THE LOGISTICS SURVEY PILOT REPORT

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For The Shippers’ Council of Eastern Africa
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1.0 EXECUTIVE SUMMARY

East Africa is one of the regions of 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 manufacturing process, warehousing of finished goods as well as product distribution stages.

This high cost level of logistics presents an opportunity for cost reduction leading to firms’ better competitiveness and increased profitability. The Shippers’ Council of Eastern Africa (SCEA) came up with an initiative to encourage its members to carry out Logistics Audits and hired the services of Stanley Kirui & Associates Consulting (SKAC) to provide the services to five (5) of its members on a pilot and voluntary basis.

The Logistics survey was aimed at reviewing existing processes and systems and benchmarking them against the best in class. It identified a baseline of current cost and service levels and these were used to establish performance improvement areas summarized in the recommendations section of this report. It is believed that the findings and recommendations will help develop a way forward to creating a logistics excellence environment.

SKAC conducted literature review on the best practice in Logistics and supply chain management in the context of Eastern Africa as part of the assignment. This was necessary to establish performance standards for benchmarking purposes. The survey methodology involved preliminary observation (2-3 days) of companies operations and carrying out in-depth interviews with logistics process owners as well studying secondary data available. The data collected was documented and compared with established best practices. In summary some of the findings included:

- Among the surveyed companies, the supply chain/logistics function is not well integrated in organization structures. The reporting lines and responsibilities vary widely.
- Few organizations have developed a KPI dashboard that tracks logistic performance. Most indicators reviewed were tracked manually with no targets in place or evidence of senior management review of performance.
- There is no defined measure for computing logistics costs hence no benchmark for comparison.
- Service level agreement /Contracts /Supplier partnerships systems are largely unstructured if at all in place.
- Transportations costs (Mombasa to Nairobi) vary widely by as much as 30% from organization to organization.
- Small cargo importers have no capacity to negotiate sea freight and are usually left at the mercy of suppliers and shippers.
- Poor inter-governmental agencies efficiency and coordination contributes to high financial costs and time wastage.
- Monitoring of cargo in transit is not widely practiced due to prohibitive costs.
Based on these findings, a confidential report was prepared for each participating company which also provided recommendations on improvement.

The Survey process also identified some general issues such as the apparent low understanding of new initiatives like the Single window system or Mombasa Port community charter. SCEA should identify these knowledge gaps and create forums for sensitization and education as and when the changes occur. It should also consider a portal which will disseminate accurate and timely information which includes but not limited to shipping line information, custom costs computation guidelines, cargo tracking tools and, a dashboard for key performance indicators and best practice targets. This will then form the basis for a logistics performance index.

It was noted that there were numerous initiatives going on concurrently to improve logistics performance. They can only succeed if there is full cooperation from the users based on documented ways of working and codes of conduct. A sanction and reward system should be developed that will help drive compliance and ensure users are held accountable.

Finally, it is hoped that the successful outcome of the pilot program involving the five (5) volunteer organizations shall be the launch pad for adoption of Logistics Audits by SCEA Members as a fully-fledged management tool. More data will need to be collected in targeted companies/industry and refined on a regular basis to ensure relevance. That should be an area of focus for the council. Annual logistics audits if carried out professionally, will help to reduce operational costs and improve companies’ competitiveness and profitability.
2.0 INTRODUCTION

2.1 BACKGROUND

The world over, it has been demonstrated that Logistics is central to a company’s service quality as well as its cost structure. Efficient logistics implementation therefore allows for smooth running of company processes leading to lower production costs, improved profitability and competitiveness.

East Africa is one of the regions of 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 manufacturing process, warehousing of finished goods as well as product distribution.

A Logistics audit should therefore be seen in the same light as an internal systems audit aimed at identifying areas of inefficiency, cost leakage and unnecessary processes. A logistics audit is a proven and cost effective process which can yield a tremendous amount of savings to companies.

