

Evolution of the logistics sector in uae



Evolution of logistics in UAE-

The logistics sector has played the role of one of the key forces in the process of globalization. In the heart of this evolution of logistics sector lays the integration and standardization of the transport modes and procedures to boost the scale of economies and bring the whole sector to new heights.

UAE has been on the top of this wave of advancements fulfilling the requirements of the emirates since late 19th century when the ruler at that time announced the ports as free zone. UAE especially Dubai has excelled in its role as the main hub of the whole Global Logistics Network today which makes it one of the critical nodes in the global supply chain. The evolution also depicts the expanding horizons of the region because till now gulf countries were mainly seen as energy exporter but evolution of sectors like logistics has helped them to change their image and establish it as a broader and more diversified economy with a better and broader economic base.

(The Great logistic success story)

Till late 19th century middle east countries like UAE and others were reputed as key energy and petro products exporter all around the world but as the terms globalization and industrialization came into the picture and people start to give them a lot of weight age the rulers of the UAE and other gulf countries realized that to be a part of the ever increasing globalization they have to make some changes in their business and production strategies along with exploring new and potential areas to expand their business dimensions.

The history of logistics is as old as the origin of mankind since then we have required right thing for the right purpose at the right time and that is what logistics is. In UAE or gulf countries in general the sector evolved later in 18th century when people start to think of better modes of conveyance and better infrastructure in form of civil as well as military. The relationship between transportation cost, manufacturing facilities and sales is visible to everyone. Being good at the first two will give you better sales, trade hence profit and as the transport system becomes more efficient the intra industry trade increases which ultimately increases the specialization hence strengthens the economy. The rulers of UAE decided to build better infrastructure which will help them not only to make their economy better and strong but it will also bring them in the race of globalization with other countries who are already ahead of them in the field.

(Logistics history and benefits)

Implementing better logistics also helps to achieve wider and better supply chain network as it becomes important for the companies to improve their operations at different levels of production which ultimately gives us more sophisticated supply chain network.

Abu Dhabi's Master Plan and economic vision 2030 which constitutes of the requirements of the infrastructure projects and logistic services to bring them to a global level is the outline on which UAE government is working for the betterment of logistic services in the country and also for the services that are being provided to the other countries.

(Evolution of Dubai Logistic cluster)

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Function of 3PL provider –

Increasing focus on globalization and expansion in the market has brought greater attention on dividing or streamlining the supply chain functions.

Third Party Logistics (3PL) has become a buzzword these days and also a very important part of the supply chain in the business. 3PL providers offer number of services which allow the business people to outsource a part of all of their supply chain management functions. These services include inbound freight, warehousing, distribution, freight consolidation and order fulfillment. The growth of 3PL providers has risen because of the need to reduce assets, allowing more focus on core business processes and enhancing the learning.

Typically a core company which provides products or services is known as the first party, the customers are known as second party so a third party is a firm hired to provide which neither of the other two parties are willing to do by themselves. Hence a third party outsources the logistic services and provides solutions for some or whole of their supply chain.

The working model of 3PL involves few basic functions and few other functions which change according to the requirements of the client.

Dedicated contract transportation and transportation procurement-

It involves a contract between the parties one of which is a third party. The contract is a long term issue so both the parties try to keep things good and clear between them as long as possible

Inventory management-

It involves an attempt to balance inventory needs and inventory requirements along with minimizing the cost which results from handling the inventory.

Logistics management and consulting-

As the name suggests it involves managing the required logistics from the first or second party and deliver with optimized solutions. For the purpose the 3PL providers consult with the peers and others to get out the best solution for the given problem and provide it to the client.

Logistics optimization-

As we know that 3PL providers perform logistics on behalf of another party so the optimization of the resources is also a key factor which plays a very vital role in deciding the efficiency of any 3PL provider. In order to achieve the optimization 3PL providers need to maintain certain warehousing and inventory to perform on time delivery if needed. The specific solutions for the problem have also been suggested which are Vehicle routing and minimizing the costs in carrying the inventory.

(Selecting a 3PL provider)

Now few steps to implement the above mentioned operations in the process of logistics providing are being mentioned below and they also are a very integral part of the working model of a 3PL provider.

Forming a cross functional team

Setting the objectives and priorities as per given by the client.

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Determining the requirements by the other party

Collecting all the required equipments to get the job done

Implementing the logistic techniques.

Observing the results and impose the optimization techniques accordingly.

Deliver the product or service to the client party

(3PL contract logistics operation)

(Logistics Operation optimization)

Emergence of 3PL providers in UAE-

The growth of the 3PL companies began in late 80's of 19th century all around the world it came a bit later in UAE when the major businesses in the country started to look for ways in which they could outsource their logistic works and save time and money and concentrate on their core business.

Companies like Fed-ex has brought revolution in the field of logistic outsourcing. Their overnight delivery has changed the way transactions are performed between business to business, businesses to customer and customer to customer. Just in time techniques which save your time, cost and space all together. All these factors were visible to the companies in UAE and they could not resist themselves to hire such outsourcing organizations.

The number of such organizations kept on increasing since then and today we have a scenario where most of the work in the logistic sector is being outsourced at a cheaper price, without compromising with the quality of the work and also in the given time.

