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SERVICE LOGISTICS IN SOUTHEAST ASIA

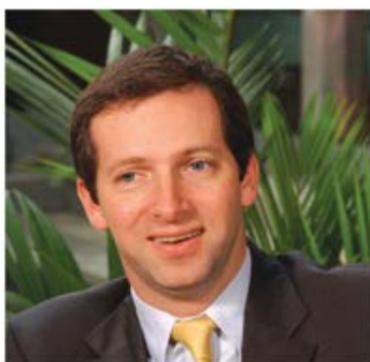
According to a recent regional survey, the business of service logistics is seeing increasing outsourcing of transportation and warehousing functions.

Posted on 01 May 2009 by By DAMIEN DUHAMEL.

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The service logistics business (also known as the aftermarkets business) in Asia is on a high growth trajectory, fueled by the ongoing shift of OEM manufacturing to low cost destinations in Asia. While outsourcing service logistics to 3PLs has been going on for several years in key industries such as automotive, an evolution in terms of service offerings such as integrated or customized solutions for different industries is gaining traction.

And with industry players understanding that service logistics can complement revenue realization rather than being a cost factor, many firms are now trying to transition their after-sales from a cost center to a P & L.



[Damien Duhamel, Solidiance.]

To understand how they are currently working with 3PLs, what are the bottlenecks and issues they face in their related service logistics activity and what would be the best improvements they would like to see. KAE examined six key industries and interviewed over 125 executives – logistics managers and executives – in each vertical.

Targeted industries were Aerospace, Electronics, Telecom, Industrial Equipment, Medical, and Semiconductor across six countries in Southeast Asia: Singapore, Malaysia, Thailand, Indonesia, Philippines and Vietnam.

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Findings show that 83 percent of the service logistics activity in the region occurs in Singapore and Malaysia (Penang). Singapore has a 60 percent share of the market primarily due to its regional hub status. Further, the estimated total service logistics market (insource & outsource) in Southeast Asia is 410 million euros (US\$557 million). Semiconductor, Telecom and the Electronics industries are the fastest growing and most outsourced industries, the latter being the most attractive industry in terms of growth and size.

The split in terms of percentage between insourced and outsourced market revenue is similar among all the sectors in Singapore and the rest of the countries in the region. A notable exception is the Aerospace industry where all the companies interviewed in Malaysia insource the warehousing, mainly for IP purposes, which is still a important issue in this sector. A summary of the service logistics trends by sector follows.

Aerospace

The Aerospace industry is characterized by large warehouse requirements and regulations (FAA). In this sector, the majority of companies in Singapore are outsourcing their warehousing to 3PLs. The needs of industry players are highly specialized, and 3PLs need strong industry knowledge in order to serve them. For example, 3PLs must be able to appropriately store carbon fiber parts, which are temperature sensitive.

Electronics & Telecom

The Electronics and Telecom sectors outsource their warehousing to 3PLs in a larger proportion than the other industries. In the Electronics industry, the existence of multiple sub-sectors results in large volumes of finished goods and spare part movement. Outsourcing is therefore the best way to improve efficiency of service logistics in that industry, and most of the companies prefer to outsource their warehousing component to optimize cost, especially in Singapore.

Industrial Equipment

This industry differentiates itself from the other sectors by leaning more towards in-sourcing; a trend that is especially true in Malaysia and Thailand where an average of six percent of companies – mostly manufacturing heavy industrial products – are outsourcing this part of their service logistics. In the sub-segment of control automation, companies are keen on using 3PLs for managing their warehousing.

Medical

The Medical sector is characterized by high-value parts and a relatively small size in the after-sales business in Southeast Asia. In this industry, players rely on 3PLs for warehousing and customized solutions to optimize their supply chains. Building efficient local networks is a key point, but the reactivity of the supply chain is another. In some cases, special parts available in warehouses on other continents (US, Europe) must be supplied within 24 hours to the medical equipment manufacturer in Asia for hospitals that need to make emergency interventions.

Semiconductor

In the Semiconductor equipment industry, companies also believe outsourcing is advantageous because 3PLs are better equipped with the latest technologies and know how to handle logistics efficiently. Relying on local 3PLs is the most preferred option for several companies in this industry, a major reason being that it allows them to handle customs issues faster and with a stronger “last mile” reach than the global logistics companies.

GROWTH TREND

The service logistics business is increasingly shifting towards outsourcing not only transportation, but also warehousing. Key customer discussions confirm this trend of growth grow despite the current crisis, primarily driven by businesses from emerging countries such as China, India and Indonesia. The current financial turmoil should have a “positive” effect on after-sales services, especially service part logistics, since customers will tend to extend the life cycle of their equipment rather than buying new products.

Damien Duhamel is MD Asia Pacific, Solidiance, a strategic marketing consultancy that delivers evidence-based, strategic marketing advice (www.solidiance.com).

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