-planning and re-arrangement, and it is very difficult for service providers to handle if the information system cannot support them in the decision making moment.

Our advanced supply chain solution for the 3PL services industry embedded with the Sense-and-Respond technology which can help the management and staff of services providers to "Sense" the exceptional issues and "Respond" in a close-loop mechanism. It can help the companies to increase the visibility and collaboration along the supply chain. It can also minimize the error, optimize the resources and shorten the lead time in the entire operations

Whether companies are already using its own logistical resources and considering to transfer to outsource logistics functions, or the company is new and wants to compare differences, the decision process for outsourcing remains the same, as when contracting with a 3PL, the company saves great deal of expenses,

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

companies who are using their own resources in logistics services has many overheads, some of those are:

- Warehouse expenses (staff, training, and operating expenditures),
- Transportation expenses (fleet, insurance, drivers, maintenance costs, and training).

By outsourcing these functions, companies will need only to supervise and this shall minimize responsibilities, now companies could enhance overall companies performance (productivity, marketing, R&D, etc.) and spend their money in another channel for improvements.

On selecting a 3PL a full investigation must be accomplished, evaluation should be made to their performance so that customers are not upset when products arrive late or damaged, because they were not properly stored or carefully loaded and secured when loaded on the trucks. Company certainly want to choose the least expensive 3PL company, but not at the expense of customers. The company must make sure for what they are paying and contract with a company that will provide excellent quality, impeccable service, and delivery when it is required. This means they must guarantee on-time pickup and delivery as well as excellence in storage and loading abilities.

For those who do not consider logistics outsourcing, they could assume outsourcing as expenditures. For those who do not have a current budget with which to make a comparison, think of outsourcing logistics in terms of expenditures

Many businesses today have decided to focus on their core competencies. According to Jim Collins, in his book, Good to Great: Why Some Companies Make the Leap... and Others Don't, companies that are good-to-great companies employ the "Hedgehog Concept" which is based on an understanding of the following:

- What are you deeply passionate about?
- What can you be the best in the world at?
- What drives your economic engine?

If each of the above were circles, the Hedgehog Concept would be at the intersection.

many companies choose to outsource this function to a third party logistics company (3PL). A 3PL normally performs all the functions of our warehouse shipper but has some unique requirements. Imagine a warehouse on steroids. 3PL's often ship thousands of packages a day for many different clients. Some have their warehouses divided for a dedicated section for each client

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

with a separate shipping system in each area, like a mini-storage facility. Others have conveyor belts throughout the warehouse bringing the packages to a central shipping area. Almost all of them have multiple shipping stations. Here are few of the problems they face:

- Since 3PL's are shipping packages to their customer's customers, they often charge the freight to their customers account numbers. A 3PL could have hundreds of different account numbers and they need to make sure that packages are shipped correctly. Some do this by having business rules that receive data from the 3PL information technology system to insure that the correct account number is charged.
- Because 3PL's ship for a wide variety of clients, they receive their shipping files in a wide variety of formats. They may get an excel spreadsheet or a file with addresses to ship to or they may get an entire order file with line items to pick. They need a shipping system that can import orders in many formats. They could be flat files, xml, ODBC, or other formats. Flexibility is critical.
- I once spoke to the owner of a 3PL that had over 40 free carrier provided systems. I asked him why he was willing to invest in technology when he had free systems. He told me that it was nearly impossible to keep track of all the data for shipping. Imagine running a \$100 million corporation and having to ask your vendors for the data to create a monthly financial statement. He had to ask his carriers how much he was spending and try to compile all the data. He wanted consolidated reporting that would provide him with the information he needed to run his business.
- Everything that a 3PL does is tracked so that they can bill their customers, so every shipment needs a job number. And there is no room for errors, so job numbers have to be validated.
- Speed is critical; the fewer keystrokes the better. 3PLs want automation so they can process parcels as quickly as possible

Current Situation

Because of the market increase of the international trading activities, the logistics services industry has been developing in a very rapid rate. Apart from the fast growth of international trading activities, the integrated facilities of ports and the professionalism of the logistics providers are also the main

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

reasons of the growth. As the supply chain environment change, logistics providers are not only for delivering goods and materials but also providing lots of value-add services to their customers as well as "door-to-door" services.

As there are varieties of demands and requirements from the customers, the third party logistics (3PL) services providers are facing different new challenges in their operating environment. Therefore, the supply chain visibility, supply chain collaboration and supply chain optimization are important issues for the services providers.

Besides, there are also lots of uncertainties and unexpected issues from customers, for example, last minute changes and last minute notifications. These situations always lead re-planning and re-arrangement, and it is very difficult for service providers to handle if the information system cannot

The case for logistics performance measurement

(1) Most firms do not comprehensively measure logistics performance,

(2) Even the best performing firms fail to realize their productivity and service potential available from logistics performance measurement.

(3) Logistics competency will increasingly be viewed as a competitive differentiator and a key strategic resource for the firm.

There are three major reasons why firms measure their logistics performance. They are to

(1) reduce their operating costs,

(2) drive their revenue growth.

(3) enhance their shareholder value.