The Shippers’ Council of Eastern Africa (SCEA) came up with an initiative to carry out Logistics Audit on a pilot basis and hired the services of Stanley Kirui & Associates Consulting (SKAC), a local consultancy firm to carry out the task. Five (5) of SCEA members namely; Nation Media Group (NMG), Kenya Ports Authority (KPA), Synresins Ltd, Unilever Tea Kenya Ltd (UTKL) and Bahari Forwards Limited (BFL) participated in this survey on a voluntary basis.

The Logistics Survey was aimed at reviewing existing processes and systems and benchmarking them against the best in class systems. It was desired that by the end of the Survey, the baseline of cost and service levels could be established and performance improvement areas identified.

2.2 TERMS OF REFERENCE OF THE LOGISTICS SURVEY

Logistics management is an integral factor in the success of any manufacturing and trading companies operations and has direct impact on their bottom line hence it is a critical activity that warrants all due attention.

In addition, efficient logistics is significant to any company since it allows for a smoother running of company processes and operations. Further an efficient logistics environment leads to lower production costs and better competitiveness of the product.

This Survey was aimed at achieving overall logistics costs reduction by pointing out logistics bottlenecks in the supply chain. Much of these bottlenecks had been seen to
emanate from the supply side, which includes both private and public sector logistics service providers such as state agencies involved in the clearance of goods process (customs, KEBS and other cargo interveners) transporters and freight forwarders, clearing agents among other players.

On the demand side, cargo owners are also responsible for logistics bottlenecks largely emanating from the manner with which they handle their logistics operations. The Survey should identify these demand side bottlenecks and propose appropriate logistics solutions that would provide opportunities for better operational execution and significant savings in the logistics budget for cargo owners, thereby reducing the cost of transport and logistics services.

2.2.1 OBJECTIVES OF THE PILOT LOGISTICS SURVEY

The objectives of the pilot Logistics Survey assignment carried out by SKAC on behalf of the SCEA are summarized below.

- To objectively identify the process, steps and execution of supply chain logistics while identifying points of bottlenecks on selected members of the SCEA systems, processes and procedures.
- To identify unnecessary (waste) processes for reduction/elimination while identifying areas of improvement towards attainment of 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 breed 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 costs benefits in monetary and time related savings.

2.2.2 IMPORTANCE OF THE LOGISTICS AUDIT

This Logistics Survey assignment was an initiative of the SCEA whose ultimate purpose was;

- To establish a baseline for benchmarking logistics performance in Kenya and provide parameters and key performance indices for performing future logistics Audit in the Eastern Africa Region.
- To provide summarized suggestions for improvements and modifications to be adopted by members of SCEA leading to a reduction on the overall logistics and transport costs in Kenya.
3.0 ACKNOWLEDGED LOGISTICS AND SUPPLY CHAIN MANAGEMENT BEST PRACTICES

SKAC as part of this assignment evoked its own internal expertise and experience on the best practice in Logistics and supply chain management in the context of Eastern Africa. This was an important action that provided the basis for assessment of the level of Logistics performance in the organization on the ladder of Logistics Best Practice.

The most widely accepted definition of Logistics is ‘The management of the flow of goods, information and financial arrangements in the network of suppliers, transport and storage providers, distributors, retailers and customers. Figure 1, below demonstrates that good flow from an organization’s suppliers to its customers, while in funds and information from in the opposite direction from the customers, all the way back to the suppliers.

Figure 1: Supply Chain Definition

Figure 1, below shows the Logistics activities in a typical organization’s supply chain.
In summary, Logistics activities include:

- Pre-shipment
- Shipment & Order Tracking
- Customs & Port Clearance
- In-bound transportation and order consolidation
- Storage (Raw Materials/Semi-finished goods, finished goods)
- Product Distribution activities & Order Tracking
- Depot Management
- Sales/Customer Order Processing & Delivery

Logistics has evolved as a function over time and is now gaining prominence in most organizations due to the cost impact of the activities involved and ultimately the impact on the organization’s profitability and competitiveness.

