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International Logistics Operations at a Manufacturing firm – An Analysis

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Abstract

Benso Garmenting is a young growing garment business firm for apparel products in Southern India. It is acting as a trading agent as well as a manufacturing firm for leading brands from U K and Europe by controlling entire product life cycle i.e. right from conceptualization (design) to the delivery planning at the customer end. Over the years, they become very efficient in managing the products technically. Nevertheless as a new entrant for the full package solutions, the company was grappling with the issues in operations especially in Planning and Control for the international movements of their cargo. The commercial professional firmly believed that by having right commercial knowledge at the ground level, the company would be able to save 3-4 % of the product cost. He was also keen in looking for the solutions through re-engineering the entire planning and operations procedures, right from choosing the clearing and forwarding agent (CFA) and engaging the carrier company for the marine transports. In fact, the firm had too many stakeholders in the cargo movements. Further, there were some coordination issues with the shipping company in terms of planning and for the customs clearances. The company also initiated improvement projects in the areas of cargo planning and marine routing, eventually willing to redesign the logistics operations. The case study will discuss in detail about the problems in planning international movements and how did they revisit their operations to save the lead time as well as the overall costs, right from packing operations and making it ready for the logistics movements.

Keywords: International logistics, Full package solutions, Export business, shipping procedures

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Introduction

On 19, March, 2014 morning, Mr. Bharati, commercial head of Benso Garmenting has received a mail from their overseas client on the specific needs of the shipments to be carried out and some complaints on the logistics procedure in the last season. As Head of commercial department, he was contemplating with his team to impart guidelines in their operations. Since he knows the decisions would impact his operations and it would strengthen the long term relationships with the customer. At the same time, his task is cut out to maintain the relationship amongst the stakeholders in the supply chain, as it requires a complete revamp. His job is primarily to deliver the service on time with right quality from their factories situated in the Southern part of India. Mr. Bharti, had an efficient team in handing the commercial operations. He wanted to delegate the responsibility with Mr. Alagiri, who was supposed to lead the team of EXIM and containerized operations in the Benso garmenting. Though, he was the new entrant at that time, for the Logistics business, he had shown tenacity and acumen for learning the business operations in a focused manner.

The project was given to Mr. Alagiri to improve the operations and streamline them. And, he has been entrusted the responsibility of handling the day to day coordination with the various partners in the logistics operations. International logistics operations in an export oriented company are imperative in the business, as it directly affects the performance of the order management. It involves not only managing the export and import procedures, also on the planning for the equipment such as Containers and other material handling equipment, interacting with various stakeholders in the business for planning the routing and scheduling. Pricing for the entire transport movement is also a focus activity in the order management as cost control can give a better realization of the product value. The key decisions are to be imparted after having clear understanding on the fundamentals of the trade. In the current case, Mr. Alagiri has encountered some issues in the different orders in terms of documentation and logistics operations.

Background:

Benso garmenting is one of the key exporters in Tirupur for UK based high end retailers. They manufacture the knitted products, exported to various countries like UK and Members of EU. It is operating since 1975 and started its garment export division during 2007. It has vertically integrated operations of cotton spinning, knitting, dyeing, bleaching and printing. Their main strength of product lines are in T-Shirts, Polo T-shirts, sweat shirts, sweat pants, boxers, vest and thermals. It is having the capacity of more than 25000 pcs/day production and having a pioneer place in the hosiery and Lingerie manufacturing in Tirupur area. Benso garmenting prefers to do the business in the form of Full package sourcing, where by the complete control on the movement of the material can be planned. Customers in UK and Europe give free hand to Benso garmenting to source their raw materials for production and select his own partners for the supply chain operations to move the shipments to their destinations. On the other hand, in Nominated Sourcing, it does not enjoy that freedom to source the services required for the supply chain operations including sourcing and logistics. This is predominantly having a great impact on the business performance.

