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Turbulent Times for Shipping and Logistics: BPO Helps Turn Tide

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The global recession rocked the Shipping and Logistics industry with idling vessel capacity, significant reduction in volume, and immense pressure on pricing and margins. Speaking at an international trade and transportation conference in Houston recently, Christopher Koch, President & CEO of the World Shipping Council (WSC), said the shipping industry in 2010 faces its toughest times since containerization was invented in 1956.

With consumers slamming the brakes on spending, freight volumes dropped precipitously and asset-owning shipping and logistics businesses were hit hard. Third-party Logistics (3PL) providers also came under tremendous pressure from customers to reduce costs. The industry resorted to short-term survival tactics, such as staff layoffs, selling of assets, negotiating bank financing, attracting investment or approaching the government for grants.

Among the various strategies adopted by this industry to manage its cost base, Business Process Outsourcing (BPO), is gaining prominence in the current environment. Shipping and logistics companies have been traditionally using captive centers, with a smaller percentage resorting to third-party BPO providers to propel growth and achieve operational efficiency. A captive center essentially refers to the extension of business operations on a low-cost offshore location, with the parent company maintaining complete control over all operations. On the other hand, third-party BPO companies allow for the transfer of management and / or execution of a specific business process to a service provider.

Although there are some indications that the economic storm is slowly showing signs of clearing in 2010, most companies have gone through a rough sail in 2009, and thus want to be prepared for any future downturn.

The Captive Center Maelstrom

The shipping and logistics industry has traditionally followed the captive route to execute its back-office functions. Industry leaders, such as Maersk, APL, Hapag-Lloyd, Mitsui OSK, CSAV and DHL, have set up captive centers in low-cost countries such as India, the Philippines, Malaysia and China. Many U.S. logistics and trucking companies have set up Shared Service Centers (SSC) in the U.S. since the mid 1980s. While these captive SSCs are founded on the premise of reducing cost and increasing efficiency, many are finding it difficult to stay relevant to the growing aspirations of the businesses they support. In order to ensure long-term value, the SSC needs to adjust its service portfolio to remain on top of their game by introducing technology improvements, adapting to changes in legal regulations and proactively responding to competition and cost pressures. Shipping and logistics companies are now increasingly looking at third-party BPO service providers to accomplish all of these as well as to achieve higher levels of efficiency and cost reduction.

A recent Forrester Report titled, *Shattering The Offshore Captive Center Myth*, states that a whopping 60 percent of captives are struggling, and this has resulted in a significant slowdown in new captives being established. Captive centers have been facing issues, such as lack of scale, higher than anticipated costs, high attrition and poor integration with onshore teams.

In today's economic scenario, these centers face rough waters due to the following reasons:

Huge capital investment: For a company to set up a wholly owned captive center, there needs to be enormous capital expenditure and investment in infrastructure. Given the current economic scenario, companies are wary of making these investments.

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Increased operating cost: The investment required from a shipping and logistics company in terms of recruitment, training and payroll of employees in captive centers is very high. When they need to scale up, captives often pay above the market rates, and thus, on an average have a 15-20 percent higher cost as compared to a third-party BPO service provider. Since most captive operations tend to be sub-scale, they have the inherent problems of higher costs, and management and staff attrition as they are unable to offer a career path to employees after a certain point.

Increased lead time: A captive center takes a minimum of one year to commence operations, since processes must be established from the start.

Scalability and pricing: Unlike BPO centers, captives have limited flexibility in either scaling up or down to suit business conditions. No matter how efficient the captive center is, it will always remain a fixed cost for the company.

Sailing with the BPO Wave

Owing to all the disadvantages given above, shipping and logistics companies are now beginning to look at third-party offshore centers, as opposed to captive centers, to handle their key processes. Offshore centers can provide the industry the much-needed buoy by taking over cumbersome functions, such as documentation, finance and accounting, operations and other support areas.

Documentation: The cargo business is still heavily paper-driven. Despite the rapid adoption of EDI and the Internet, bills of lading, airway bills, freight cargo receipts, freight bills, driver logs, trip records and several other documents still exist in paper form. Processing these documents into the system and managing the associated workflow presents the biggest opportunity for companies to consider BPO.

Finance and Accounting (F&A) processes: These include accounts payable, accounts receivable, claims processing, tax accounting, financial compliance, agent reconciliation, general ledger, bank reconciliations and financial auditing.

Operations: Operational processes include filing customs / port applications, cargo movement reports, import / export manifests, tracking status updates, vessel performance reports, equipment control and operations planning.

Support functions: Attracting and retaining new customers has re-emerged as an important priority and this has driven investment in Customer Relationship Management (CRM) and vendor management systems. This also includes service / rate enquiries, customer advisory, pre-advice / arrival notification and cargo tracking.

Outsourcing Helps Brace the Storm

On an average, 15-25 percent of the overall staff costs of an average logistics company relate to transactional back-office work, and these can easily be outsourced. These functions are in the areas of customer service, operations, F&A and information technology.

Flexibility and scalability: One of the key lessons learned during the economic downturn is that companies need the ability to scale according to market conditions. Based on the scope and size of a company, outsourcing provides cost-cutting options needed by a small, medium or large sized business. We at WNS project a potential benefit of up to 50 percent labor arbitrage and a realization of savings within six to nine months.

Transaction-based pricing: The onset of transaction-based pricing is revolutionizing cost structures across the shipping and logistics segment. A unit-based transaction model allows companies to provide each client with a variable cost per unit of cargo carried or per document processed. This model proves to be viable and competitive. For example, WNS offers a transaction-based pricing model for several logistics clients and charge them per airway bill, freight bill, invoice or driver log.

Start-up time reduction: A captive center could take up to a year to get operational, whereas a third-party center enables companies to go live in 90 days or less. Readily available infrastructure and rigorous project management processes and methodologies help reduce start-up time significantly.

The WNS Lifeline

In order to reiterate the advantages offered by outsourcing shipping and logistics operations, here is an example of one of the successful client stories at WNS:

Case Study

End-to-End Consolidation of the Order-to-Cash Cycle for a Global Air Delivery and Freight Services Provider

A leading global express and logistics company with operations across 200 countries outsourced its ship-to-collect process, including processing of airway bills, manual billing of freight duties and taxes, cash applications and invoice adjustment.

- WNS has been working with the client since 2002
- WNS processes 12 million airway bills a year (~50,000 per day)
- Cut-offs for manifesting is one hour prior to flight departure

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Benefits Delivered to the Client by WNS

- Standardizing a geographically spread operation for F&A processes by process consolidation and sharing uniform best practices with all locations for simplification of work
- Managing a huge volume of over 11 million airway bills per annum, or approximately 50,000 transactions per day with an accuracy of over 99.7 percent
- Improving the turnaround time for billing of consignments from 96 hours to 48 hours
- Reducing unapplied cash from over 8 percent to consistently lower than 2 percent
- Reducing cost of operations by 60 percent as compared to the client's onshore costs
- Improving the metrics around bills 'skipped' by WNS from 25 percent to under 10 percent for freight duties and taxes. This resulted in the client reviewing or processing a lesser volume of exceptions
- Productivity improvement in U.K. BACS process of cash applications and billing overall

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