In practice, the best performing companies globally and in Eastern Africa have created integrated Logistics functions and supply chain departments within their management structures. The main reason for the success of an integrated approach to Logistics Management is the ability to consolidate services and take advantage of synergies within the organizations’ supply chain. Other than implementation of an integrated Logistics management structure, there are other recognized Best Practices in Logistics Management which include:

- Outsourcing of Logistics Services to companies with expertise in transportation and handling services. This enables the companies to focus on their core businesses while taking advantage provided by the logistics experts leading to better service provision for customers and reduced operating costs.
o Use of robust information & Communication Technology tools to support process speeds, accuracy and real-time reporting. Process Automations, product/order/cargo location ability tracking tools fully implemented will significantly improve service levels.

o Implementation and management of well negotiated Contracts with emphasis on Service Level Agreements (SLAs) demands on all both parties.

o Implementation of Logistics process Key Performance Indicators (KPIs)
  - Outbound (Secondary) Logistics Service Indicators: Order service on time (OT), On time in full (OTIF), right first time, out of stock, poor quality, truck turn-around time, stock turnaround
  - Inbound (Primary) Logistics Service Indicators: Order service on time (OT), On time in full (OTIF), right first time, out of stock, poor quality, truck turn-around time, stock turnaround
  - Cost Management Indicators:
    - Pre-shipment Costs
    - Sea freight, airfreight costs
    - Customs, Port & CFS Clearance costs
    - Order consolidation and in-bound transportation costs
    - Inventory, Storage and handling (Raw Materials/Semi-finished goods, finished goods) costs
    - Product Distribution activities & Order Tracking Costs
    - Depot Management
    - Sales/Customer Order Processing & Delivery costs
  - Supply Chain Planning Indicators - Sales Forecast accuracy, Capacity Forecast Accuracy, Manufacturing Performance to Plan, cash to cash cycle time, inventory days, inventory turn around.
4.0  THE LOGISTICS SURVEY PILOT METHODOLOGY

4.1  THE SCOPE
The Survey covered five (5) organizations namely; Nation Media Group (NMG), Kenya Ports Authority (KPA), Synresins Ltd, Unilever Tea Kenya Ltd (UTKL) and Bahari Forwarders Limited (BFL). Attached in Appendix 1a and Appendix 2b are the documents used by SCEA to engage the companies for the pilot. The five above were the top 5 to confirm participation in the pilot.

4.2  METHODOLOGY

The survey involved a visit to each of the five (5) participating organizations which lasted 1-3 days. During the visits, the Auditors conducted in-depth interviews with the Organizations’ personnel with line responsibility for Logistics, where it was possible. In-depth interviews were also carried out with operational managers and staff who carried out actual Logistics tasks within the organizations. The BADSIM Methodology (Briefing>Analysis>Diagnostics>Solution definition>Implementation> Monitoring) process was applied in the survey.

The interviews were guided by a checklist, attached on Appendix 2 that was developed and used to gather the information. The main areas of the study were as shown in figure 2 below.

- Logistics strategy and practice
- Logistics Planning and Execution
- Logistics cost review
- Business Support systems

Figure 2: Logistics Survey Guiding Categories

Over and above information supplied during the interviews, the Auditors made direct observations of operations and also sought additional data kept by the Logistics process owners, where it was available. Such information included minutes of meetings, performance dashboards, Contracts with third parties, process maps, procedures manuals, internal memos, and so on.

