Logistics Industry in ASEAN: Hyper-Competitive Today, Value Added Tomorrow?
The manufacturing and logistics industry faced challenging times due to the recent global economic catastrophe. This report, co-authored by The Logistics Institute - Asia Pacific (TLI-AP) and IBM, presents the findings of the study, conducted to understand the business sentiments within the ASEAN region today. The content of this study was sourced mostly via direct face-to-face meetings with senior representation. We wish to acknowledge their contributions and express our appreciation for making time to provide the content for this report.

We would also like to express gratitude towards all participants who participated in the web survey. With the focus of the survey on our region, preliminary feedback has been encouraging and it will be interesting to see what changes transpire with next year's planned report. We trust you will find the report useful and informative, and look forward to your participation in the next survey.

Regards,

Dr. Robert de Souza
Executive Director, TLI – Asia Pacific
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Executive Summary

As the global economy recovers from the 2008 financial crisis, the dynamics of world trade are pushing forth shippers and logistics service providers in the ASEAN region to reach their pre-recession capacity. This report, co-authored by TLI Asia Pacific and IBM, presents the findings of the study undertaken to understand the business sentiments within the ASEAN region today. For the study, we interviewed top management level executives from leading manufacturers from the fast moving consumer goods (FMCG), high-tech and mobile communications sectors, as well as third-party logistics (3PL) service providers to gauge the priorities and challenges faced in the fast-recovering economy. In addition, a web survey of manufacturers and 3PLs based in Singapore and ASEAN yielded 56 useable responses, which form the basis of the key findings presented in this report, in addition to the insights from the interviews. Among the 56 participants, 31 are 3PLs and the rest shippers (manufacturers).

The areas studied include business challenges faced in the ASEAN region, current focus of supply chain management strategies, globalization, IT capabilities gap, collaboration practices in ASEAN, adoption of green supply chain practices, and outsourcing practices. The following is a summary of some major findings.

While conducting our analysis, we compared the results between small (1,000 employees or less) and large (more than 1,000 employees) 3PLs and shippers as there are significant differences among them.

ASEAN

The Association of Southeast Asian Nations, commonly abbreviated as ASEAN, is a geo-political and economic organization of 10 countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. Its aims include the acceleration of economic growth, social progress, cultural development, the protection of the peace and stability of the region, and to provide opportunities for member countries to discuss differences peacefully.

ASEAN spans an area of 4.46 million km², i.e. 3% of the total land area of the Earth, with a population of approximately 600 million people (8.8% of the world’s population). In 2010, its combined nominal gross domestic product (GDP) was USD 1.8 trillion. If ASEAN was a single country, it would rank as the ninth largest economy in the world and the third largest in Asia in terms of nominal GDP.
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Business Challenges: The Logistics Industry in ASEAN is Highly Competitive

The most challenging factor affecting the businesses of 3PLs is aggressive competition, while shippers are more concerned with supply chain visibility and meeting customer needs (see Fig. 1). Thus, logistics players face significantly higher competition than shippers, making it a highly competitive industry in ASEAN. 3PLs are under severe pressure to reduce cost following the global economic crisis, while shippers are most concerned about the improvement of customer services.

Zooming into the factors that have the greatest impact on respondents’ businesses, high customer expectation was selected by most logistics players as the most significant factor. In the case of small shippers, managing supply chain for customers and supply chain visibility are the two factors mentioned most. For large shippers, risk management takes the top spot.

Current Focus of Supply Chain Management Strategies is on Cost Reduction

Companies are constantly under pressure to minimize the cost and to optimize the operational efficiency. This was especially so during the economic downturn two years ago, which placed a strong emphasis on near-term cost containment and operational efficiency. Even though the economy is recovering, cost reduction is still ranked as the most important area of responsibility for logisticians, followed by alignment with customers’ business strategies and business performance measurement (see Fig. 2). Talent development is also ranked among the top five most critically important areas for logisticians and has been regarded as an area in which logisticians have performed the least effectively. Most of the interviewees have also confirmed that there is a shortage of talent in the logistics industry.

