



The importance of measuring manufacturing logistics performance

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Outline

- 1. Why care about logistics?**
- 2. Why is it important to measure logistics performance?**
- 3. What is the WB's Logistics Performance Index?**
- 4. The LPI's role in policy dialogue**
- 5. ASEAN LPI Results**
- 6. Initial results for Cambodia**
- 7. Next steps for Cambodia...**

1. Why care about logistics?

- Logistics is recognized as a key opportunity to improve profitability and firms' competitive performance.
- It is important for firms to be able to assess their logistics performance as a starting reference.
- Obtaining industrial sector logistics performance is necessary for country to improve overall logistics capability.
- Logistics costs increase with decreasing logistics performance. Most of this increase comes from lower reliability and the need to increase inventory (“other costs”).

Logistics Cost/GDP vs Logistics Cost/Sales

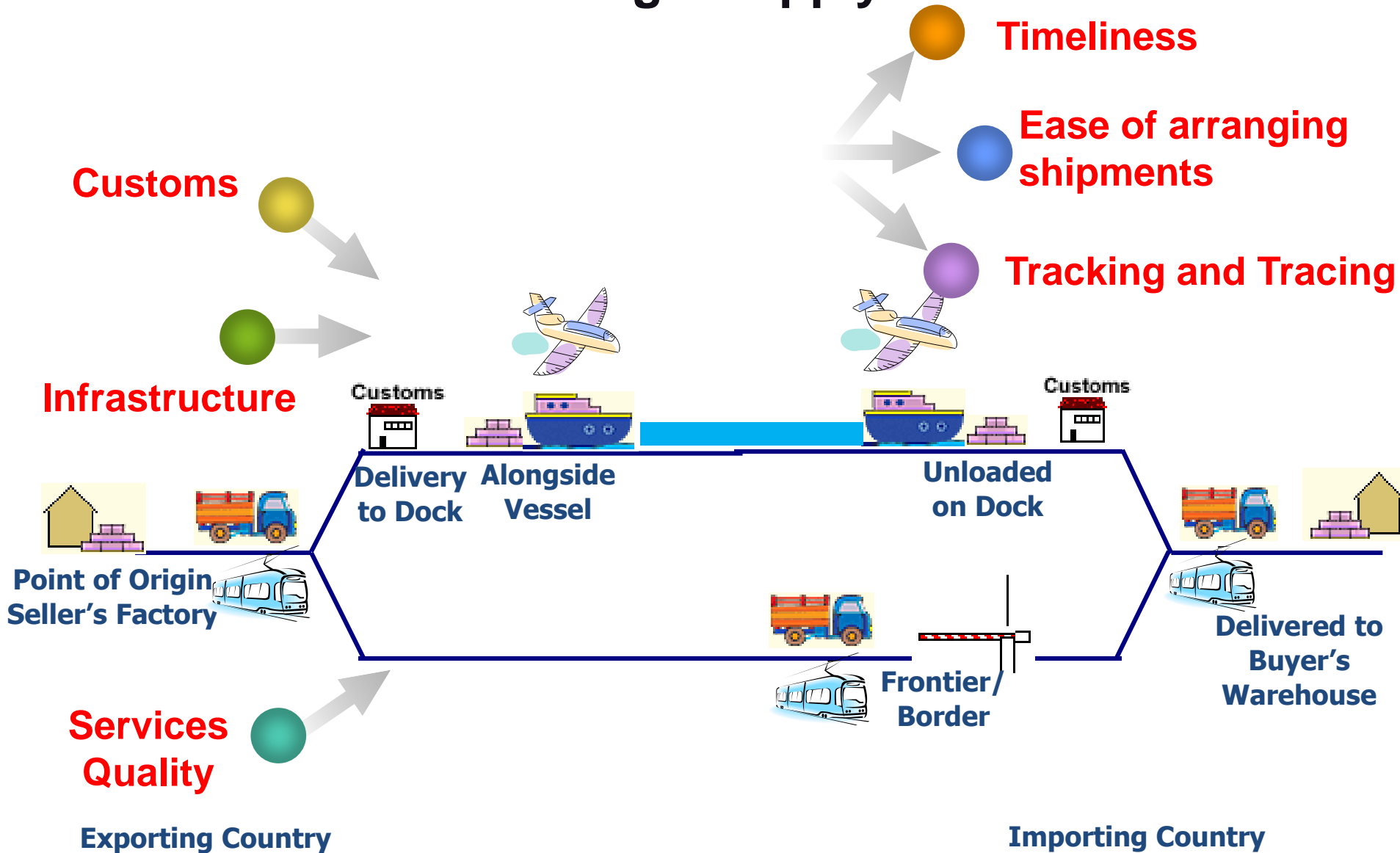
- Logistics Cost/GDP is an aggregate indicator based on national accounts and cannot reflect sector specific details
- Logistics Cost/Sales is more precise and enable comparisons within industrial sectors
- Countries using logistics cost/sales are Japan, Finland, Germany, etc.
- Thailand is using both logistics cost/GDP and logistics cost/sales for industrial firms and specific agricultural produce
- Logistics cost should not be the sole performance indicator.