Owing to the very short visits to the organizations on this assignments and general unavailability of desired documentation, it became very necessary for the Surveyors to undertake extensive desk research in order to complete the assignment. The participating organizations were asked to suggest their priority areas for this pilot survey. Areas listed were mainly Customs Clearance, Port Clearance & Operations, Local transportation, and cross-border logistics. The survey was therefore conducted around these areas in order to give the most value to the participating organizations within the limited time and other resources.
4.3 **SWOT ANALYSIS**

As part of the survey methodology, a SWOT Analysis was conducted for each of the organization, findings of which were handed over directly to those organizations. Below is the SWOT analysis for Supply Chain functions in the company’s surveyed.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Knowledgeable and well trained workforce within the region</td>
<td>• The Supply chain function is fragmented and spread out in finance, procurement, sales, and distribution and others.</td>
</tr>
<tr>
<td>• Most organizations have strategic and tactical plans in place</td>
<td>• Tracking and reporting of business performance even when ERP systems are available</td>
</tr>
<tr>
<td>• Availability of ICT systems that support the logistics function</td>
<td>• Low application of SLA’s/Contract</td>
</tr>
<tr>
<td>• The Supply chain function is fragmented and spread out in finance, procurement, sales, and distribution and others.</td>
<td></td>
</tr>
<tr>
<td>• The Supply chain function is fragmented and spread out in finance, procurement, sales, and distribution and others.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Political goodwill – seeking to promote growth of businesses</td>
<td>• Direct importers of finished who enjoy lower duty</td>
</tr>
<tr>
<td>• Creating an Integrated end to end Supply chain function and benefit from attendant performance improvements</td>
<td>• Cost of doing manufacturing activities: business: infrastructure, electricity</td>
</tr>
<tr>
<td>• Development of a benchmark for measuring logistics performance and costs</td>
<td>• Rerouting of cargo to competing ports</td>
</tr>
<tr>
<td>• Preclearance of goods to prevent transfer to CFS stations and save &gt;$200 /Container</td>
<td>• Low worker productivity at KPA entry ports</td>
</tr>
<tr>
<td>• New initiatives and projects e.g. Kentrade, Port of Mombasa charter, SGR</td>
<td>• Political interference</td>
</tr>
<tr>
<td>• Cargo consolidation in collaboration with other small volume importers to reduce sea freight charges (Currently about US $ 1825 per 20 foot container)</td>
<td></td>
</tr>
</tbody>
</table>
5.0 **Key Logistics Survey Findings**

This section of the report provides the findings established based on the checklist prepared for the Survey. The checklist was derived from known best practices in Logistics most suitable for the region.

**Summary of Key Findings**

**Logistics Function Strategy & Practice**

i) Among the organizations surveyed, 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. It was therefore not surprising that there was not as single custodian of the Logistics service and cost data. Without an integrated Logistics management in place, it is difficult for an organization to exploit the full potential of the synergies in its supply chain.

ii) In some of the organizations surveyed, there was no clear effort in place to engage qualified supply chain professionals to steer the function. Some of the organizations surveyed were keen to correct this anomaly and would be keen to take advantage of any assistance to recruit trained supply chain professionals into their organizations.

iii) The organizations surveyed had outsourced some aspects of logistics services such as customs and port clearance, transportation and even warehousing. Only one company had hired the services of door-to-door logistics services partner. This later arrangement has clear advantages, the most prominent of which was the ability of the organization to focus on its core business knowing that its activities lay in the hands of a partner who is an expert in supply chain function.

**Logistics Activities Planning & Execution**

i) From the organizations surveyed, formal performance management systems were not common. The logistics activities process documentation ranged from basic to non-existence. In particular, most organizations were unable to demonstrate;
   - Logistics Flows Mapping
   - Forecasting accuracy/Customer Requirements Definition
   - Customer order delivery planning process
   - Transportation Planning/Scheduling Operations

ii) Similarly, from an execution perspective, most organizations did not provide a Logistics Dashboard showing the following parameters;
   - Order cycle time, Order fill rate, OTIF
   - Inventory cover
   - Inventory stock out incidences
Cost Management

