A General Study of the Logistic Services Sector

Prepared by

Asharqia Chamber Information Center

2008

Table of Contents

Section One:

Understanding Logistic Services and its Development

1. Understanding Logistic Services.

- Logistics is defined as the art of strategy. It is the knowledge of how to manage the flow of supplies, capabilities, products, services, and other resources - even people from the production area to the marketplace. It would be very difficult or impossible to accomplish any global marketing, or global import/export operation, or shipping operation for the movement of primary resources or finished products or the manufacture of products without the support of professional logistical services.
- Logistical services include: the gathering of important relevant information, transportation of goods, inventory, storage, processing and packaging.
- In 1991 the Committee of Management Strategy, a marketing organization established in the United States, defined logistics as "the operation of planning, implementing, and controlling the flow of merchandise, as well as any necessary storage, services and information pertaining to it from the point of production all the way to the point of consumption in order to please the consumer." Thus, the organization limited the definition of strategy or logistics to the field of operations.
- However, The Oxford Dictionary of the English Language defined logistics as "a branch of military knowledge specifically related to the recording, tracking, transportation and protection of general materials or special materials."
- In order to use logistics in the field of operations as it is understood and defined requires effectively managing the flow and storage of merchandise, services and information as needed from the raw materials stage all the way to the final stage of consumption.
- The use and implementation of logistics has facilitated management division operations on the industrial level and in regional and management integration on the global international scale. That means that logistics has played a part in stabilizing trade and production routes and even in formulating the new way of international division of labor.

- And finally, logistical organization includes initiatives in several areas such as: acquisitions, storage, transportation, consumption, bottling and packaging, customer services, and scheduling production requests.
- Perhaps the most important aspect of the logistical goals in the management of these initiatives is the necessity for the organization and integration of these initiatives with the aim of fulfilling production and customer service needs at the appropriate time, place, and manner that is desired which will lead to the strengthening of areas of competition for the organization and increase its profits.
- Acquisitions and storage are some of the main initiatives in organizational logistics because it meets the needs of the organization in terms of raw materials, equipment, and other production requirements. Experts estimate that 50% of the problems that companies face concerning quality are due to inadequate acquisitions management. And the cost of storage affects the overall framework of costs and subsequent profitability to a great degree. Furthermore, the role of storage is not limited to the preservation and protection of raw materials and products. Rather, its role extends to raising the equity of the investment capital in the stored items, guaranteeing the flow of products to the marketplace, ensuring a greater volume of sales and supporting the competitive power of the organization.

2. The Development of Logistic Services and the Root of the Word “Logistics”.

- The origin of the word *logistics* goes back to the ancient Greek word *logos* which means: ratio, calculation, reason, speech, oration.
- The development of the logistics originated in the military since this term was first used by the French army in 1905 with the goal of securing the arrival of supplies and provisions at the appropriate time and the best possible way. The term was used often during the time of World War II inasmuch as it was one of the factors that helped the Allied Forces. The world war did not come to an end until studies began appearing with the aim of implementing logistics in the field of manufacturing. This came to be known as *Business Logistics* since it became evident from the studies that were conducted in this field that approximately 40% of the production cost for any item in technologically advanced countries could be prevented by logistics initiatives.
- Since most of the companies in those countries use similar production technologies it became impossible for them to distinguish themselves competitively or to strengthen their competitiveness without reducing the cost of logistics initiatives with support initiatives for production projects whether they were (1) pre-production costs such as purchasing raw materials (or importing them), transporting them, storing them, and securing them. Also performing the necessary related banking operations. (2) Logistic initiatives completed during the production process such as internal consumption

projects. (3) Logistics initiatives that are completed after the production process in areas like bottling and packaging, distribution, storage and shipping, security, and after purchase services etc.

- Perhaps the most important distinguishing characteristic of logistical initiatives are two things that were present before the advent of logistics: (1) These initiatives are accomplished thru unity. In other words it is the implementation of cooperative integration with the goal of benefitting from *economy of scale*. (2) These initiates are completed with the use of *organized information*.