2. Why is it important to measure logistics performance?

- Most firms do not comprehensively measure logistics performance,
- Even the best performing firms fail to realize their productivity and service potential available from logistics performance measurement, and;
- Logistics competency will increasingly be viewed as a competitive differentiator and a key strategic resource for the firm.

3. What is the WB LPI?

6 LPI dimensions along a supply chain framework



3. LPI outline

Partnerships



International Federation
for Freight Forwarders
Associations



Global Facilitation Partnership for Transportation and Trade



Turun yliopisto
University of Turku



THE WORLD BANK

- Published every 2 years
- Built on >5,000 country assessments by > 1,000 logistics professionals
- Respondents rate logistics performance of own country and 8 other countries on a scale of 1 to 5
- Coverage: over 160 countries in LPI 2016

4. What is the role of the LPI?

The LPI

- Is an overall metric of supply chain efficiency.
- Provides information of where a country stands and a broad indication of problem areas.
- Is not a diagnostic tool and needs to be supported by specific tools designed to perform that function.

The LPI has had a significant impact in raising awareness and pushing for comprehensive “connectivity” and logistics policies, e.g. in Kazakhstan, APEC and ASEAN.

4. Policies matter to Logistics Performance

Infrastructure

- Ports
- Road/rail corridors
- Airports

Procedures and Trade Facilitation

- Customs & payments
- Simplification & automation
- Harmonization & standardization

Services

- Forwarders, truckers, brokers etc.
- Regulation of entry
- Market structure and competition