Logistics cost management was clearly one of the most visible areas of focus amongst the organizations surveyed. 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 focus include;

i) It was observed that most organizations procure imported goods on C&F INCOTERMS thus risking paying uncompetitive rates on sea and airfreight services. Leaving the overseas supplier to source one’s freight services may not deliver best value.

ii) Generally little focus is put to 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 CIF value of the cargo under clearance. This is a quick win for cost reduction to organizations still practicing this traditional method of compensating agents for the services.

iii) Full logistics cost monitoring was not visible to the organization due to activities being spread across various functions with the exception of local transport cost is visible.

iv) Little focus on stock-carrying costs 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 etc.

vi) The following performance indicators were established.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Achievement</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs/Port Clearance</td>
<td>3-4 days</td>
<td>KPA performance better</td>
</tr>
<tr>
<td>Systems Availability</td>
<td>Frequent</td>
<td>Simba system, KWATOS</td>
</tr>
<tr>
<td>Truck annual mileage</td>
<td>70-80,000km/year</td>
<td>Delays at highways W/B</td>
</tr>
<tr>
<td>Transport rate: Msa-Nrb</td>
<td>USD1,100/28t, 40ft</td>
<td>USD40/t. Lower than 2012, can be lower</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td>&lt; 3 times</td>
<td>High inventory holding</td>
</tr>
<tr>
<td>Sea Freight: Middle East to Msa</td>
<td>USD 2,500/20ft</td>
<td>Shipping line driven</td>
</tr>
<tr>
<td>Cargo Traceability</td>
<td>Yes</td>
<td>Customs requirement</td>
</tr>
<tr>
<td>Working capital</td>
<td>+ve</td>
<td>High stock, paid for</td>
</tr>
</tbody>
</table>
Business Support Systems

i) Most organizations surveyed had implemented financial management systems. The Level of system functionality exploitation varies from organization to organization but generally low. Spreadsheets and manual systems are very popular.

ii) Planning and scheduling tools hardly in place.

iii) Vehicle tracking tools implementation now widespread and a legal requirement for transit cargo.
6.0 RECOMMENDATIONS

Internal – Changes recommended within organizations

a) Supply Chain Function/Logistics Organizational Structure:

Organizations should explore the possibility of setting up a fully-fledged integrated supply chain function to house all the procurement, logistics, distribution and facilities management under one roof. This is a practice that has been explored by many multinationals in the region and found to be beneficial. Key advantages include ability exploit synergies across function, units and entire region. It will also enable the companies to focus on their core business, improve service levels to its clients, cost reduction and improved risk management. As things stand now, it is difficult to even establish supply chain costs baseline. Management of the entire supply chain activities under one roof provides the opportunity to address aspects of the group’s business which may not be obvious at the moment. Experience has shown that supply chain cost savings as a result of implementation of an integrated approach is between 20-30%.

b) C&F Contract Pricing & Imports Management

Most organizations surveyed are yet to enter into supply chain partnerships with door-to-door logistics services for management for their imports and supply chains in general. Various service providers with global presence are now readily available to add value to the process of procurement of imports by doing all the leg work necessary from the time a need is identified and order placed to the time the cargo arrives at the premises. Such service providers’ core business is Logistics management and they are able to add value to their customers because they own versatile order tracking systems that they can avail to their customers and are able to negotiate better rates for certain services such as airfreight for their clients due to economies of scale gained from consolidating requirements with those of their other clients. The also operate at lower transaction costs and are thus able to give back some of the savings to their clients.

Organizations should explore engaging such service providers so that the Procurement Officers shall be freed to carry out other value adding activities, currently some of the Procurement Officers spend a large amount of their time expediting orders and chasing documents to hand over to the contracted clearing agents. The clearing agents can do a lot more, given a chance. A clearing agent housed within the company premises can speed up processes and increase efficiency.