Taking an example of one such 3PL provider in UAE itself which is a company named Pharma world the first pharma company to participate in the 3PL providing business. The company has set up its distribution and warehousing hub in the global trade area in Dubai known as Jebel Ali Free Zone. The company is a result of joint venture of one UAE based pharmaceutical company and a global giant in the field. The company intends to provide 3PL services to local as well as global manufacturer s. presently the way the whole drug distribution system is being carried out in the UAE region it surely requires the foreign manufactures to bring in the extra supply of products through distributors who will receive and deliver orders to the manufacturing facilities directly. The business development director of the company Maher Kheder believes that the current model lacks in flexibility and needs a distributor who has a good regional knowledge who can help to optimize the whole process.

Another such example in the transportation industry is A&R logistics Inc. The company deals with the logistic works in packaging and transportation field. Companies give their contract to A&R to safely deliver their goods and products at the specific location without worrying about the whole intermediate process of transportation. A&R holds the responsibility of delivering his clients requirements.

One such example in the shipment industry is Noord Natie terminals. Shipping of oil and oil products is outsourced to this company by the major producer of oils in the country. The company has built its warehouses and reservoirs to deal with any urgency or mishapening and also if the client demands in time delivery then these facilities are taken in the account.

Now one thing which is common in all three companies of different sectors mentioned above is that they all are expert in their works and have expert staff to perform the job for them which makes them reliable and efficient. Any 1st or 3rd party just needs to hire them at fixed contract and price and they will get their work done. This whole process not only saves time for the 1st and 3rd parties but also the whole process becomes cost effective and the companies can focus on their core operations without worrying about the work they has assigned to the 3PL providers.

(UAE's first Pharma company to provide 3PL)

Difference between 4PL and 3PL

Going into the definitions of both the terms we can say that-

Third Party logistics provider (3PL) mainly provides outsourced logistic services to the companies for some part or sometimes the whole supply chain management system. Few well known 3PLs are DHL, FedEx, Pharma World etc.

Fourth party logistics provider (4PL) is an independent entity which carries out the managerial and administrative works and responsibilities along with giving the contracts to the 3PL providers.

4PL can be seen as a combine process of technology and process to manage. The 4PL is a Business Process Outsourcing which is also called BPO, provider. These lead logistics providers will bring value and a different approach to the customer's need and try to fulfill the requirements. A 4PL is a neutral entity and will be managing the logistics processes, regardless of what carriers,

forwarders or warehouses are being used by the company. The 4PL also manage different 3PLs that a customer is going to use.

Business process outsourcing is more like the traditional outsourcing but a bit extra. Outsourcing is often seen as taking a set of work, tasks and responsibilities and transferring them to an outside service provider on a certain contract basis. Business Processing Outsourcing (BPO) involves that and a little more. A BPO service provider brings a bit different perspective, knowledge, experience and technology to the existing scenario and works with the company to perform the reengineering operations to make it an improved or new process. The process being outcome-based not just a pure cost reduction issue, the new process will interact or be integrated into the company in a way that can bring value, even to the bottom line employees and shareholders and also to the clients..

One of the major differences between 3PL and 4PL providers is that 3PL provide the services with their own assets while 4PL providers provide supply chain services for example in 3PL a service provider uses his own workers for packing and distribution of final product in the market as per the requirements of the client. While in 4PL they assemble the equipments which they are capable of in their own organization and in other organizations then they design, build and run more comprehensive supply chains.

Second issue that differentiates both the terms can be accountability that is a 3PL provider is accountable for the particular work outsourced to it. It performs the job and done after that the service provider is not responsible or accountable for anything while in case of a 4PL provider it holds the

accountability for the whole process starting from manufacturing to logistics and then delivery . it works as if it is a part of the company but not a separate entity.

Another related issue is the role of both the entities the former plays the role of just logistic services provider and its job is done while the later holds the responsibility of optimizing the whole manufacturing and logistics process by integrating the supply and demand in the market as well as arranging suitable 3PL provider for the company. So the 4PL has a more important and integrated role to play while 3PL providers work on contract to accomplish the work assigned to them as per the client's requirements.

The business impact of 3PL is in terms of the time it saves and the cost effectiveness it brings in the whole process which makes it a very important entity in today's business world while 4PL has more influence in terms of time, cost as well as optimizing the internal supply chain management processes. So again 4PL has a more vital role to play in any company.

The success or performance of these entities can be measured in terms of the advantages they bring in the business processes cost effectiveness is one, time reduction is the another and above all is the focus that the company can bring back to its core operations rather than these logistic works. For 4PL all these are the success parameters along with the value creation in the organization by optimizing the internal supply chain management processes.

(Difference between 3PL and 4PL providers)

Role of 4PL in UAE

4PL provider also known as lead logistic providers are logistic providers who manage other logistic providers. Their role and importance in the business processes has already been discussed in the above sections and if we map these aspects in the UAE market then we can easily infer that lead logistic providers can be very important constituent of the market. UAE being the leader in OIL and gas market and supplying it all across the globe proves to be a good candidate for using the services of third and fourth party logistics providers more importantly the later reason being 4PL providers has the privilege to hire more than one 3PL provider and distribute the whole work among them accordingly. Now this way the company does have to worry about these logistic operations and they can focus on their core business. This thing looks more viable in the oil, petro and gas market as they involve transportation, shipping, storing, warehousing and on time delivery so UAE seems to be a good market for 4PL providers to grow.

(The Rise of the 4PL)