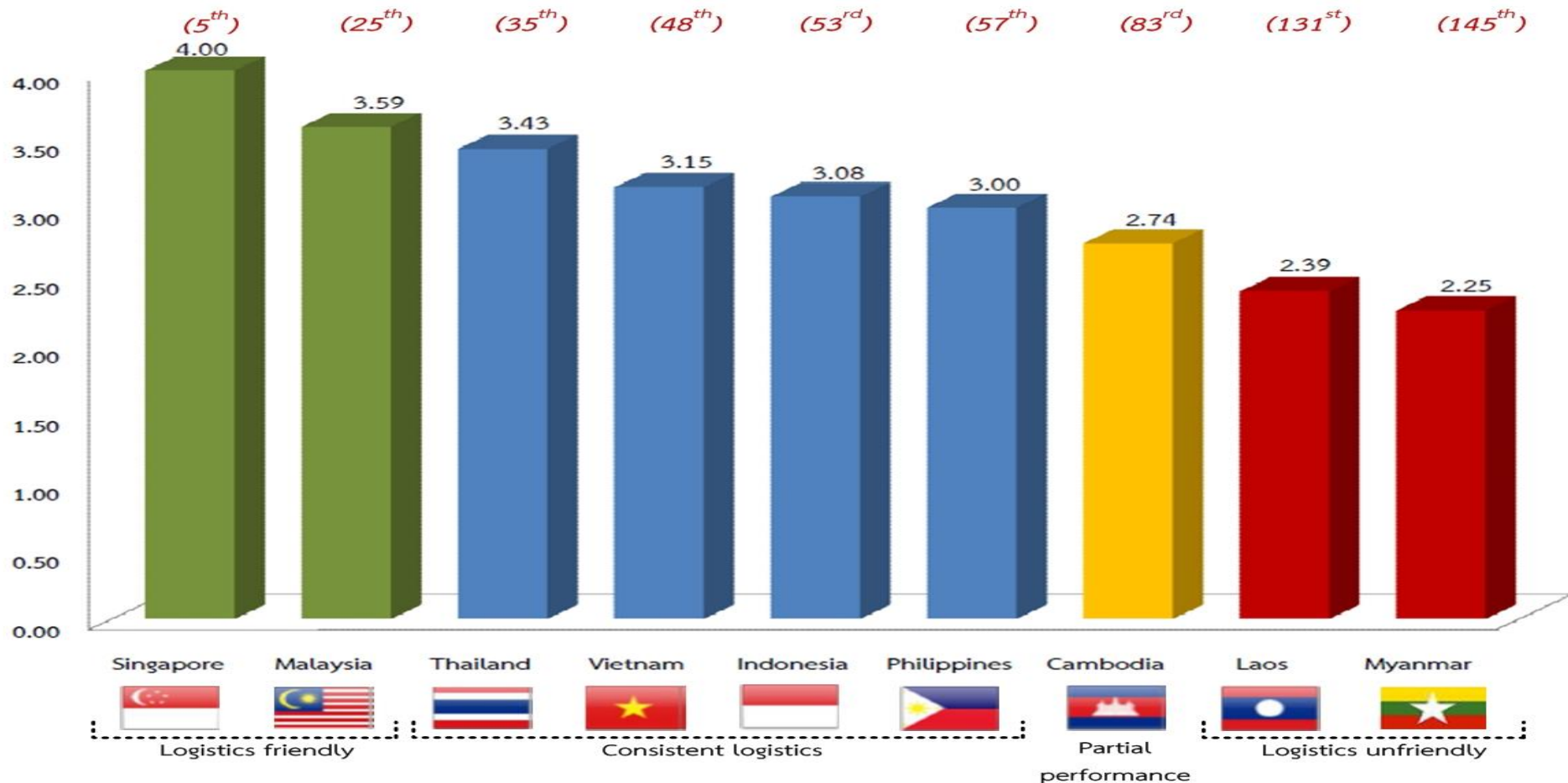
Sustainable Logistics

- 'Green Logistics'
- City Logistics

Regulations (customs, services) are increasingly regional, but implementation is national.