The agency fee based on CIF value of goods paid to the agents for the services in some organizations, need further analyses. These services are now offered at a flat rate similar to document handling charge. Though this has been the traditional way of compensating agents for their services, it has been argued that the customs and port clearing process is not
dependant on the value of the goods. This is a quick win area for organizations that have not implemented this to cut cost.

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% with accompanying service levels improvements.

c) Supply Chain Partnerships

All organizations surveyed have a great opportunity to professionalize documentation covering their relationships with clients. Currently only basic documents are in place. Letters written to clients form the only contractual arrangement available. Service provider should adopt best practices such as implementation of Service Level Agreements (SLAs) with Clear Performance Indicators (KPIs) in place. Such SLAs to be implemented shall have in place clear process maps and clear responsibility roles between the service provider and the client.

The service providers should also hold regular Partnerships/Contracts review meetings where current performance levels from both parties are reviewed and targets revised/set where necessary. This approach shall assist the service provider to improve its own performance and in the process differentiate itself from its competitors thus winning more clients.

d) ICT

Most companies surveyed have done well to embrace ICT in their operations notably, implementation of the Vehicle Tracking System by some of the service providers. Some of the companies also had in place an interactive website where their clients can download relevant cargo status reports. The complexity of logistics flows now and in the near future requires more refined Transport Planning and Scheduling. An opportunity exists for them to explore further use of ICT tools already in the market in order to increase efficiency and effectiveness. Improved efficiency leads to lower operational costs and hence more competitiveness, which all progressive companies need for business growth.

Electronic Interfacing of tools is now a reality in the region more so with the implementation of the compulsory Kenya Trade Net (Kenya National Electronic Single Window System – KENESWS). All services providers in the region need to ensure more of their staff are trained in the electronic platform in order to adapt to the changing environment both externally and even within the organization.

e) Truck Turnaround

Organizations and service providers should audit the contracted transporters to establish how they perform against the best practice of 9000-12000km truck turnaround time p.a. Measurements should also be instituted for actual exit period at Malaba and based on the
findings determine the true causes of delay. 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. The audit should establish how organizations have benefited from the average drop in road freight costs in the last 2 years. It is estimated that the costs have reduced by 7-10% in the last 3 years. Savings of USD 100 per trip can translate to huge annual savings to be shared between service providers and their clients. With all the effort to going in to improve port of Mombasa performance and highway traffic flow, transport rates are expected to come down in the next few months. Users of logistics services should be aware of this.

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 for SCEA members.

Members of the SCEA can benefit from a negotiated insurance and freight rates from various ports of the world to local ports. SCEA could lead this initiative if mandated by its members, to consolidate insurance and logistics services required by its members and negotiate favourable rates their behalf. This can lead to a huge saving thus contributing to make local goods more competitive.

This principle of requirements consolidation can be applied to other items of common use by SCEA members such as raw materials and wrapping materials imported from common sources and are used across industries.

b) Truck Overloading.

Despite all efforts put by the governments and other agencies to eliminate overloading of trucks on the roads, there is evidence of the habit being perpetuated by some unscrupulous players. Some of the containers arrive at the ports already loaded with weights in excess of the allowed limits and will therefore not comply with the weight restrictions on the roads. It is about time the responsibility of ensuring the containers imported into the region do not exceed the weight limit is placed squarely on the importer and the shipping line that brings the containers. If containers are weight-compliant at the point of origin then it will be easier and smoother for all the players to deliver to final destination. 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

The CFS stations were introduced to ease congestion at the port yard and this was mostly driven by importers who caused delays due to poor documentation / late payment of levies etc. It is recommended that 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 station. In addition the KPA charges of wharf age should be scrapped as it is already contained in the port handling fees. Importers stand to save up to $200/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, remarshaling costs etc which can translate to US $ 270 per 40 foot container. At the moment the shipping lines levy heavy charges to importers without valid reasons or notice making cost of importation very high. It was noted that the shipping lines do not take responsibility at all for cargo 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 for bulky cargo transport. The construction of the Standard Gauge Railway (SGR) should see a reduction of cargo transfer (Nairobi – Mombasa) rates from $0.09 to <$0.05 which would make a significant positive impact on cost of manufacturing in the region.
7.0 LIMITATIONS AND CONCLUSION