Measuring operating costs helps to identify whether and where to make operational changes to control expenses and to discover areas for improved asset management. To attract and retain valuable customers, the price/value of products offered can be enhanced through cost reductions and service improvements in logistics activities. The returns on stockholder investments and the market value of the firm are impacted by the performance of firm logistics. **These seem to be obvious reasons why companies should want to be competent in performance measurement.**

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

The 3PL value proposition

Third party logistics providers enable firms to achieve reduced operating costs and increased revenues in new and existing markets. 3PLs provide firms an opportunity to enhance their market value by reducing ownership of assets, which translates to a higher return on remaining assets and greater return on stockholder investment. 3PLs also bring to the relationship their specialized expertise in managing logistics with contemporary technology and systems. The COO's decision to outsource company logistics operations to the 3PL is often justified solely on the favorable difference between the more efficient 3PL's price for the services and the firm's higher costs of existing operations. The chief marketing officer views the enhanced services and distribution reach of 3PLs in existing and new markets as translating into increased sales and better long-term relationships with customers. CFOs are delighted to see assets – property, plant, equipment, and even inventory – disappear from the firm's balance sheet, freeing up cash for more productive uses, instantaneously and “permanently” improving the company's returns on assets. CIOs are often very pleased to have access to the 3PLs systems and technology resources, avoiding the cost and trauma of upgrading their own. Reliance on the 3PL alliance frees up company employees to focus on their core competencies, doing more of what they are good at and less of what can be done better by the 3PL. Chief logistics officers begin to realize that ownership of resources is not necessary to achieve control over the results.

In today's competitive market place what distinguishes winners from losers is the ability to differentiate themselves through their service and product offerings. For many firms, the service differentiation is accomplished by how well the logistics process is managed. To achieve excellence in logistics, successful firms ensure that the key logistics processes are aligned with the firm's business strategy and measured against predetermined performance objectives. Additionally, the top firms are jointly defining the specifics of each measure with their trading partners (customers / suppliers / 3PLs) to create a common understating of expectations. While some firms are developing their measurement capability internally, a number are turning to 3PLs to support their needs. As focused service providers, 3PLs are ideally positioned to bring the systems, process design, and managerial expertise to aid in establishing and implementing a comprehensive logistics measurement effort. The 3PL is also often in the position to act as a catalyst for meaningful dialogue between trading partners to establish a level of service performance that truly adds value.

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

From the discussions made in the previous chapter the following conclusions are reached:

- The Problems and opportunities for 3PL logistics are totally different that reviewed in other markets.
- The main Problems are:
 - The awareness of the 3PL functions and type of activities is very week at both service providers and buyers.
 - There is a need to train human resources on logistics planning, managing and performing logistics activities.
 - More technological aspects of logistical activities need to be introduced to the Egyptian market to improve the information infrastructure.
 - 3PL provider did not present the whole spectrum of 3PL services and its advances.
 - Some of the Egyptian companies tend to integrate more logistics activities into their organizations.
 - Some legislation may need to be changes to simplify the work of the 3PL such as transport laws.
 - The main performance indicator for the 3PL service is reducing cost and timed delivery.
- The main opportunities are:
 - The 3PL market is still evolving, so any company enters the market now will be considered one of the pioneers and will gain considerable market share.
 - Current 3PL services providers are focusing on the big customer only and not tailored solutions for medium and small companies.
 - There is a well established transport service provider and there is a huge gap in warehouse management service.
 - There is a gap of integrated 3PL service providers which may integrate transport, warehousing and freight forwarding.
 - Very low added value logistics activities are presented by current service providers in Egypt.

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

Solution

Our advanced supply chain solution for the 3PL services industry embedded with the Sense-and-Respond[®] technology which can help the management and staff of services providers to "Sense" the exceptional issues and "Respond" in a close-loop mechanism. It can help the companies to increase the visibility and collaboration along the supply chain. It can also minimize the error, optimize the resources and shorten the lead time in the entire operations.

From the previous conclusions the following recommendations can be derived:

- The current work need to be extended to more companies and the sample should be stratified into Egyptian and foreign companies and each stratum is divided according to the line of business of the company.
- Training of personal working in the field of logistics to improve the skills and competencies of the human recourses.
- Increase the awareness of the 3PL services buyers should be done by service providers through seminars and workshops.
- More tailored 3PL services for small and medium business should be introduced to the market.
- The 3PL must provide more added value services especially air freight packaging.
- Increase information sharing between 3PL service provider and buyer to facilitate the work, to meet performance indicators and to keep the records for future correcting actions.

THE INTERNATIONAL MARITIME TRANSPORT & LOGISTICS CONFERENCE
(MARLOG 2)
SUSTAINABLE DEVELOPMENT OF SUEZ CANAL REGION
17 - 19 MARCH 2013

References

Papers:

- H.I. Hsiao , R.G.M.Kemp, J.G.A.J.vanderVorst , S.W.F.(Onno)Omta , 2009, A classification of logistic outsourcing levels and their impact on service performance: Evidence from the food processing industry.
- Lars-Erik Gadde , Kajsa Hulthén, 2009, Improving logistics outsourcing through increasing buyer-provider interaction.
- Kostas Selviaridis , MartinSpring, 2009, The dynamics of business service exchanges: Insights from logistics outsourcing.
- Alessandra Marasco, 2007, Third-party logistics: A literature review.
- Ching-Chiao Yang , PeterB.Marlow, Chin-ShanLu, 2009, Assessing resources, logistics service capabilities, innovation capabilities and the performance of container shipping services in Taiwan.
- Kingsley A. Reeves Jr. , Fethullah Caliskan, Ozan Ozcan, 2007, Outsourcing distribution and logistics services within the automotive supplier industry.
- I-Chiang Wang, 2009, The application of third party logistics to implement the Just-In-Time system with minimum cost under a global environment.
- Kostas Selviaridis, MartinSpring , 2009, The dynamics of business service exchanges: Insights from logistics outsourcing.

Journals :

- analysis Egypt logistics report, LOG. January 2011, issue 35

Website :

- www.log.ae
- www.supplychaindigital.com
- www.scc.org