

Logistics firms relook strategy

They must adapt as costs rise and trends change

By **LYNN KAN**

AS the traditional supply chain becomes more costly and complex, logistics companies are re-examining their businesses to see how they can maintain logistical efficiency.

Massive consumption growth in Asia is shifting cargo volumes from the traditional major headhaul routes – from Asia to Europe, and from Asia to the United States – to within Asia, pushing companies to re-adapt their operations to these new cargo movements. Efforts are, however, hampered by poor infrastructure within the region.

Accenture's managing director of freight in

Asia-Pacific, Choi Soo Ho, said that by the year 2030, 130 million standard-sized container boxes will be traded within Asia, compared with 110 million being shipped between Asia and Europe/US.

"It's a reflection of consumption growth in Asia," said Mr Choi. "Manufacturing is moving inland in China – one, because of cost and labour but, two, it's a conscious effort to basically spread the wealth around a bit."

Asia's infrastructure constraints, however, pose a conundrum for logistics companies; roads, ports and rail networks are often inadequate in Asia, which slows down the efficiency of the supply chain.

Asia's logistical costs – as a proportion of gross domestic product – can be as high as 25 per cent in places like Indonesia. They average 7-8 per cent in Europe, suggesting exceptional inefficiency in some parts of Asia.

"The maturity of infrastructure in Asia is one factor for the higher logistics

costs, but so (are) product patterns," said Stephan Schablinski, director of the Green Transformation Lab started by DHL at the Singapore Management University.

"The US's logistics costs to GDP is 10 per cent and we believe that it is because these advanced economies had time over the past 20 years to optimise their supply chain and become more efficient than fast-growing Asian economies. There is a lot of potential to leverage (on) here in the region," he added.

The sheer number of small and medium-sized enterprises in Asia providing logistics services is also a reason for increased logistical inefficiency. Mr Choi explained, "In every step of the process, there's someone providing a service, an agent or otherwise, so the paper and compliance that's moving around takes time, process and money."

Escalating labour costs in China have also led to manufacturing plants being relocated to lower cost regions in China, and logis-

Asia's supply chain catch-up

Infrastructure lacking in region

LOGISTICS EFFICIENCY INDICATORS	INDIA	CHINA	GLOBAL STANDARDS
National highway length	71,000 km ●	68,000 km ●	260,000 km (US)
% of paved roads	52 ●	62 ●	100
Average distance travelled by a truck per day	200 km ●	– ●	600-800 km
Average truck speed	30-40 km/hr ●	60-80 km/hr ●	60-80 km/hr
Airport waiting time (export)	50 hours ●	12 hours ●	12 hours
Airport waiting time (import)	180 hours ●	24 hours ●	24 hours
Rail lines (route-km)	64,000 ●	66,240 ●	228,515 (US) 85,300 (Russia)
3PL share of logistics	9-10% ●	20% ●	57% (US); 80% (Japan)
Logistics cost as % of GDP	13-14% ●	18% ●	7-8% (US and EU)
Average surface freight cost per ton km (¢)	7 ●	– ●	1.9 (US)
LPI ranking (2012; out of 155 countries)	46 ●	26 ●	Singapore 1 st

● Significantly below/worse than global standards

● Moderate gap or at par with global standards

Source: Accenture

tics providers are now required to think about how to reach these new areas of production and consumption.

Mr Choi believes that the need for logistics providers to reach more producers and consumers in new locations would require them to either consider new partnerships or acquire another company

quickly.

"Selective acquisition is important. Part of what a company gets is the experience, knowledge and local presence from the local partner," he said.

YCH, a logistics provider based in Singapore, said it has strengthened its relationships with "last mile providers" to connect with the most remote areas of

vast territories.

YCH group executive director Margaret Toh said that, as the company expanded to various parts of Asia, it started to provide value-added logistics services such as customised fulfilment services to brand owners and manufacturers directly, rather than acting as just one part of the supply chain.