ASSOCIATION FOR DEVELOPMENT OF BUSINESS LOGISTICS

Report

of the entrepreneurs survey on the current state and development prospects of transportation and warehousing logistics

Tashkent – 2017

Association for Development of Business Logistics has conducted a survey of national and foreign companies operating in the country in the first half of 2017 with a view to study the current state and development prospects of logistics services in Uzbekistan.

Three categories of Uzbek entrepreneurs were surveyed: 1. Production and trading companies; 2. Transportation and freight forwarding companies; and 3. Warehouse operators.

The objective of the survey was to identify bottlenecks in the logistics chains while the goods are on the move and in the level of services provided by involved participants to each other. For example, it was interesting to establish the following:

1. How the trading companies and manufacturers of goods assess the level of services offered by transportation and freight forwarding companies;
2. How the trading companies and manufacturers of goods assess the level of services offered by warehouse operators;
3. How the trading and freight forwarding companies assess the level of services offered by warehouse operators, and vice versa.

The respondents were requested to answer several questions, e.g. what additional services they can offer to the clients, what is the level of competencies of the company's staff involved in the provision of services, whether the company management is interested in training their personnel.

One of important aspects of the survey was to get an outside perspective, i.e. to collect consumers' suggestions on improving the quality of services they are offered, that is, to find out what transport companies would want to improve in the warehouses' operation or how the trade and manufacturing businesses would like the services provided by transport and freight forwarding companies improved.

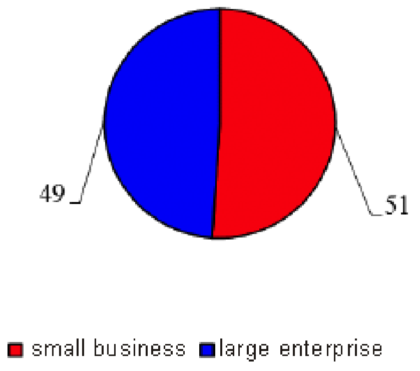
This survey, undoubtedly, could not cover all the pressing issues, but the outcome nevertheless was interesting and sometimes even surprising. Therefore, the survey team hopes that the results shall be useful for a wide range of specialists.

A total of 90 respondents was surveyed including 47 representatives of trading and manufacturing businesses (52%), 27 transport and freight forwarding businesses (30%) and 16 warehousing businesses (18%).

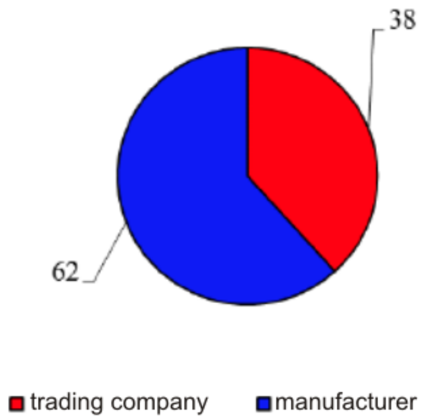
I. Category 1 – trading and manufacturing companies

Trading and manufacturing companies were requested to respond to 17 questions.

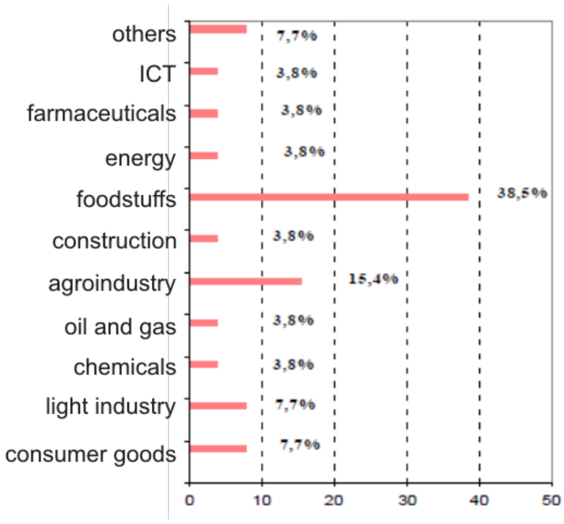
The trading and manufacturing companies surveyed included small and private businesses (51%) and large companies (49%).