Green strategy is lagging for both logistics providers and shippers in ASEAN, and is the least of most companies’ concerns. The green supply chain initiatives of logistics companies mostly focus on carbon emission reduction while shippers focus on process design and packaging (see Fig. 3).
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IT Capabilities Gaps: Enhancing Customer Service Quality is the Primary Motivator for IT Adoption

The strongest motivator for IT adoption is the enhancement of customer service quality (see Fig. 4). This is true for large shippers and for all logistics players regardless of the size of the company.

On the other hand, the main barrier to IT implementation is an internal issue. The survey results showed that limited organizational resources for both logistics providers and shippers are the main barriers to IT implementation (see Fig. 5).

In-depth interviews show that a few large and global 3PLs have developed their own in-house IT systems with a few modules supplied by IT vendors. The reason for this, according to one interviewee, was that initially these firms were small establishments with limited need for IT and small budgets. As their operations grew and more and more value-added IT services were added, the IT platform became complicated. However, instead of revamping the whole system, which would result in large IT spending, a few modules were added here and there to cater to customer servicing requirements. Some 3PLs also tend to follow their big clients and hence developed multiple systems for compatibility with those clients.

There are distinctly different patterns of IT, warehouse and transport technology adoption between large and small 3PLs, with large providers showing higher adoption across the board. This supports the large 3PLs’ focus of managing the entire supply chain, which is a lower priority for smaller 3PLs. Large players also share resources with their partners to reduce risk and participate in higher numbers in global expansion.

Transportation was the most outsourced activity, followed by customs/export management, while the least outsourced activity was customer order-and-call operations, as well as non-core function outsourcing (see Table 1). Large 3PLs outsourced the least of their business functions. A large percentage of shippers (regardless of size) outsource most of their transportation, customs/export management and warehousing needs. As ASEAN countries are export-oriented, outsourcing these three functions could also result in cost savings.

<table>
<thead>
<tr>
<th>Business Functions</th>
<th>Small Shippers</th>
<th>Large Shippers</th>
<th>Small 3PLs</th>
<th>Large 3PLs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>89%</td>
<td>86%</td>
<td>31%</td>
<td>31%</td>
</tr>
<tr>
<td>Customs/export management</td>
<td>67%</td>
<td>50%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Warehousing</td>
<td>11%</td>
<td>7%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Field services/reverse logistics</td>
<td>33%</td>
<td>29%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Customer order and call operations</td>
<td>11%</td>
<td>7%</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Non-core function outsourcing (e.g. finance, HR)</td>
<td>7%</td>
<td>7%</td>
<td>17%</td>
<td>7%</td>
</tr>
</tbody>
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Shippers are More Active Users of Outsourcing Activities

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Conclusion

The logistics industry in ASEAN is dynamic and constantly evolving as the industry strives to keep up with the changing business landscape after the 2008 economic crisis. Historically, the organizations that have invested in technology with a medium-term view have reaped productivity benefits and improved investment returns. The logistics industry should adopt the same strategic view to build a stronger industry. Smaller 3PLs should consider such technology enablers with the aim of providing full supply chain visibility. This will enable smaller players to compete effectively.

The biggest inhibitor to IT adoption is limited organizational resource and all players may consider shared platform delivery solutions and shared services to adopt technologies without consuming significant resources. We also notice that regulatory compliance and government support are not strong drivers of technology adoption and feel this could be improved by various support measures by the government.

Unlike Europe and North America where sustainability is mandated and the general populace is proactively conscious of environmental issues, the general Asian region encompassing ASEAN is lagging. The results of this study appear to reinforce this, and it will be interesting to see the progress and results of another THINK Executive initiative, “Sustainable Supply Chain Centre - Asia Pacific (SSCCAP)”.

THINK Executive

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Established by The Logistics Institute –Asia Pacific, THINK Executive is intended for companies interested in a common area of research to engage with economies of scale through a dedicated research team.

For enquiry and participation details please call: (+65) 6516 4842 or email: THINKExecutive@nus.edu.sg

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