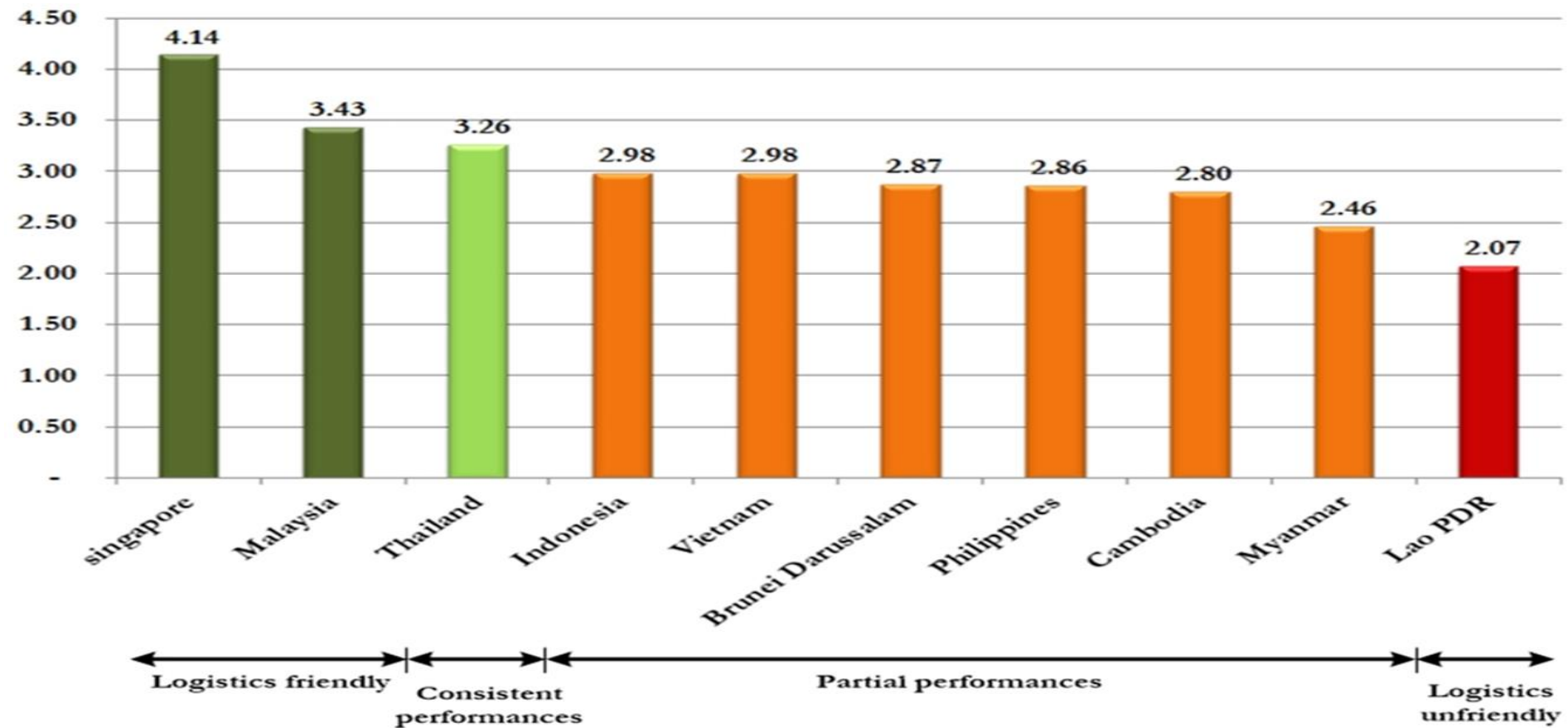
5. ASEAN LPI 2014 Ranking

Typology	LPI Score	ASEAN countries
logistics friendly	3.50 - 5.00	Singapore Malaysia
consistent performers	2.95 - 3.49	Thailand Philippines Vietnam Indonesia
partial performers	2.40 - 2.94	Cambodia
logistics unfriendly	0.00 - 2.39	Laos Myanmar



5. ASEAN LPI 2016 Ranking

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logistics friendly	3.50 - 5.00	Singapore Malaysia
consistent performers	2.99 - 3.49	Thailand
partial performers	2.40 - 2.98	Indonesia, Vietnam, Brunei, Philippines, Cambodia, Myanmar
logistics unfriendly	0.00 - 2.39	Lao PDR



6. Cambodia's initial results

Cost/sales	Cambodia	Thailand	Vietnam	Indonesia	Philippines
Transport	9.58%	5.57%	7.04%	8.81%	10.71%
Warehouse	3.69%	2.49%	3.78%	3.45%	5.20%
Inventory	6.18%	2.04%	4%	7.19%	8.78%
Administration	1.95%	1.01%	1.48%	1.95%	2.47%
Total Logistics Cost/Sales	21.40%	11.11%	16.3%	21.40%	27.16%

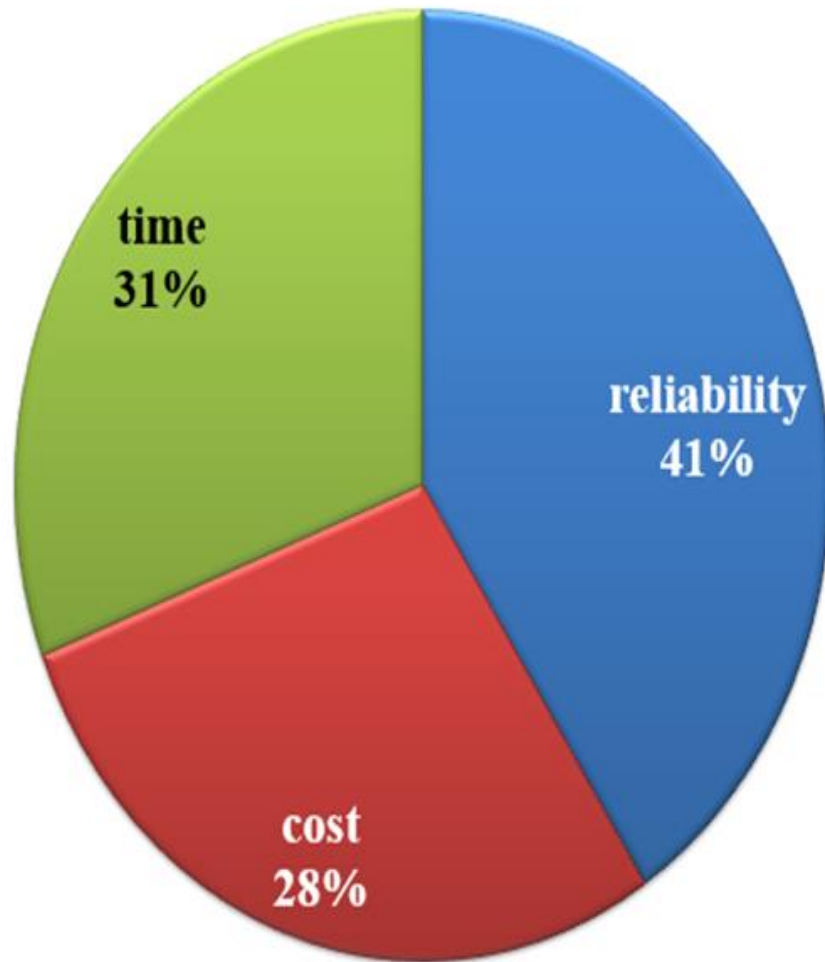
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6. Comparative Logistics Cost/Sales by Sector