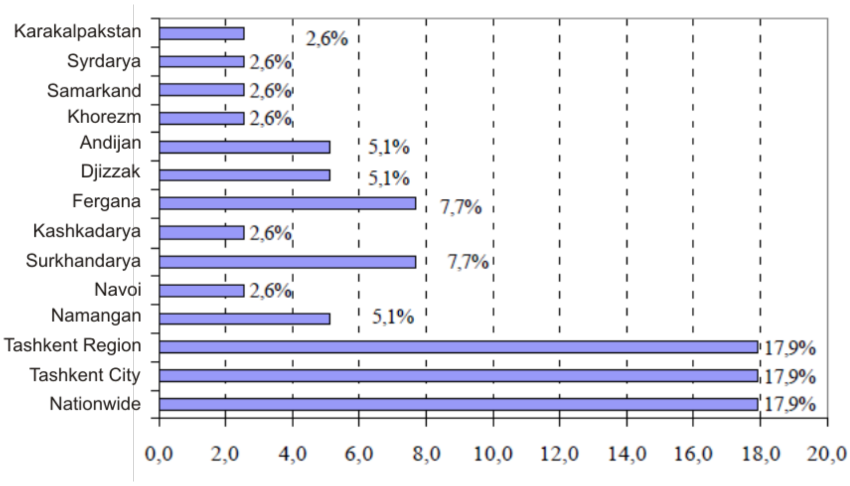
Representatives of manufacturing companies accounted for 62% of respondents and 38% were trading businesses.



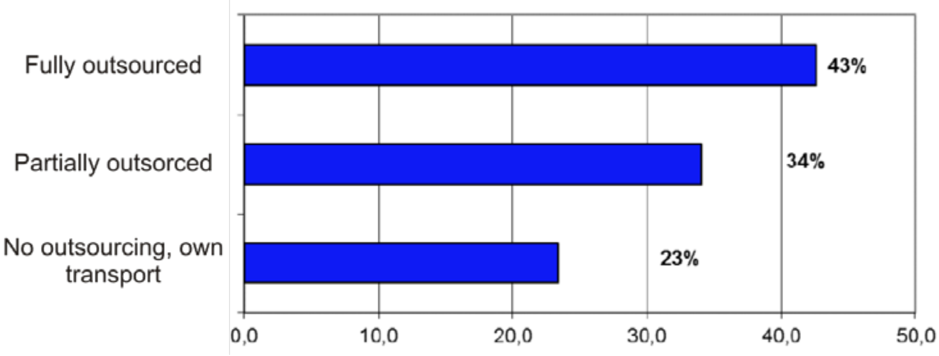
Majority of production companies represented the foodstuffs industry (38.5%), agribusiness (15.4%), light industry and consumer goods sectors (7.7% each)



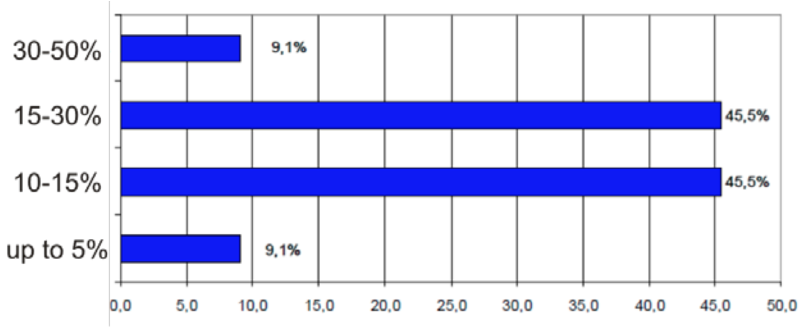
Most of the respondents operate in almost all regions of the country (18%), while Tashkent city and Tashkent city get most coverage (18%), followed by Fergana and Surkhandarya regions (8% each), Andijan and Djizzak regions (5.1% each).



