



**Shippers
Council of
Eastern
Africa**



**THE PILOT LOGISTICS
SURVEY REPORT | 2015**

Abridged Version



About SCEA



WHO WE ARE

The Shippers Council of Eastern Africa (SCEA) is a business membership organization whose mandate is to advocate for an improved policy and trade environment, educate shippers on their rights and obligations in import and export trade, interpret government regulations and procedures, and provide a platform for sharing experiences through networking forums, and training and awareness workshops.

Vision

An efficient logistics chain that enhances the competitiveness of cargo owners in Eastern Africa.

Mission

To offer proficient, research based advocacy and value add services to cargo owners.

Core Values

- ♦ **Customer Focus** – The Council commits to attaining the highest standards in service delivery for our members to surpass their expectations.
- ♦ **Integrity** – SCEA is committed to acting in an honest, transparent and responsible manner while implementing its programs through adherence to a code of conduct by members and staff.
- ♦ **Teamwork and Partnership** – SCEA commits to recognizing the strengths and unique abilities of its personnel and the unique abilities of other like-minded organizations and forming partnerships with them for the benefit of the organization and its customers.
- ♦ **Innovation and Continuous Improvement** – The organization will be a learning organization that embraces change and continuously enhances creativity and innovation in its business process.

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- 1 *imported second hand goods in a warehouse*
- 2 *Fresh tea leaves in Muranga*
- 3 *Heavy commercial trucks*

1.0

EXECUTIVE SUMMARY

East Africa is one of the regions in the world with the highest transport and logistics costs. In 2010, a World Bank report estimated that transport and logistics costs accounted for approximately 42% of the total value of goods imported into the region. Further logistics costs are added during the sourcing, manufacturing process, warehousing of finished goods as well as product distribution stages.

This high cost of logistics presents an opportunity for cost reduction to improve competitiveness and profitability. To establish the extent to which this can be achieved, the Shippers' Council of Eastern Africa (SCEA) encouraged its members to carry out logistics audits. The pilot audit programme undertaken for five of its members will serve as a basis for encouraging more companies to audit their logistics processes.

The logistics survey was aimed at reviewing existing processes and systems and benchmarking them against the best in the world. The ultimate objective was to identify the key cost drivers, bottlenecks and propose areas for performance improvement.

The survey began with a preliminary review on the best practice in logistics and supply chain management in Eastern Africa. It involved visits to the identified firms for observation of their logistics operations and data collection through in-depth interviews with logistics process owners as well studying available secondary data. A checklist that prodded the supply chain strategies and practice of companies, the logistics planning and execution as well as logistics costs and use of ICT, was also used.

Some of the key findings from the survey included:

- ◆ Poor integration of the logistics function in organizational hierarchy.
- ◆ Lack of logistics performance management systems and dashboards for data capture.
- ◆ Low usage of service level agreements (SLA's) where functions are outsourced.

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- ◆ Inconsistent methods of calculating logistics costs and hence inability to determine the true overall costs to the organization.
 - ◆ Exploitation of low volume importers by the international freight companies.
 - ◆ Poor understanding of freight, port charges, customs valuation, Incoterms, among others.
 - ◆ Inadequate dispute resolution mechanisms.
 - ◆ Need for forums to educate members on new initiatives e.g. TradeNet, Mombasa Port Charter etc.

A report was prepared for each participating company and based on the findings; recommendations for generalized performance improvement were also developed.

It is hoped that the successful outcome of the pilot programme involving the volunteer organizations shall be the launch pad for adoption of logistics audits by SCEA members as a fully-fledged management tool. In addition, a strategic plan has been developed that will support SCEA to launch a logistics excellence platform and pioneer the requisite cultural changes.

There are currently numerous initiatives going on to improve logistics performance in the region. For them to succeed, new ways of working must be adopted by all users.

Finally, for a proper benchmark for logistics performance to be developed, more data will need to be collected in targeted companies and employed to develop a customized logistics performance index. This will provide the fodder to drive SCEA's quest for *taking the load off shippers' minds* and ultimately help them achieve best-in-class logistics performance in the region and beyond.