Logistics Cost/Sales	Cambodia	Philippines	Vietnam	Indonesia	Thailand
Automotive	15.83%	23.08%	33.55%	16.84%	14.75%
Chemical products	16.50%	43.30%	27.14%	27.01%	10.09%
Construction materials	NA	16.44%	28.60%	35.13%	10.46%
Electronics	NA	13.57%	4.40%	34.43%	12.14%
Food	21.30%	32.72%	17.60%	20.97%	10.32%
Furniture & Decors	NA	18.07%	NA	45.32%	11.44%
Jewelry	18.70%	16.87%	NA	20.47%	NA
Textile & Garments	14.14%	20.35%	14.30%	16.01%	8.55%

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6. Cambodia Logistics Performance issues



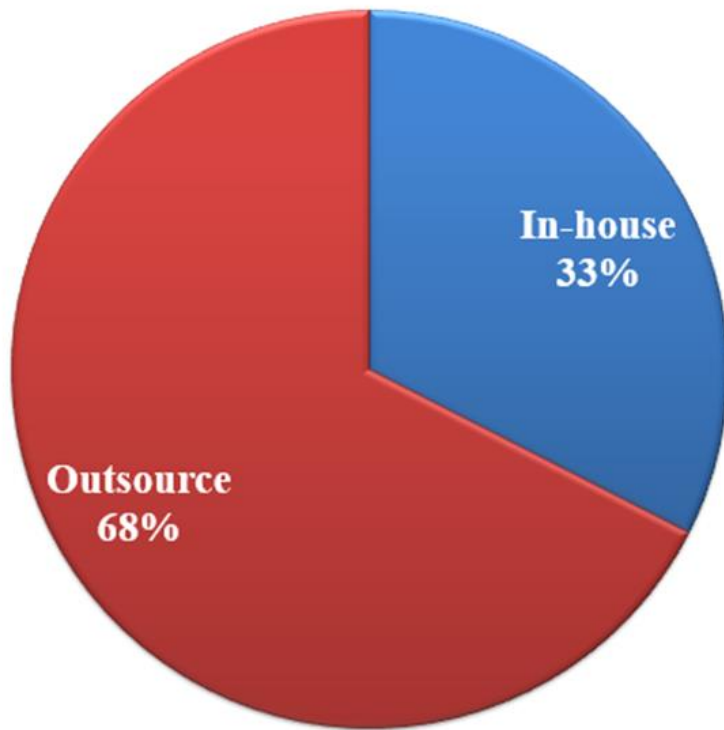
- Reliability is the most important logistics performance dimension
- The symptoms of low reliability is high logistics cost
- Manufacturers consider that reliability of the logistics system in Cambodia need to be improved

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6. Cambodia vs other ASEAN countries