In the preference of full packaging solutions, the company has selected Pinnacle as their partner in the operations, which is having the wider presence in the market in the near hub. Mr. Alagiri wants to set the key performance indicators for them. He is contemplating how he has to set the KPIs for their Logistics partners? Further, he is analyzing diligently on the various incidents happened in the last season in the different orders to have a better control on the operations especially in planning and costing. Pinnacle Corporation is their approved Clearing and Forwarding Agent for the shipments and Mr. Pitchai was the liaison officer for Benso garmenting account from Pinnacle. They also engage various other stakeholders in the entire Logistics chain activities, and that list is the growing concern for the Benso garmenting, when it comes for the coordination and payments.

Mr. Alagiri, at the first instance could not understand the role of Pinnacle. It was primarily appointed as a third party logistics process owner. He felt that there is a growing complexity in handling the shipments in an efficient way because of imminent issues happened in the last six month period. He had initiated continuous interactions with Mr. Pitchai and made him to understand for the need of business excellence for those identified problems. Commercial department of the Benso garmenting had tried to comply with the instructions given in Standard Operating Procedure of customers. Moreover, VNP trading was much concerned on the budgeting for the shipments. Since, Mr. Bharti has recommended Pinnacle to VNP and Pinnacle quoted the best price for the shipments for FOB (India) especially from Chennai and Tuticorin port (Southern India), VNP handed over the entire business to Pinnacle without understanding repercussions and did not establish the clear service levels to Benso garmenting as well.

Issues:

Benso garmenting was facing some problems in the style # 12321 for the buyer VNP trading who has worldwide presence in terms of supplying to the various retailers through its subsidiaries in the different parts of the world. The style is having around 10, 00,000 pcs on deferred deliveries in the following schedule and it has got the various constraints as well.

Schedule	**Qty in Pcs**	**Destination**
10-Aug	275000	Southampton
15-Sep	200000	Zeebrugge
1-Oct	125000	Hamburg
10-Nov	500000	Santos (Ex- Mumbai)

Further, they have nominated shipping line WYZ & Co for the onward movements. Since the order # 12321 is also a nominated order, Benso garmenting did not enjoy the benefit to select its own transportation partner and they are bound to the service level agreements designed by WYZ & Co with their buyers VNP trading company. The predominant transshipment hubs located near to Indian sub-continent are : Colombo (Srilanka), Port Klang (Malaysia), Port of Tenjung Plepas (Malaysia), Singapore, Salalah (Oman) and Dubai (UAE). Because of the non-compliance on right time handover, Buyers are also unable to alert the counterparts in the various transshipment hubs for the smooth transfer. All the shipments are originating from Ex- Chennai / Tuticorin (as both the rates are same) and only 10-Nov delivery, VNP has directed Benso garmenting to make the shipment via Jawaharlal Nehru Port Trust (JNPT), Mumbai.

For container planning, Benso garmenting is also facing some issues and with Mr. Pitchai, Pinnacle Corporation, it has worked closely to sort it out. The major issues are due to other varied reasons. The deliveries for Aug and September months were in the Flat pack mode and rest of the deliveries were to be in the specialized containers called Garments On Hangers, for which the availability of the containers are always a big challenge for the shippers. These containers and specialized ones were to be issued from the Inland container Depot located in the Tirupur area (Operated by a Government undertaking). For all the deliveries, Mr. Bharti had decided to take the containers on its own custody for factory stuffing exercise and handover back to ICD for the customs clearance procedure. He is very much aware that for factory stuffing / or de-stuffing, Benso and co needs to be very careful in terms of identifying detention charges of the containers. While planning for the procurement of the specialized containers, the lead time for the fabrication needs to be accounted. These containers are to be fabricated in the separate process and given to the shippers. If they are not readily available at the ICD, it will be taken from the nearby transshipment hubs through backhauling. For the initial planning of the orders, Benso garmenting has to indicate the number of containers to be procured for the various deliveries.

There are some constraints faced by VNP trading in handling containerized shipments. They wanted minimum of 70 percent quantities (max to 100 percent) to go as the Full container load and remaining as less than container load. This is to help the clearance procedure to be faster as FCL leads to the faster clearance than LCL normally. VNP decided to start sales process as fast as possible, if it receives the shipment by FCL and LCL can reach little later.