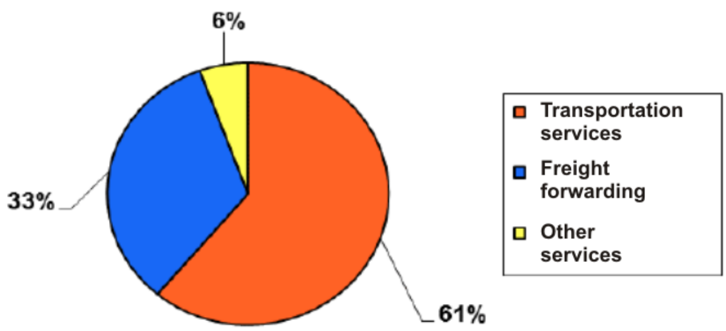
The survey has shown that trading and manufacturing companies have recently started preferring outsourcing transportation of their goods to third parties (40%), while the share of goods transported using own transport is reducing which showing that trading and manufacturing companies try to optimise their main line of business.



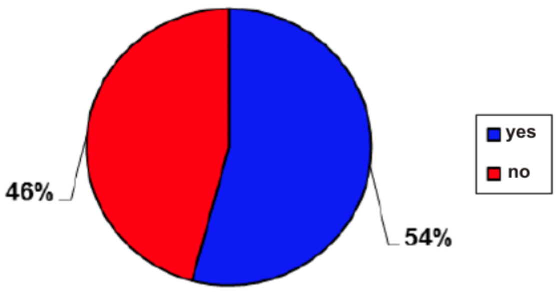
Highest costs of transportation (30 to 50%) are incurred by companies that use own conveyances for transportation, while partial outsourcing to third parties allow reducing the share of transportation in total costs by almost a half.



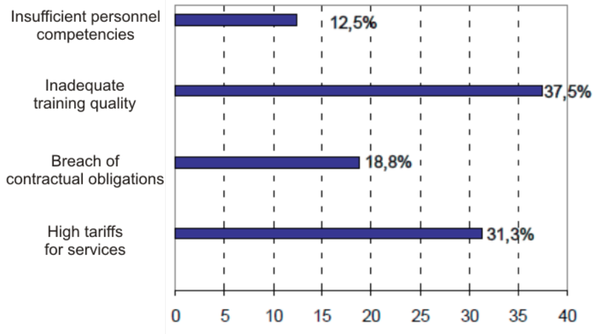
61% of trading and manufacturing companies use the services of transportation companies while 33% of respondents use only freight forwarding companies' services.



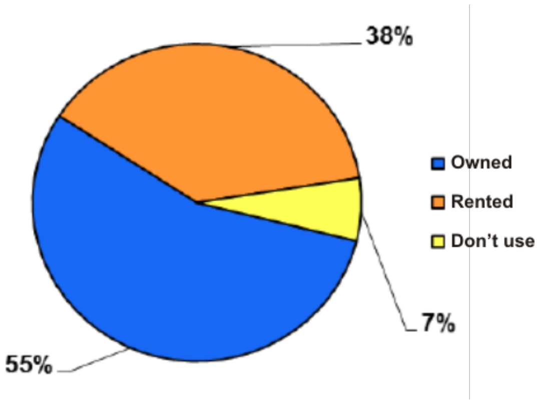
When asked whether satisfied with the services provided by transport and freight forwarding companies, 46% responded negatively and 54% were happy with the level of services.