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OBJECTIVES OF THE PILOT LOGISTICS SURVEY

The objectives of the pilot logistics survey are:

- ♦ To identify the process, steps and execution of supply chain logistics while identifying bottlenecks in the systems, processes and procedures.
- ♦ To identify unnecessary (waste) processes for reduction / elimination while identifying areas of improvement to attain a lean efficient and cost effective supply chain operation within the firms.
- ♦ To induce efficiency by determining if the logistics activities are conducted effectively and efficiently in accordance with documented best in rules and practices.
- ♦ To determine level of automation and adaptation of acknowledged best practices within the firms.
- ♦ To identify opportunities to improve the logistics process and the resultant cost benefits in monetary and time-related savings.

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- 1 *Delegates at a PVoC Training*
- 2 *Southern bypass*
- 3 *Cut flowers for export*

3.0

SWOT ANALYSIS

As part of the survey methodology, a SWOT analysis was conducted for each of the organizations, whose findings were handed over directly to them.

Some of the generalized observations are in the table below:

| STRENGTHS | WEAKNESSES |
|--|--|
| <ul style="list-style-type: none"> ◆ Knowledgeable and well trained workforce within the region. ◆ Most organizations have strategic and tactical plans in place. ◆ Availability of ICT systems that support the logistics function. | <ul style="list-style-type: none"> ◆ The supply chain function is fragmented and spread out in finance, procurement, sales, and distribution among others. ◆ Tracking and reporting of business performance even when Enterprise Resource Planning systems are available. ◆ Low application of service level agreements and contract. ◆ Lack of benchmarks for cost and performance comparison. ◆ Poor intergovernmental efficiency and coordination. |
| OPPORTUNITIES | THREATS |
| <ul style="list-style-type: none"> ◆ Political goodwill – seeking to promote growth of businesses. ◆ Creating an integrated end to end supply chain function and benefit from attendant performance improvements. ◆ Development of a benchmark for measuring logistics performance and costs. ◆ Pre-clearance of goods to prevent transfer to CFS stations and save upward of \$200 per container. ◆ New initiatives and projects e.g. TradeNet, Port of Mombasa Charter, Standard Gauge Railway that will aid faster movement of goods. ◆ Cargo consolidation in collaboration with other small volume importers to reduce sea freight charges which currently cost about US\$ 1,825 per 20 foot container. | <ul style="list-style-type: none"> ◆ Direct importers of finished goods who enjoy lower duty. ◆ High cost of doing manufacturing activities – infrastructure, electricity. ◆ Re-routing of cargo to competing ports. ◆ Low worker productivity at KPA entry ports. ◆ Political interference. |

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- 1 Stakeholders at an AGM meeting
- 2 Forklift at a port of entry
- 3 Coffee beans

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KEY FINDINGS

SUMMARY OF KEY FINDINGS

Logistics Function Strategy & Practice

- i) Of the surveyed firms, none had implemented a fully integrated logistics function. Logistics activities were found to be spread out across various departments including procurement, finance, sales, exports, production and distribution. There was no single custodian of the logistics service and cost data.
- ii) Most organisations have made no clear effort to engage qualified supply chain professionals to steer the function.
- iii) The organizations surveyed had outsourced logistics services such as customs and port clearance, transportation and warehousing on an ad-hoc basis.

Logistics Activities Planning & Execution

Formal performance management systems were not common. The logistics activities process documentation ranged from basic to non-existent.

Cost Management

Logistics cost management was clearly one of the most visible areas of focus amongst the organizations surveyed. But most organizations' focus was more on third party agencies adding to their costs rather than managing logistics costs within their control. Some of the areas identified for cost reduction include:

- i) The practice by most organizations of procuring imported goods on cost and freight (CFR) terms thus risking paying uncompetitive rates on sea and airfreight services.
- ii) Generally, little or no focus is put into management of importation and exportation costs such as sea and airfreight, insurance and port handling charges. One of the organizations surveyed paid its customs clearing agents a fee based on Cost Insurance & Freight (CIF) value of the cargo under clearance.
- iii) The full logistics cost monitoring was not visible to the organization

due to activities being spread across various functions with the exception of local transport costs.

