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Logistic industry needs to be more competitive

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THE advent of multi-modal logistics and just-in-time inventory methods has made it important to focus on the entire logistics chain, said Encik Mirzan Mahathir, group executive chairman of Konsortium Perkapalan Bhd.

"Any inefficiency in the transportation industry increases the cost of doing business in Malaysia. These cost factors affect the financial position and competitiveness of companies.

"Manufacturers will incur a higher cost of production, which in turn will have an adverse impact on the country's competitiveness in the export market," he told a seminar on the "Outlook and Challenges for the Malaysian Logistics Industry in the New Millennium" recently.

Mirzan said the transportation sector in Malaysia, as in many developing countries, has developed in a haphazard manner.

He said most of the players in the transport industry, such as freight forwarders, container hauliers, warehouse operators, ports and conventional truckers, are specialists in their own fields and operate with minimal linkage to the other components in the logistics chain.

"This lack of co-ordination and control has led to inefficiency in the journey to make a particular product and to deliver it to its markets."

Mirzan said this situation is worsened by the economic downturn, which has forced competition and an over-capacity that will put further pricing pressure on an already depressed market. Such a situation could force out smaller industry players.

"Due to their limited size and operating capacities, the single and individual owner-operators or small- and medium-sized companies are unable to take advantage of economies of scale.

"These operators also find it hard to re-invest due to low returns," he said.

Another problem contributing to inefficiency is poor co-ordination of cargo transportation and duplication of routes and services offered by operators.

"Trucks which run on less than full load or even empty on return trips have wasted scarce resources like capital, equipment and manpower."

Turning to global trends, Mirzan said mergers, acquisitions and the formation of strategic alliances are on the rise.

"Companies are merging into larger entities to take advantage of the economies of scale and to extend their market coverage because the value of a logistics company invariably lies in the market coverage of its network."

He said these consolidations are expected to result in significant cost savings in terms of human resources, capital expenditure and administrative functions.

He added that a greater number of companies are also outsourcing the logistics component of their operations to third party specialists who can do the job more cost-effectively.

Through outsourcing, he said, companies are focused on their area of speciality while optimising scarce resources, which is good on the company's bottom line.

Mirzan also outlined the challenges faced by the logistics industry in Malaysia in the next millennium.

Among them are ensuring that the logistics industry supports the nation's economic growth and enhances its global competitiveness,

nurturing and supporting Malaysian-owned and operated logistics companies so that they can compete with the best in the world, and ensuring that the logistics industry adheres to global environmental and safety standards in order to raise the quality of life of Malaysians.

Mirzan said the logistics industry must improve the movement of inventory that is held by manufacturers, wholesalers and retailers such that their overall holding costs go down.

"Inventory is a large item on the balance sheet of most companies. If the logistics industry is able to move this inventory faster, the benefits to the nation are multi-fold," he said.

Mirzan said the industry can further improve the utilisation of infrastructure built to move goods.

The industry must work towards maximising the use of highways, airports, ports and rail infrastructure as they are the major users of these facilities.

The third challenge, he added, is for the industry to develop without compromising environmental and safety standards.

"Current transportation laws, regulations and policies must be reviewed and revamped to take into account the developments in the logistics industry."

"For example, for containerisation, axle load, third party logistics and improvements in vehicle quality are some of the developments that are not being addressed properly by existing laws, policies and regulations," he said.

On the outlook for the logistics industry, Mirzan said there is a need to re-engineer the local industry to be more competitive.

"Local companies need to be more sophisticated to be on par with the best in the world," he said.

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