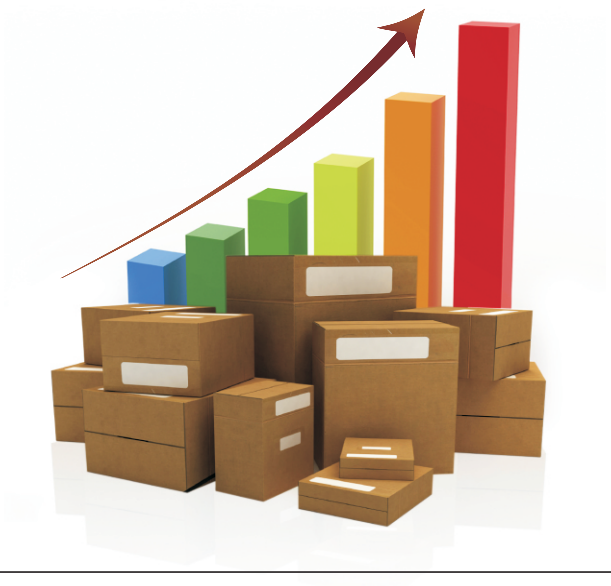
Extending Your Enterprise



Shipping and Logistics Companies Steer Toward BPOs to Skillfully Navigate the Upturn

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The signs are positive... the mood upbeat. The turbulent waters that the shipping and logistics industry traversed through the previous year, seem to have calmed down. The first six months of 2010 have shown increased growth for most companies as compared to the same period the previous year. Companies are coming out of the recession with a higher level of resilience and a smarter plan of action.

Recent reports from American and European organizations reveal that the industry is on the fast road to recovery.

- The Carnegie Endowment for International Peace recently released a study that said the annualized three-month moving average (3m/3m, SAAR) of global trade has risen a rapid 22.5 percent in January 2010.
- An August 2010 Reuters report stated that 23 of the 30 German companies in the bluechip DAX index have surpassed market expectations with their earnings in the quarter ending June 2010. As many as 12 companies have boosted their outlook.
- In September, the *European Voice* reported that the European Commission (EU) hiked its growth forecast for the Euro zone from 0.9 to 1.7 percent. The forecast was based on a recovery in the first half of the year that far exceeded expectations.
- *Capital IQ* reported that there were 91 deals in the transportation and logistics sector in June 2010, a slight increase from the 84 the month before. This was attributed to the continued consolidation of the industry.

The Current Scenario: Preparing for the Upturn

Most companies are following a prudent approach, despite the visible signs of a recovery. In fact, many sectors have been quite unprepared to handle the economic upswing, and this holds true for shipping and logistics as well.

Capacity issues are likely to persist due to the uncertain economic outlook and unstable financial markets. Many shippers accuse ocean carriers of withholding container capacity to artificially raise freight rates, when in reality, operators struggle to re-organize box flows. The recession had forced carriers to cut the size of their container fleet, take charter slots on other carriers and reduce their ports of call. With this trend continuing, shippers today are unable to expand operations. *Latin Trade* magazine reported that starting April 1, 2010, global liner companies increased rates from USD 200 to USD 300 per container on most trade lanes.

Shipping and Logistics companies are navigating these uncertain times with extreme prudence by re-evaluating their strategies. The key lies in turning challenges into opportunities. Businesses are looking at less expensive options that increase efficiency and effectiveness. The four predominant options for the industry today are **organic growth in the form of expanding internally, consolidation in the form of mergers and acquisitions, investing in technology and automation, and partnering with a BPO service provider.**

Organic Growth in the Form of Expanding Internally

For a company to expand internally, it requires increased cash flows to invest in infrastructure, recruitment, training and payroll. Given the current economic scenario, this is not a risk that most companies are willing to take considering the stakes involved. Companies are still unsure about the tenacity and duration of the upturn, and hence, making heavy investments in internal growth may not be a judicious choice.

Thus, growing organically through captive centers is not a viable option for shipping and logistics companies.

Consolidating Through Mergers and Acquisitions (M&A)

An August 2010 study by PricewaterhouseCoopers indicated that the M&A environment in the global transportation and logistics sector provides reason for optimism. *Logistics Today* reported that in the first quarter of 2010, as many as 34 deals were announced. This exceeded the total number of deals announced across all the quarters last year. In the second quarter of 2010, the number of deals announced was 29. Again, this number outpaces the figure for 2009.

With the integration of two or more operating companies comes the issue of consolidation and achieving smooth transition of scale and complexity internally. Outsourcing non-core functions, such as documentation, finance and accounting, operations and support, offers the best solution to tackle M&As.

Increase Investment in Technology and Automation

The Shipping and Logistics industry is largely paper-dependent and a lot of care and caution needs to go into documentation. Even the slightest discrepancy can lead to the shipment being stopped, leading to loss of brand value and money.

Digitization of documents and process automation are the key to increased efficiency. This can be achieved internally or by partnering with a third-party provider. An experienced player like WNS can offer automation tools that facilitate reduced costs and increased efficiencies. The company has achieved a synergy between ITO and BPO, and has been offering customers the benefits of this integration. WNS provides an optimum operating model that allows companies who invest in technology to obtain automation tools.

Partnering with a BPO Service Provider

The economic upturn has undoubtedly resulted in increased transactions and volumes. Given that captive centers are struggling with issues such as higher than anticipated costs, lack of scale and high attrition, logistics companies will realize greater long-term savings partnering with a BPO service provider. Collaborating with an experienced player will allow these companies to bring in new products and services in a timely manner. Outsourcing provides logistics firms flexibility, scalability, transaction-based pricing and cycle time reduction, enabling them to focus on their core competencies. At a time when risk-taking is at a low, it is prudent to go with a third-party provider who can handle the increase in volumes without adding to the company's fixed cost.

The tough economic conditions had set companies on the path to improve efficiencies and reduce costs. A critical fallout of that has been staff reduction. Today, with increased volumes, there is increased billing. This has meant a breakdown in the quality of services. Chances are high for erroneous billing and service delivery failures due to the heavy documentation processes involved. Processes like managing bills of lading and freight cargo receipt processing, airway bill manifesting, driver logs entry, and freight bill capture can be outsourced, which will help improve efficiency.

It is time for companies to think ahead of mere survival and take advantage of the current economic optimism. And this can be achieved, if companies focus on their core functions and partner with third-party providers to handle non-core functions. It is equally important to make this strategic move in a careful and planned manner without taking undue risks. Partnering with an experienced player like WNS provides companies assurance on this front. Companies that achieve the best balance of outsourcing as they prepare for the upturn will have the inside track on the recovery curve.

To learn more, please write to us at **info@wns.com**