- iv) There was no focus on stock-carrying costs; in fact it was almost ignored. In some of the organizations surveyed, the inventory turnovers were low as stock-holding was high.
- v) Generally, contracting for logistics services and implementation of such contracts was a weak point identified in the survey. Application of the basic Service Level Agreements (SLAs) was rare. SLAs assists the procuring entity to justify improved service levels and reduced cost of the services by taking into account all drivers such as volumes, turnaround times, documentation and so on.
- vi) The following performance indicators were established (*Read full report on www.shipperscouncillea.org*)

| PARAMETER | ACHIEVEMENT | COMMENT |
|-------------------------------------|--|---|
| Customs/Port Clearance | 3-4 days | KPA performance better |
| Systems Availability | Frequent | Simba system, KWATOS |
| Truck annual mileage | 70,000-80,000km per year | Delays at highways, weigh bridges |
| Transport rate: Mombasa to Nairobi | USD 1,100 for 28 tonne, 40ft container | USD 40 per tonne. Lower than in 2012 but can be lower |
| Inventory turnover | Less than 3 times | High inventory holding |
| Sea Freight: Middle East to Mombasa | USD 2,500 per 20ft container | Shipping line driven |
| Cargo Traceability | Yes | Customs requirement |
| Working capital | Positive | High stock paid for |

Business Support Systems

- i) Most organizations have implemented financial management systems. The level of system functionality exploitation varied from organization to organization but was generally low. Spreadsheets and manual systems were very popular.
- ii) Logistics planning and scheduling tools were hardly in place.
- iii) Cargo tracing and tracking is not widely practiced and the mobile phone is the commonly used method.
- iv) Delays and costs are also driven by errant members who do not adhere to laid down rules in terms of payments/documentation.
- v) There are no common guidelines on calculation of logistics costs. Three methods that were identified are: per cent of sales, absolute costs or as unit of weight.
- vi) Local Insurance premiums are a key cost driver.
- vii) Low volume importers (<10 containers per month) suffer high sea freight costs due to low bargaining power.
- viii) Rail transport is the most cost effective method of heavy weight cargo transport. The construction of the Standard Gauge Railway should see a reduction of cargo transfer (Nairobi –Mombasa) rates from USD0.09 to less than USD 0.05

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- 1 *Railway cargo transport*
- 2 *Southern bypass*
- 3 *Map of the world*

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RECOMMENDATIONS

INTERNAL – CHANGES RECOMMENDED WITHIN ORGANIZATIONS

a) **Supply Chain Function/Logistics Organizational Structure**

Organizations should explore the possibility of setting up fully-fledged integrated supply chain functions to house all the procurement, logistics, distribution and facilities management under one roof. Key advantages of this include ability to exploit synergies across function, and integration of units. Experience has shown that supply chain cost savings as a result of implementation of an integrated approach is between 10-25 per cent of total costs. A well implemented integrated logistics function often leads to improved competitiveness.

b) **CFR Contract Pricing & Imports Management**

Most organizations surveyed are yet to enter into supply chain partnerships with door-to-door logistics services for management of their imports and supply chains in general.

This approach of management of imports through appropriate choice of INCOTERMS and engagement of a properly contracted logistics partner can result in savings in the region of 15-20 percent with accompanying service level improvements.

c) **Clearing and Forwarding Services**

Despite outsourcing of these services being a recognized best practice, some organizations still felt the need to maintain them in-house. Scenario planning models to guide such decision-making are available. At the end of the day, it is about which option delivers the services on time and at optimum cost all the time. If the service provider brought on board is indeed professional and has employed sufficient resources in terms of people, tools and processes, they should be able to perform better than an in-house arrangement any time. Outsourcing the services allows the organization to focus on its core business while it enjoys the comfort of a professional service provider and all the known benefits that brings. Organizations, however, need to ensure proper measures of performance of the service provider are in place with performance being reviewed formally at least once a month with clear action plans to correct undesirable trends.

d) Supply Chain Partnerships

Organizations should adopt best practices such as implementation of SLAs with their service providers showing clear key performance indicators (KPIs). Such SLAs should have clear process maps and clear responsibility roles between the service provider and the client. The service providers should also hold regular partnerships or contract review meetings where current performance levels from both parties are reviewed and targets set and revised where necessary.

d) Use of ICT

ICT use in logistics is growing e.g. in vehicle tracking systems. While some of the companies have interactive websites where their clients can download relevant cargo status reports, the complexity of logistics flows now and in the future requires more refined transport planning and scheduling.

e) Truck Turnaround

Organizations and service providers should audit the contracted transporters to establish how they perform against the best practice of 9,000-12,000 kilometers truck turnaround time per annum. Vehicle turnaround is a key measure of efficiency at all stages of the supply chain and the higher it is, the better for service providers and their clients. It is estimated that the costs have reduced by between seven to ten per cent in the last three years (culminating in savings of USD 100 per trip). Users of logistics services should be sensitized about these potential savings.