Benso garmenting has got the order as two different types of products and each product needs to be handled differently in the shipping. For the August and September deliveries, as they wanted to make it as the flat packed shipments, the booking needs to be done min of 10-14 days ahead of ex-factory date. Out of these deliveries, they are looking for 20 ft. containers for August shipments and for Sept shipments they prefer to have it as 40 ft. containers. This has been decided based on the container handling ability at the VNP's destination distribution centers.

For the 1st Oct delivery, the garments should be sent on the GOH form and for that 20 ft. containers need to be used. Each 20 ft. container is having 11 bars in that and in each bar, it is possible to have 6 ropes and having 5 knots in the individual containers. This is due to the need of VNP trading to make the ready-to-floor product. For 10- Nov, Ex- Mumbai delivery 40 % of the quantity should be packed in the flat pack (both FCL and LCL combination) and remaining to be sent as the garments on hanger as buying warehouse can do some amount of re-packing and re-ironing inside the distribution center. For both the deliveries, the containers need to be booked at least 3-4 weeks ahead to the shipping line, so that they can deliver it on time.

Individual deliveries are having $ 6000 as the budget for the VNP trading company including all the terminal handling and other surcharges such as Container Cleaning Fee (CCF), Bunker Adjustment Factor (BAF), Currency Adjustment Factor (CAF), and Origin Document Fee (ODF) (See exhibit). Further details are as below:

Carton Sizes are:

A- Type 20 X 12 X 7 inches - 40 % &
B-Type product 40 X 30 X 15 cms. - 60 %
Gross Weight: 30 Kgs. (Assume both the cartons are having equal weight)
Net Weight: 20 Kgs. ;
No of Pcs in a carton: 40 Pcs
Conversion rate is 1$ = Rs. 61

For GOH containers: 5 pcs in a pre-pack and 9 pre-packs in a bar and 11 bars in the 20 ft. / 22 bars in 40 ft.(Single tier GOH container)

The rates from WYZ & Co are:

	LCL Rates in Rs/CBM		FCL Rates in USD /Container			
Destination	Ex-Chennai	Ex-Mumbai	Ex-Chennai (Dry containers)		Ex Mumbai (Dry containers)	
			20ft	**40ft**	**20ft**	**40 ft.**
East Asia	2200	3200	2000	3500	2400	3700
West Asia	2700	1800	1800	2800	1600	2600
West coast	4000	4200	4000	5000	4300	6000
East coast and South America	3500	3200	3800	4700	3500	4400
Europe	2700	2600	2900	4100	2750	3400
UK and Ireland	2500	2400	3300	4300	3500	4100

Surcharges:

Bunker Adjustment Factor[##] (BAF): 5.5 % of the container charges
Currency Adjustment Factor [$$] (CAF): 4 % of the container charges
Terminal handling charges @ Chennai and @ Tuitcorin: Rs. 1800 / Container
@ Mumbai = Rs 2400/ container
Tirupur to Mumbai: Inland Haulage Charges: Rs 14000 / 20 tonnes (equivalent to 20 ft. cargo) and further increments based on Pro-rata calculation (inclusive of tolls and taxes)
GOH charges (normally: 20 % higher than ISO containers)
Documentation charges: Rs. 3500 / Shipment / Origin

VNP trading always complained to Mr. Bharti on their extended handover time, and because of that goods which are originating from India are unable to catch the main lines connecting from the various transshipment hubs to the final destinations in different countries. Mr. Bharti has been warned by VNP's buying team and to prove its handover on time this time for this particular order.

Further, due to the optimization exercise in the production, the factory has manufactured excess quantities to be shipped more than agreed tolerance limit of 8 percent for the 10 – Aug delivery. And, Benso garmenting, without any approval from the buyer, they have sent the goods to the Container Freight Station for the consolidation exercise through Pinnacle Corporation. This also created confusion in the supply chains and VNP started giving another warning to Benso garmenting on this. On the particular day of handover at the ICD indicated by Pinnacle, Benso garmenting was supposed to deliver the cargo both in FCL container and LCL cargo. The shipping order is having the permission to handover for the prescribed quantity according to the agreed terms and conditions through the letter of credit. It shows only 8 percent as the excess quantity to be handed over.