Logistics Baseline
During the pilot Logistics survey, the Auditors were not able to establish with any level of confidence the logistics cost baseline that could be used for benchmarking purposes. Due to the nature of the Supply Chain/Logistics management structures in the organizations surveyed, there was not a single contact who could provide total cost of logistics which has been defined as the costs incurred in activities below;

- Pre-shipment Costs
- Sea freight, airfreight costs
- Customs, Port & CFS Clearance costs
- Order consolidation and in-bound transportation costs
- Inventory, Storage and handling (Raw Materials/Semi-finished goods, finished goods) costs
- Product Distribution activities & Order Tracking Costs
- Depot Management
- Sales/Customer Order Processing & Delivery costs

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.

SCEA should take opportunity to sensitize its members on the need to embrace measure overall logistics cost regularly as they constitute a significant cost component that impact on profitability.

Benchmarking

There is no guideline that has been established on calculation of logistics costs. Three methods have been sighted: (1) % of sales, (2) absolute costs incurred and (3) as a unit of weight are in use. A benchmark can be developed after a wider survey.

In the developed world, when the method of % of sales is used, the lower quartile is 3.74%; the average is 7.87% while the top quartile is 10.03%. The key cost drivers are transport (3.44%), Inventory carrying costs (2.95%) and warehousing (1.89%). A survey is recommended in the region to establish such benchmarks. The result of such a survey can be discussed with relevant stakeholders and a common method proposed.

Proposed parameters and benchmarks to be established include;

i) Overall Logistics cost as a % of turnover. Target; 40%-60%, depending on the industry.
ii) Customs/port clearance days. Achievement should be 3 days.
iii) Truck Annual Mileage. Achievement should be 120,000 km per annum.
iv) Distribution costs/ton/km
v) Inventory turnover. Target, 12 or stock holding at 1 month on site.
vi) Inventory cost. Target, negative working capital through combination of improved payment terms and reduced inventory holding.

Limitations of the Pilot Survey

- Time and resources allocated for the survey was very limited. The Auditors spent only 2-3 days in the participating organizations which was not enough for the scope of the audit. Also being a first logistics survey ever carried out in the region, it was not short of challenges in structure and approach.

- It appears that some participating organizations were not clear on the expectations of the Audit. In future a physical meeting with the participants to discuss the matter would be useful. Some participants were not keen to provide their organizations’ logistics information but all were looking forward to understand how they ranked compared to others.

Conclusion

Opportunities for future logistics audit in the region are clear. 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.
8.0 Appendices

Appendix 1a – Letter of Invitation to Participate

28 March 2014

The Logistics Manager

Dear Sir/Madam,

RE: INVITATION TO PARTICIPATE IN LOGISTICS AUDIT

East Africa is one of the regions in the world with the highest transport and logistics costs. SCEA’s 2012 logistics performance survey indicated that logistics costs still account for up to 50% of the total value of goods imported into the region. However, some of these costs are attributable to the inefficiencies of the cargo owners’ processes and not to service providers. The Shippers Council of Eastern Africa (SCEA) is therefore launching an initiative to gauge the efficiency levels of the logistics processes of our members with an aim of assisting them to save on costs arising out of delays and multiple charges arising out of any inefficiency. Towards realizing this goal, the Council has engaged Stanley Kirui & Associates Consulting (SKAC), a local Supply Chain Consultancy firm, to conduct logistics audits of five members on a pilot basis. Participating firms will be selected on a first-come-first-served basis.