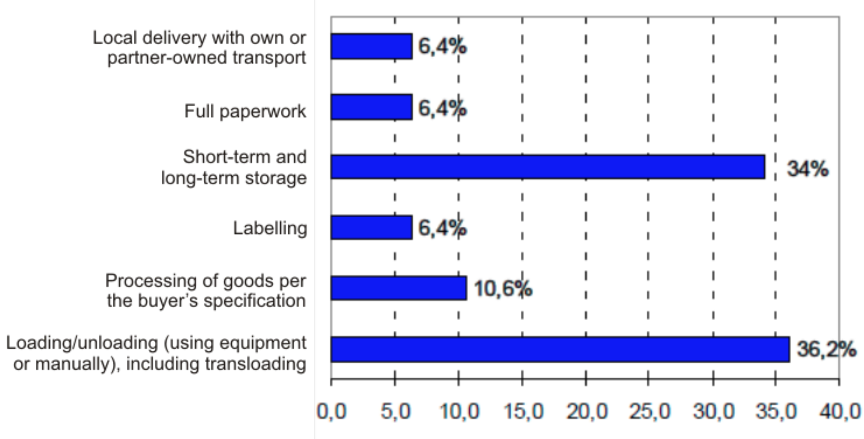
The following are the main reasons for dissatisfaction of customers with the services provided by transportation and freight forwarding companies:



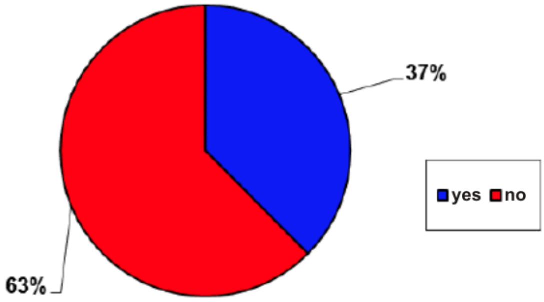
Each company faces challenges related to warehousing their products since 55% respondents do not own warehouses, 38% rent them but it should be noted that there were some that, while owning their own warehouses, are forced to rent them. This has to do with the seasonal nature of products, such is the case for producers of juices, beverages, etc. that need to rent additional warehouses in summer. However, 7% of respondents do not use warehouses for temporary storage at all since they follow a just-in-time system of shipment of products to consumers.



The survey has shown that warehousing facilities mostly provide storage services (34%) and loading/unloading services (36.2%). Only 10% can provided tailored services per client's specification. The level of services involving documentation, provision of transport and labelling is quite low.



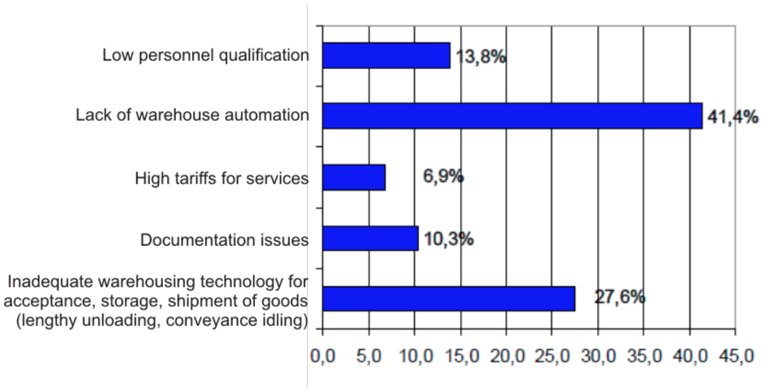
When asked whether satisfied with the level of services provided by warehousing facilities, 62% of respondents answered negatively and only 38% said that they were satisfied with the level of services.



Lack of automation in the warehouse operations was cited as the main reason for unsatisfactory performance of warehousing facilities (41%) because it affects the time needed for handling, collecting goods, timely delivery of goods.

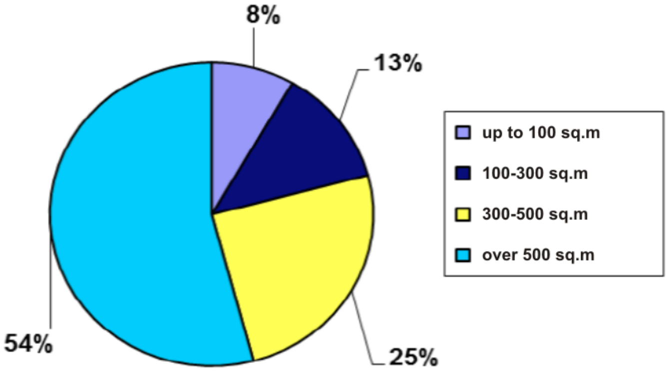
Second reason quoted was inadequate warehousing technology (28%) with regard to acceptance, storage, shipment of goods which results in different consequences including lengthy unloading, transport idling, lengthy time to put the goods in the warehouse, etc.