3. The Reasons That Lead to Dependence upon Logistical Services.

- The inability to provide human resources and necessary capital to provide services at the desired level internationally.
- Not dedicating enough time necessary to develop corporate abilities in this area.
- Corporations entered into new markets and areas of activity with radically different logistical needs than they were accustomed to.
- Obtaining logistical services from an outsourced third party is more economical than integrated logistical techniques.

Section Two:

Types and Categories of Logistical Services

It is possible to divide logistical services into three main categories:

- Express Mail: express mail is primarily used for shipment by air and/or sea to deliver receipts, documents, and packages. It is possible for express mail delivery companies to own all of the airplanes and vehicles needed or they may enter into a special rental agreement or long term lease agreement. Normally packages do not exceed a weight of 50 kg.
- Cargo and Storage: provides large scale shipping services for materials that normally weigh more than 50 kg. It uses every means of transportation including air, sea, land, and rail.
- Continuous Support Services Management (Supply Train Services Management): provides a number of integrated services such as extending support in material shipment which includes: warehouse management, internal and external support services, application and requests management, and a number of various other valuable services such as product assembly, and packaging and labeling.

1. The Express Mail Market.

- The Express Mail Services sector is possibly the liveliest sector in the global economy in general and it is certainly the liveliest in the growth economy. This is directly attributable to the rise in trade relations between various economies. As a result of this trade, the value of express mail services has reached 30 billion dollars a year according to the most recent global statistics (The European Commission for Express Mail). And it is expected in the not to distant future that annual growth in this sector will reach 25%-35%.
- The Commercial and Manufacturing sector and especially the Finance and Marketing sector are the main motivating factors for the interest in express mail services. Another factor is the growth in mutual trade relations between various national economies.
- It is possible to consider the marked advancements in the electronics industry and the commercial production of electronics along with advancements in economic and business services in various areas as an advanced look at what the future will demand of logistical services, in particular the express mail market. An example of this can be found in India which is a developing country that has been able to build a strong foundation through building technical and industrial cities. At the same time India increased the scale of its foreign relations with other countries which resulted in many international companies desiring to move production there because of the cheap cost of labor and lower overhead expenses. These and other factors led to an increased demand for express mail, transportation and storage services.
- China is another developing nation whose economic growth is expected to continue rising and it also has an increased demand for express mail, transportation and storage services. We saw in 2005 the connection between those countries who adopt a global marketing system that allows foreign companies to invest and establish companies - especially companies in the field of express mail, transportation and storage services - and an increase in opportunities for companies working in the logistical services sector and the mail sector in general.

2. The Transportation and Storage Market.

- The transportation and storage sector along with loading operations is considered one of the most important sectors in the movement of goods and merchandise by land, air or sea.
- The secret of the importance of loading and transportation along with the storage of partially manufactured or manufactured goods and merchandise until they reach the consumer lies in the fact that it has become one of the essential determining factors of the final cost of a product.

- Looking at current trends in the global production sector we find that it supports the idea of special contractors for transportation and storage who meet certain requirements because they have a built in desire to reduce costs. Also there is a reliance upon regional transportation and storage facilities for goods and merchandise because it ensures faster delivery of products to the consumer.
- The primary reason that supports the idea of private contractors shipping and storage operations in addition to what we already mentioned in terms of cost reduction is the rising cost of insurance for goods and merchandise for the producer. The opposite is true for outside contractors who spread their insurance costs evenly between more than one operation and more than one producer at the same time.
- Asia and the Pacific Ocean is considered the largest market for the air transportation sector and in the international supply sector since it generates 36.8% of the sectors business. The United States is the second largest market in this sector globally since it accounts for 28.8% of business in this sector.
- Global indicators suggest that the transportation and storage sector will grow each year by 4.5%-5% if we look at improvements in basic infrastructure that most developing nations are making in sea, air and railway transportation. As a result there will be even more growth opportunities in this sector and costs should decrease.

3. Continuous Support Services Management (Supply Train Services Management)

- Global indicators point to an increasing tendency for companies to choose companies that have the ability to provide complete solutions in Continuous Support Services Management (Supply Train Services Management). This entails the organized flow of three things: (1) goods and merchandise, (2) information and (3) money. There will be increasing demand for Continuous Support Services Management (Supply Train Services Management) in accordance with increased demand for specific resources able to provide competitive products and services and production of new products in a shorter time.