Further, the shipment has got one more issue of handing over. Due to the miscommunication among the stakeholders, there was a slight delay in handover for the 10th Nov delivery, Due to that, shipping line was unable to load the cargo on the stipulated lay time. It increased the demurrage changes at the Port warehouse. Mr. Pitchai started blaming Benso garmenting for the late handover citing the detention charges of the containers on 10th Nov delivery as Rs. 1200 / day and demurrage charges at the port as Rs. 4/Kg/day or Rs. 7/CBM/day (whichever is higher). The containers handed over at ICD with two days delay and also LCL cargo were kept in the CFS/ICD for another 1 week from the handover date to make the arrangement to catch the next vessel. Mr. Pitchai has clearly indicated that these amounts to be charged from Benso garmenting without which the shipments would not move further. This will be an additional loss to the factory as they depend upon Pinnacle to sort out the issues.

Mr. Alagiri personally took over the responsibility in Benso garmenting and analyzed existing situations for the last four deliveries in the said session. He also had continuous discussions with Mr. Bharti and with Mr. Pitchai of Pinnacle to sort out issues and have strong operating procedures for the upcoming deliveries.

Discussion Questions:

a) Discuss the importance of various stakeholders and their role in logistics movements and their complexities and impact on increasing the efficiency of transport operations?
b) Discuss possible Container planning and analyse the budget for VNP shipments in all the four deliveries incorporating various constraints posed by VNP to Benso garmenting?
c) As logistics Professional, What would be the steps recommended to Mr. Alagiri to prove their mettle in handover process? How much Benso garmenting has lost during its 10-Nov, handover process?
d) What would happen for the excess cargo? What would be the quick action on the same?

BAF: When oil prices fluctuate in the global market, the BAF is added to basic ocean freight to stabilize the cost of freight. BAF has derived from the term bunker (fuel storage containers). Such surcharge is added up on the ocean freight by shipping companies to supplement fuel factor costs and termed as BAF.

$$ CAF: Currency Adjustment Factor is applied on freight rates to minimize or control the losses or gains against fluctuations on the currency exchange rate tariff. CAF is a part of ocean freight to balance and cater against difference in currency value fluctuations.

(P.S. Identities on companies and persons are changed at the request of sponsoring company & Rates (indicative)/figures/Conditions discussed in the manuscript for academic discussions only.

Annexure

Exhibit 1: Location of Major Ports in India

(Source: www.dartglobal.in)

Exhibit 2: Garments on Hanger Container - Inside view

(Source: www.container-supply.com)

Exhibit 3: Capacity Information for ISO 6346 containers with Recommended CBM load

CONTAINER				Capacity		Recommended Load Volume	
Nominal Dimension	**Length**	**Width**	**Height**	**Cubic Feet**	**Cubic Feet**	**Cubic Feet**	**Cubic Feet**
External	**20'**	8'	8' 6"				
	6.096 m	2.438 m	2.591 m				
Internal	19' 4.25"	7' 8.625"	7' 10"	1170 cft	33.131 cbm	1000 cft	28 cbm
	5.899 m	2.353 m	2.388 m				
External	**40'**	8'	8' 6"				
	12.192 m	2.438 m	2.591 m				
Internal	39' 5.375"	7' 8.625"	7' 10"	2385 cft	67.535 cbm	2050 cft	58 cbm
	12.024 m	2.353 m	2.388 m				
External	**40' Hicube**	8'	9' 6"				
	12.192 m	2.438 m	2.896 m				
Internal	39' 5.375"	7' 8.625"	8' 10"	2690 cft	76.172 cbm	2350 cft	66 cbm
	12.024 m	2.353 m	2.692 m				

(Source: www.stagecargo.com)