EXTERNAL – CHANGES RECOMMENDED FOR SCEA FOLLOW UP ON BEHALF OF MEMBERS

a) Consolidation of insurance, sea, and airfreight rates in order to attain better rates

Small to medium member companies of the Shippers Council can benefit from a negotiated insurance and freight rates from various ports of the world to local ports through consolidation of insurance and logistics services and direct negotiation for favorable rates.

b) Truck Overloading

SCEA could lead sensitization of its members on this factor and also push for shipping lines to take more responsibility for the cargo they bring in. A severe surcharge could be introduced to bar anyone from importing overloaded containers.

c) CFS Costs

In situations where all documentation and payments have been effected in full, goods should be released directly to the importers to avoid the extra step of transfer to CFS stations. In addition, the KPA charges of wharfage should be scrapped as it is already contained in the port handling fees. Importers stand to save up to \$200 per container if this recommendation is implemented.

d) Pre-ship arrival customs clearance

Goods clearance can also be expedited by allowing pre-arrival customs declaration. This will save other charges like storage and demurrage, remarshalling costs, among others which can translate to US\$ 270 per 40 foot container. It was noted that the shipping lines do not take responsibility at all for delays in cargo clearance yet they play a big role in facilitating the process.

e) Standard Gauge Railway Development

Rail transport is the most cost effective method of transporting bulky cargo. The construction of the Standard Gauge Railway (SGR) should see a reduction of cargo transfer (Nairobi – Mombasa) rates from USD 0.09 to less than USD 0.05 which would make a significant positive impact on the cost of manufacturing in the region.

f) Knowledge Management and Training

SCEA should organize forums to sensitize members about new initiatives e.g. TradeNet and the Port of Mombasa Charter to help improve compliance. SCEA as the premier business organization in logistics should develop their website portal to give members access to and accurate information including costs, shipping times, global/local KPIs and examples of best practice.

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CONCLUSION

During the pilot logistics survey, the auditors were not able to establish with any level of confidence the logistics cost baseline that can be used for benchmarking purposes. Several attempts have been made in other forums to bring out the overall logistics cost and measure it as a percentage of company turnover or other index.

As noted above, there is no guideline that has been established on calculation of logistics costs. Three methods have been sighted: (1) percentage of sales, (2) absolute costs incurred and (3) as a unit of weight are in use. Adoption of a common system in industry clusters will provide firms with a platform to compare their performance and ultimately international best-in-class performers.

Opportunities for future logistics audit in the region are clear. A strategic guideline has been developed that can be shared with members to help move the initiative forward. There is need to develop a checklist applicable across industries and acceptable as a tool to manage logistics within the organizations. Such a tool should be administered annually in form of a Logistics Audit then proper benchmarks can be established. Due attention must also be paid to the 'inefficient industry' e.g. corrupt police, roadside establishments which benefits from poor logistics.

About SCEA



BECOMING A MEMBER

Membership to SCEA is open to all registered businesses in the region involved in import and export business through out East Africa. Government agencies/parastatals and business associations involved in or concerned with transport and logistics and trade facilitation are also eligible.

There are two category of membership:

- ♦ **Ordinary** – Cargo Owners directly involved in importation and exportation (manufacturers, producers, dealers, traders)
- ♦ **Associate** – this are companies that provide key services to cargo owners either as their transporters, freight forwarders, shipping lines and agents, banks, insurance companies, port authorities, container freight stations among others.

To join, a company is required to fill a Membership Application Form which is available on the SCEA website, and submit the filled form together with the requisite entrance and membership fees, to the SCEA Secretariat. Membership by affiliation to an existing SCEA member is not valid. Direct membership to SCEA grants the member immediate response, attention, privileges and discounts on SCEA's events and programmes.

KEY AREAS OF ACTION

1. **Advocacy** – Lobbying, educating and influencing government and inter-governmental institutions on increasing regulatory and trade issues affecting shippers, resulting in a better trade environment.
2. **Capacity building and empowerment** – Through awareness and training workshops on topical issues in logistics and firm-level interventions.
3. **Information collation and dissemination** – Mainly through research and study consultancies disseminated through publications, networking forum and the website.
4. **Benchmarking** – Adoption of best practice in transport and logistics e.g. automation of trade processes.

KEY SUCCESS FACTORS

- ♦ Improved legal and regulatory environment;
- ♦ Harmonization of EAC transport and trade policies and procedures;
- ♦ Adoption of best practices by shippers and regulatory authorities;
- ♦ Adoption of ICT in transport and logistics systems.

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