Growth Opportunities in the Continuous Support Services Management (Supply Train Services Management) Can Be Summarized In the Following Points

- Manufacturers and parts makers have begun focusing on basic self sufficiency and they have adopted the concept of centralizing main activities and transferring logistical services to external contractors with the aim of achieving the highest quality of performance at the lowest price. For that reason transportation companies have begun to move in the direction of offering comprehensive transportation services that meet all the needs of customers including delivery, storage and finalizing customs clearance etc.

- Increases in market activity: There is a definite inter relationship global market activity and growth in world trade. So whenever demand for products and merchandise increases the need for logistical services increases as well.
- Mergers: As a result of increased competition and the need to provide complete and comprehensive services companies have started to expand the geographical area that they cover and the range of services that they offer by merging with other companies or by buying other companies in the same sector.

Section Three:

International Features of The Logistic Services Sector

- According to a report done by The Working Group on Logistics, the net global market for support services is more than 320 billion U.S. dollars per year and it is continuing to grow annually anywhere between 3%-10%. Europe and the United States account for the largest and most developed market share for support services with an annual growth rate of 4%. The comprehensive market share for North Africa and the Middle East has the fastest growth rate, currently at about 10%, and analysts expect annual growth to reach 25% in the logistical services sector. In the United States three main players have emerged in the logistical services sector : Fed Ex, UPS, and DHL. All together these three companies have taken control of 75% of the American market share in express mail with Fed Ex leading them all controlling 50% of the American market share. Fed Ex is considered a production leader in the U.S. since it alone controls 60% of package delivery services in the market there.
- In the beginning of 2003, DHL took over Airborne which enabled it to strengthen its position in the American market and increase its market share. DHL is now one of the strongest and most influential companies operating outside the U.S. in the European and Asian markets.
- Some estimate that logistical operations account for 10%-20% of production costs for merchandise. 75% of production and supply companies are either using, or investigating the use of services specifically related to the field of logistics.
- It has been observed that many companies are entering into this expanding field because it is a broad area that requires competency and more importantly competitiveness.

- It is well known that a large number of global companies are successful due to their use of outside sources that provided them with some form of logistical services.

Section Four:

Logistical Services in the Middle East

- The economy of the Middle East has enjoyed remarkably sharp growth over the last few years in the Arabian Gulf due to a marked increase in oil revenues as well as diversification into fields outside the oil sector. It is estimated that Middle Eastern economies have achieved remarkable growth reaching up to 5%. last year.
- Overall growth has led to a rise in the liquidity level in the economy which resulted in other non-oil based economies witnessing remarkable growth. Especially the business and finance sectors as well as the construction and manufacturing sectors.
- Estimates indicate that the market value for express mail in the Middle East will reach 10 billion dollars. . The market share of the Gulf States is 1 billion dollars, about 10% of the express mail market in the region.
- The United Arab Emirates controls about 35% of the express mail sector in the Gulf.
- The Kingdom of Saudi Arabia controls 55% of this sector in the Middle East and its investments in the sector have reached 300 million dollars. There has been reasonable growth of 17% in the express mail sector over the last 5 years and it is expected that the adjusted annual growth of this sector in the region will reach 13% annually.
- The strategic position of the Kingdom of Saudi Arabia and the United Arab Emirates in the Middle East put both of them in position as the main international distribution centers for transportation services. The transportation market has grown in the Middle East by 10% annually since 1995. This growth can be attributed to the regions substantial economic expansion and to the successful establishment of several major free market areas and to the development of major trade centers.
- Another factor that has increased the competitiveness of the logistical services market and created the need for it to have a strong presence are government moves to encourage market development and to encourage diversification so that the economy is not solely dependent upon oil production. Commercial growth will lead to increased demand for speedy transportation, loading and storage services. While the services market in the Middle East is considered smaller and less developed compared to Europe and North America it is growing faster there with an expected annual growth of 10% annually.