The audits will involve the review of existing processes and systems and benchmarking them against the best practices, resulting in the establishment of a baseline of current costs and service levels and identification of performance improvement areas at the end of the audit process. These findings will remain confidential to each participating company. Similar undertakings in most companies has led to improved performance, efficiency and cost savings.

Kindly register by filling and returning the attached form, as soon as possible, but not later that 18th April, 2014. SCEA will meet the costs of the consultant.

Chief Executive
Shippers Council of Eastern Africa
Appendix 1b – Survey Participation confirmation form

The Shippers Council of Eastern Africa (SCEA): The Logistics Survey/Audit Participation Confirmation.

Please complete and return this section of the form to SCEA within as soon as possible but no later than Friday, April 18, 2014

We confirm that we are/are not interested in participating in the planned Logistics Survey/Audit.

We understand that this process is for the benefit of participating organizations as well as the rest of SCEA Members and we commit to fully participate in the Audit and also commit to implement the recommendations of the Survey/Audit. Our top Management supports this process.

Name of Organization: ........................................................................................................................................

Name of Contact Person: ........................................................................................................................................

Position in the Organization: ........................................................................................................................................

1. Top priority areas for Logistics Audit in your Organization:

   I. ........................................................................................................................................................................

   II. ........................................................................................................................................................................

   III. ........................................................................................................................................................................

2. Main Contacts nominated by your firm to work with the SCEA Consultants.

   Name of Logistics Audit Champion: .......................................................................................................................

   Position in the Organization: .................................................................................................................................

   Contacts: email:.................................................................Telephone:.................................

   Name of Deputy Logistics Audit Champion: ............................................................................................................

   Position in the Organization: .................................................................................................................................

   Contacts: email:.................................................................Telephone:.................................

4. Preferred kick-off of the Logistics Audit
   (Date):........................................................................................................

(*delete as appropriate)
<table>
<thead>
<tr>
<th>No.</th>
<th>Contact Person</th>
<th>Subject</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| 1.  | Supply Chain/Logistics Strategy & Practice | Organization | - Organizational Structure, Logistics Reporting  
- Supply Chain Competencies  
- Decision Process in the Business and problem solving  
- Core Competencies Vs Outsourcing  
- Performance measurement/Indices  
- Distribution/Warehousing structure  
- Supplier partnership development |
| 2   | Logistics Planning & Execution | Planning | - Process Mapping –GEMBA  
- Logistics Flows Mapping  
- Inventory Policies in place  
- Forecasting accuracy/Customer Requirements Definition  
- Customer order delivery planning  
- Transportation Planning/Scheduling Operations  
- Cost allocation method for logistics |
|     |                | Execution | - Order cycle time, Order fill rate, OTIF  
- Inventory cover  
- Inventory stock out incidences  
- Inventory turnover  
- Purchase Requisitions raised per month  
- Request for Quotations frequency  
- Rush order rate |
| 3   | Logistics Costs Review |  | - Optimum Sourcing: RFQ Management, Contract Management & Tracking  
- Purchase price variance review  
- Cash to Cash cycle time  
- Invoicing (frequency, right first time, user-friendliness)  
- Direct transport costs/business turnover  
- Demurrage costs, use of premium transport  
- Cost of Inventory (Capital Costs, Storage Costs, Obsolescence, Damaged goods value, Pilferage costs, Insurance costs, management costs)  
- Payment (agreed terms vs. actual)Average Invoice Value |
| 4   | ICT            |  | - Existing support systems and controls appropriateness  
- ERP Tools  
- Scheduling Tool  
- Order Tracking  
- e-communication (e-commerce, e-procurement, Online Catalogues, e-payment) |

**DISCLAIMER**
Some data used came from published sources and were not primarily validated during the survey.
9.0 REFERENCES

5. Logistics Performance Index, a World Bank Publication, 2014
7. World Bank country economic updates for East Africa
15. World Bank country economic updates for East Africa
17. World Bank Group. Logistics Performance Index 2014