Respondents would also like to see improvements in documentation (10%), flexible tariffs (7%) charged for the services.

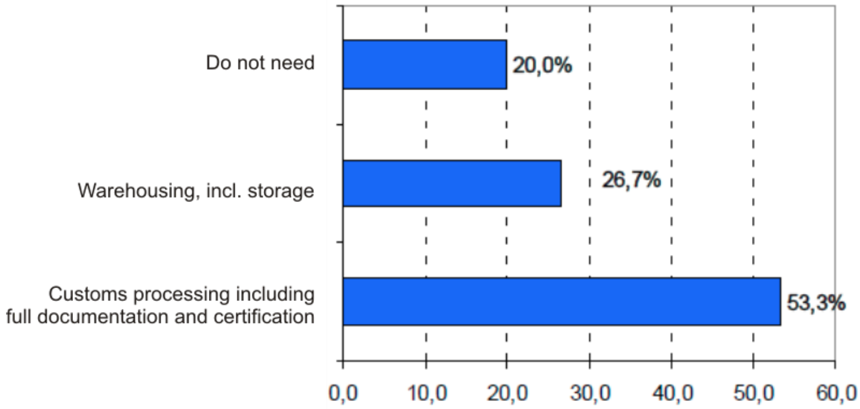


As noted before, many respondents own their own warehouses, e.g. 54% own warehouses with floor area of over 500 sq.m, 25% have 300-500 sq.m, 13% own 100 to 300 sq.m. warehouses and 8% - up to 100 sq.m.

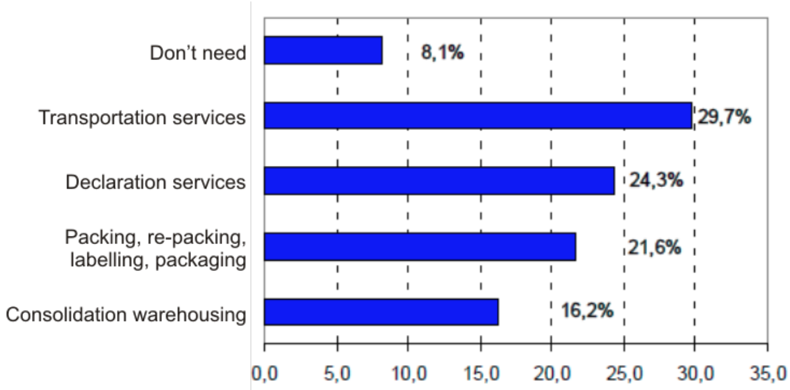
This shows that majority of respondents are facing challenges related to operation of warehousing facilities.



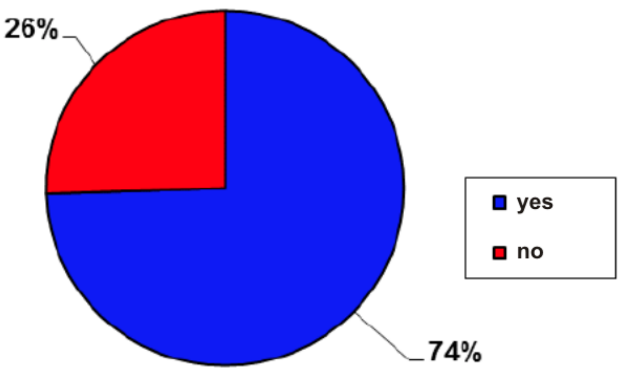
53% of trading and manufacturing companies noted that they would like transportation and freight forwarding companies to offer additional services of customs processing of freight including obtaining all permits and certificates for export or import of goods which would save the exporters and importers time and resources. One would not need to use services of third parties, customs brokers and hire dedicated staff members for these purposes. 27% of respondents would want warehousing services to be packaged in the offerings of transportation and freight forwarding companies. And only 20% of respondents noted that they don't need additional services from transportation and freight forwarding businesses.