- A report by the Global Investment Group about logistical services in the Middle Eastern region stated that the buying power in GCC member state markets is very high due to the high incomes of its citizens and this ensures a positive result for logistical services that will likely be needed in the region.
- The report expects that there would be continued reliance upon outside sources to provide raw materials, merchandise and services to the region and that would remain the driving force for growth in the shipping and storage sector for the countries in the region. It is expected that the economies of the region would see high growth rates in the near future in a number of sectors such as: foodstuffs, paper and paper products, general products, petrochemicals, computers and electronics equipment, auto equipment. Additionally, the ongoing reconstruction projects in Iraq have opened up a lot of opportunities for companies operating in the logistics field in the region.
- In addition to the high performance of these companies, relatively low operating costs coupled with high investment revenue helped to bring high profit margins for companies operating in the logistics field in GCC countries over the last few years, before the decline in profit rates after several companies were established. Now the big international companies are facing saturation of the market and sharp competition which has led to a reduction in their profit margins.
- Looking at the construction of the King Abdullah Economic City, it is an example of comprehensive integrated development by constructing a center for communications and logistical services utilizing one strategic place in the region. Projects like this are capable of providing a number of rare investment opportunities for the private sector.
- The economic city has many advanced elements including communications, logistical services, investment centers, educational services, food processing, agriculture, technology, commercial services, and housing and infrastructure.
- Also, it is expected that Saudi Arabia's entrance into the World Trade Organization and increasing economic cooperation between GCC member states will lead to an increase in growth rates in the sector. However this will require sustained commitment and support from the government on every level, especially regarding customs and tariffs.
- And finally, The Public Investment Organization has indicated that there are investment opportunities in the logistics services field in the Kingdom such as: storage, loading and unloading, sorting, and distribution. Not to mention opportunities in re-packaging, product modification, product assembly, quality inspection, and repairs.

Attachments:

Statistical diagrams illustrating the various types of logistical services in the Kingdom of Saudi Arabia.

Saudi Aircraft Traffic(Passenger&Cargo) by Domestic Airports: 2005 and 2006 A.D

Table 9 - 23 جدول ٩ - ٢٣

Airport	2006				2005				المطارات
	شحن (كجم) Cargo (kgs)		ركاب Passengers		شحن (كجم) Cargo (kgs)		ركاب Passengers		
	مغادرة Dep.	وصول Arr.	مغادرة Dep.	وصول Arr.	مغادرة Dep.	وصول Arr.	مغادرة Dep.	وصول Arr.	
Al-Baha	103910	69367	129560	127108	113333	67500	118610	115966	الباحة
Abha	2309960	2817230	794916	799420	2444049	2963078	768207	762577	ابها
Al-Jouf	62760	758465	131183	129626	47826	614096	109758	108486	الجوف
QAISUMAH	88311	113325	59025	54738	105344	99860	51510	47743	القيصومة
Bisha	41692	313833	109417	108413	72130	272654	96059	93695	بيشة
Dhahran		0	0	193	0	0	0	656	الظهران
Dammam	6538419	14742786	1073572	1081215	6238269	13238870	973900	999116	الدمام
Dawadme	3218	3917	9750	9038	1212	2958	8563	8420	الدوادمي
Najran	151419	576442	184937	185351	149977	516849	173104	171055	نجران
Wedjh	12674	55019	23416	20277	16388	23631	21640	18776	الوجه
Qasseem	1128373	716931	200648	202590	1231524	737479	179759	179735	القصيم
Gizan	1929293	1553129	413283	396420	1773630	1454911	413215	395397	جيزان
Ha'il	136398	1407628	206230	203249	140012	1397591	184291	179279	حائل
Hafr A-Baten	0	1746	3203	4946	7	1798	2971	4362	حفر الباطن
Hofuf	64213	45181	16384	14861	130684	48981	13074	12246	الهفوف
Jeddah	68225271	81883619	4771566	4544547	70277764	85126160	4568000	4363182	جدة
Madinah	2635496	3385785	869301	1153305	2906399	3664887	863975	1139936	المدينة المنورة
Ar'ar	40266	364405	77929	76367	33600	472180	71379	69235	عرعر
Rafha	14858	20106	19623	17898	12151	19326	16990	15446	رفحا
Riyadh	68293206	95656297	4523292	4496618	68080302	92016912	4287254	4276230	الرياض
Sharoorah	12873	165860	35046	38328	8431	167318	30747	34670	شرورة
Ta'if	626615	368992	212688	224197	612540	367229	196992	203389	الطائف
Turaif	7541	22792	17255	16267	7252	20287	15412	14964	طريف
Tabouk	1344567	2546400	325484	327206	2078694	2349580	320482	320303	تبوك
Qurayat	35701	417687	83708	86327	40847	409772	68222	67303	القريات
Wadi-Al-Dawasir	29662	25947	47593	45432	28869	26038	49038	46647	وادي الدواسر
Yanbu	33740	133696	77241	78060	30983	152927	76321	75069	ينبع
Total	153870436	208166585	14416250	14441997	156582217	206232872	13679473	13723883	المجموع