KPI	Cambodia	Mean			
		Vietnam	Philippines	Indonesia	Thailand
Delivery In Full On Time	83.78%	90.99%	89.62%	81.92%	87.84%
Damage rate	3.84%	2.18%	3.70%	2.01%	4.16%
Cash Conversion Cycle (days)	7.79	20.29	21.77	19.00	NA
Customer Complaint Rate	6.33%	6.65%	5.97%	6.61%	2.64%
Forecasts Accuracy	80.34%	75.53%	80.15%	81.68%	84.40%
Ratio of Returns	4.19%	2.26%	5.15%	3.55%	3.58%

Logistics outsourcing in Cambodia



	In-house	Outsource
Indonesia	51%	49%
Vietnam	32%	68%
Philippines	51%	49%

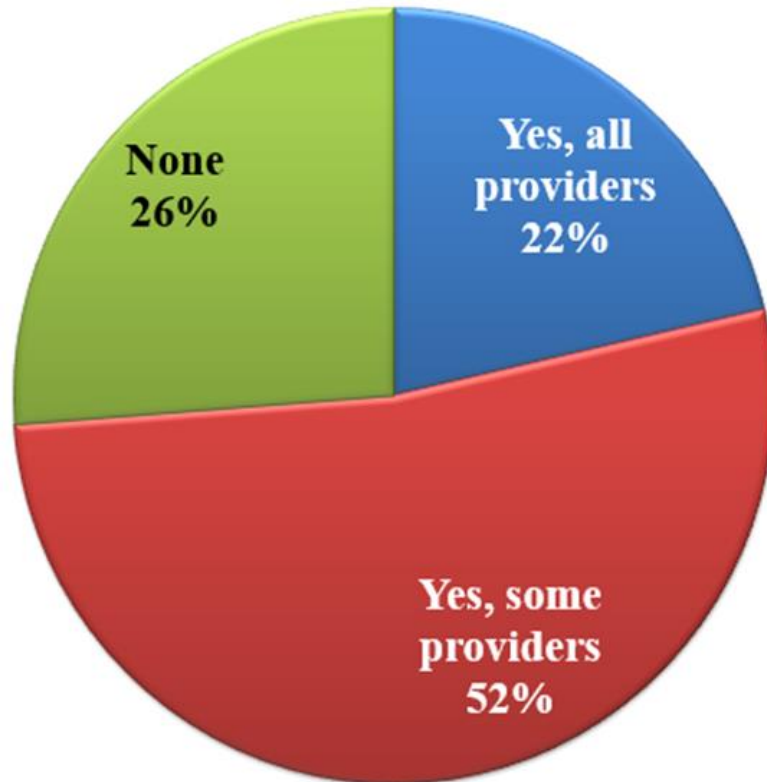
❖ Most outsourced activities are:

- Domestic transport
- International transport
- Customs brokerage

❖ Most in-house activities are:

- Warehouse
- Inventory management
- Logistics IT system
- Value-added services

Logistics Service Level Agreements (SLAs)



- It is interesting to note that not all providers are under SLAs.
- More than 1/4 of outsourcing is done with no SLAs.
- Only 1/5 respondents have SLAs with **ALL** their service providers.

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Comparative manufacturing logistics costs/sales

Country	Logistics Cost/Sales
Vietnam	16.3%
Thailand	11.11%
Estonia	16%
Cambodia	21.40%
Finland	12.1%
Germany	9%
Indonesia	21.48%
Philippines	27.16%

Source: TU Berlin; Turku Finland; Thammasat Thailand; FTU Hanoi; WB Indonesia; IFC Philippines

Some initial thoughts....

- Logistics cost/sales in Cambodia is equivalent to Indonesia (21.40%)
- Reliability is key logistics performance dimension and negatively impacts logistics cost in the country
- Limited understanding of the importance of logistics
- Logistics is considered more operational than strategic
- On the job training reflect lack of formalized logistics know-how

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Summary

- ❖ Baseline logistics performance assessment is critical
- ❖ WB's LPI is an external perceptual assessment
- ❖ Important to develop own LPI to guide national logistics policy
- ❖ Benchmarking with neighbouring countries will enable enhanced development within the ASEAN Economic Community (AEC)

Next steps for Cambodia...

- What is the current situation for industrial logistics in Cambodia?
- What is the current logistics capability of manufacturers in Cambodia?
- What are the issues related to logistics in Cambodia?
 - Service levels?
 - Institutional environment?
 - Infrastructure?
- What should/can the RGC do?