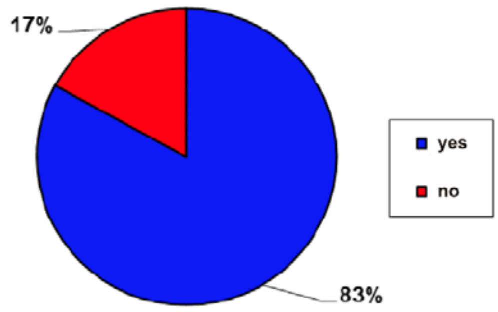
When asked about additional services they would want from warehousing operators 30% of respondents stated that they would welcome provision of transport, declaration services (24%), packing, repacking, labelling and packaging of goods per client specifications (22%), provision of consolidation warehouses (16%).



The survey has shown that 74% respondents had a logistics specialist on staff – mostly in larger companies. And 26% of respondents, mainly small and medium businesses, cannot afford such specialists due to financial constraints.

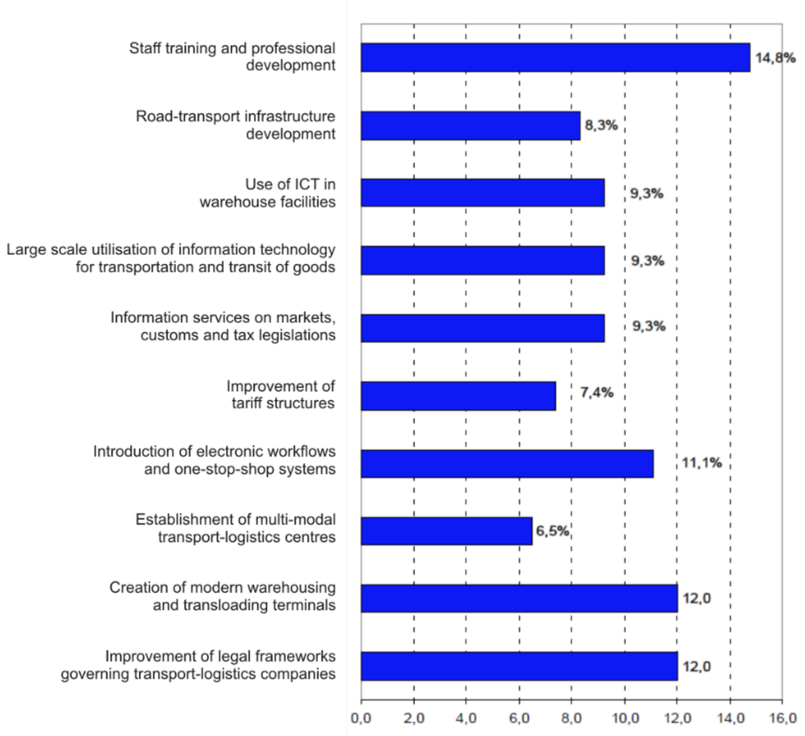


The question about opportunities for training and professional development of staff in the field of logistics yielded positive interest in 83% respondents, and 17% of those that do not have logistics specialists on staff said that they are not interested in training.



Development of proposals on improvement of logistics in Uzbekistan was one of the most important objectives of the study. A number of most important suggestions was collected that have been summarized and presented below in the following order:

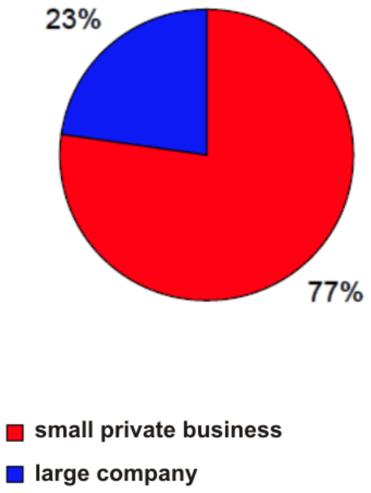
- proposals concerning training and professional development of personnel were the most popular (15%);
- improvement of legal frameworks for transport and logistics companies and establishment of modern warehousing facilities and trans-loading terminals were second in popularity with 12% each;
- 11% would welcome introduction of electronic documentation and one stop shop systems;
- suggestions related to information technologies have yielded 9% each as follows:
  - information services on markets, customs and tax legislations;
  - large scale application of information technologies in transportation and transit of goods;
  - use of information technologies in warehousing facilities
- the need to develop road and transport infrastructure was a popular suggestion (8%);
- 7% voted for improvements in transit infrastructure;
- 6% called for establishment of multi-modal transport and logistics centres.



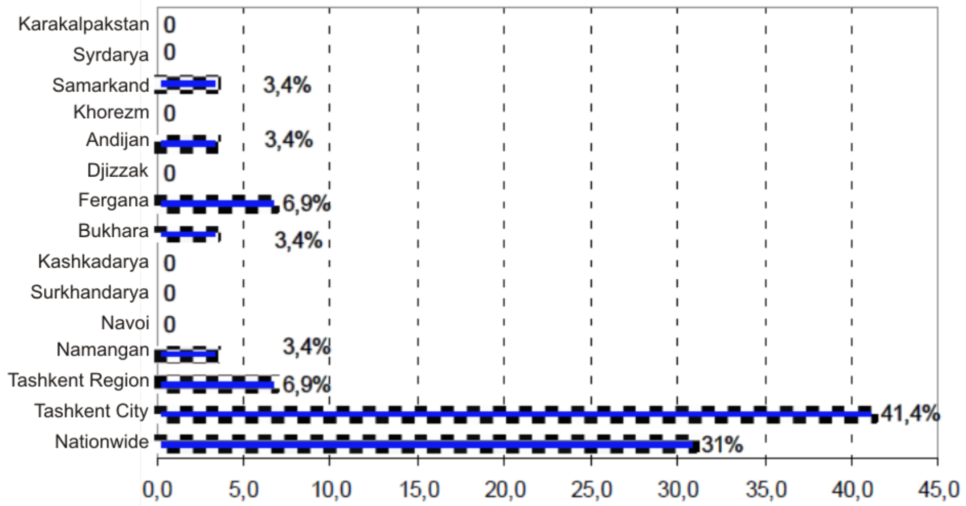
II. Category 2 – transport and freight forwarding companies

Businesses engaged in transportation and logistics services were offered 13 questions to answer.

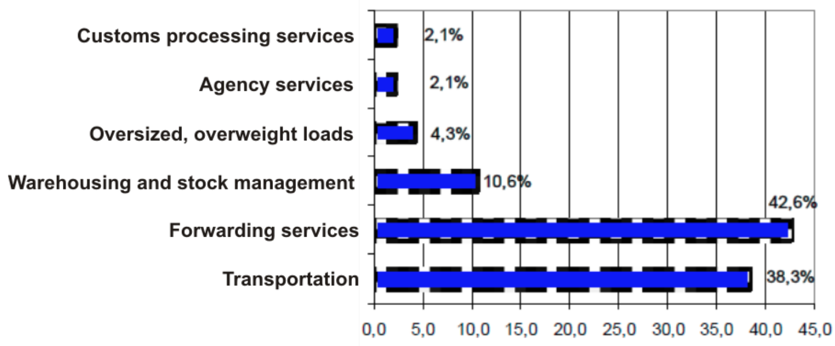
Of the transport and transport-logistics companies surveyed, 77% represented small and private businesses and 23% were representing larger businesses.



Geographically, 41% of respondents were from Tashkent city, and 31% of companies stated they operate in all regions of the country; the respondents included companies active in Fergana (7%), Namangan, Andijan, Bukhara and Samarkand regions (3.4% each).