Source : Saudi Arabian Airlines Organization. المصدر : مؤسسة الخطوط الجوية العربية السعودية

حركة النقل والركاب عبر جسر الملك فهد بين المملكة والبحرين لعام ٢٠٠٦ م حسب الشهور

Traffic on King Fahd Bridge Between the Kingdom and Bahrain, by Month 2006

Table 9 - 28 جدول ٩ - ٢٨

Month	Outgoing trucks شاحنات مغادرة			Incoming trucks شاحنات قادمة			ركاب	ركاب	سيارات	سيارات	
	فارغة Empty	برسم الترانزيت in Transit	بضائع صادرة Outgoing Goods	فارغة Empty	برسم الترانزيت in Transit	برسم المملكة by Kingdom's Customs Tarriff	مغادرون Outgoing Passengers	قادمون Incoming Passengers	مغادرة Outgoing Cars	قادمة Incoming Cars	الشهور
January	2099	334	6063	7097	1571	1803	413154	303492	269213	217213	يناير
February	2128	366	5730	6669	1592	1816	347134	255436	244025	191760	فبراير
March	2695	527	7379	8270	1779	2126	407375	302848	281820	218651	مارس
Aprill	2876	540	8880	9739	1872	2199	409277	310921	263414	202803	ابريل
May	2702	495	9891	11092	2189	2280	433691	311051	276868	206489	مايو
June	2467	474	9743	10927	2167	1997	436810	315855	278757	224484	يونيو
July	2674	528	9835	11421	2414	2316	442928	307455	292587	225402	يوليو
August	2510	482	9885	11212	2143	2093	503724	336309	311405	232232	اغسطس
September	2572	451	8339	9959	2266	2067	403560	263331	258913	188257	سبتمبر
October	2591	481	7858	9170	2084	2070	351702	236129	234213	164524	اكتوبر
November	2829	461	8561	10106	2208	2282	418158	284033	273871	182995	نوفمبر
December	1841	320	5857	6899	316	1511	292737	194590	287485	198323	ديسمبر
Total	29,984	5,459	98,021	112,561	22,601	24,560	4,860,250	3,421,450	3,272,571	2,453,133	المجموع

Source: Customs Department. المصدر :مصلحة الجمارك .

الطرود الرسمية و التجارية الصادرة و الواردة للأعوام ١٤١٧- ١٤٢٦ هـ

Official Commerical Outgoing and Incoming Parcels : 1417 - 1426 A.H.

Table 9 - 34 جدول ٩ - ٣٤

Year	الطرود الواردة Incoming Parcels	Outgoing Parcels الطرود الصادرة			السنة
		الجملة Total	طرود تجارية Commerical Parcels	طرود رسمية Official Parcels	
1417	230374	175532	0	0	١٤١٧
1418	222665	113579	0	0	١٤١٨
1419	164653	103959	0	0	١٤١٩
1420	252480	164701	0	0	١٤٢٠
1421	395474	269580	0	0	١٤٢١
1422	245962	185808	0	0	١٤٢٢
1423	322761	287712	0	0	١٤٢٣
1424	334325	319041	0	0	١٤٢٤
1425	208991	212033	89318	122715	١٤٢٥
1426	246272	205691	73857	131834	١٤٢٦

Source : Saudi Post. المصدر : مؤسسة البريد السعودي