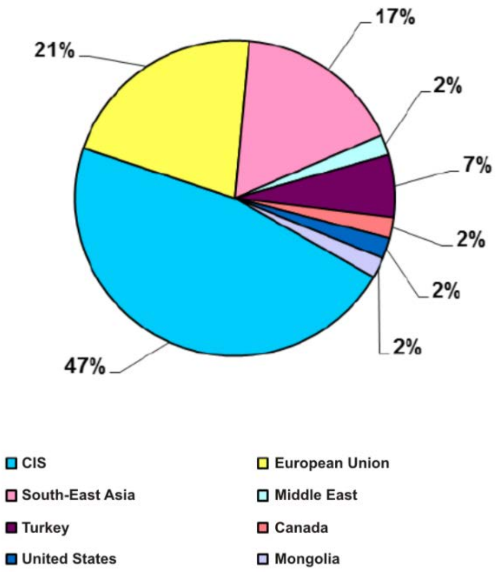


Of these, 43% engage in freight forwarding, 38% only provide transportation service, 11% include warehousing and stock management, and some provide agency and customs processing services (2% each).



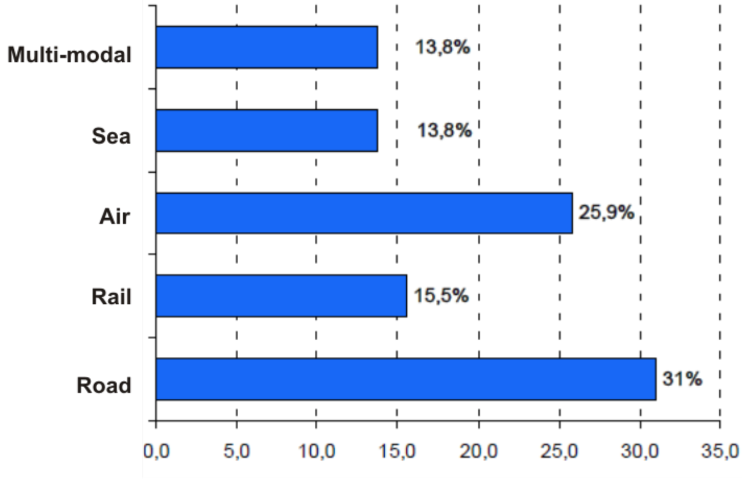
Companies also offer various services in demand in the logistics market such as pilot projects.

Freight transportation remain as the most important link in the logistics chain today, and timely delivery is one of the criteria of excellence of the transport-logistics system. The geography of freight transportation is quite wide. Thus, the survey has shown that 47% of respondents ship mainly to the CIS countries, particularly Russian Federation, Kazakhstan, Belarus, etc., 21% provide transportation to European Union's member states, 17% - to China and South-East Asia, 7% - to Turkey.



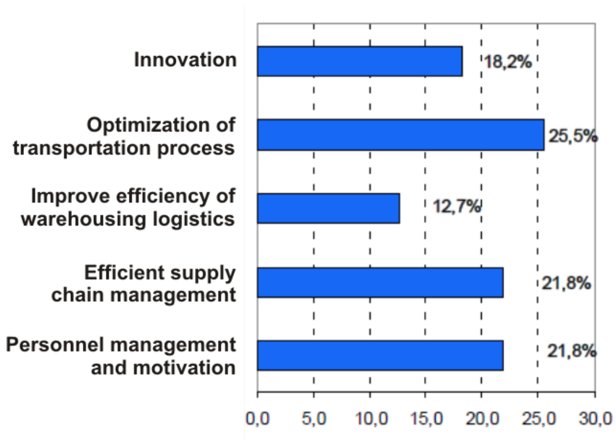
Other countries quoted by the respondents as destinations for freight included Middle Eastern countries, Mongolia, USA, Canada – 2% each.

Means of transportation used include road transport (31%), railways (26%), air freight (16%), sea (13%) and mixed modes (14%).



All 100% of respondents did agree and believe that the use of innovative solutions and technologies in logistics is important and is reflected in the cost of products thus serving as a defining factor in increasing the competitiveness of goods.

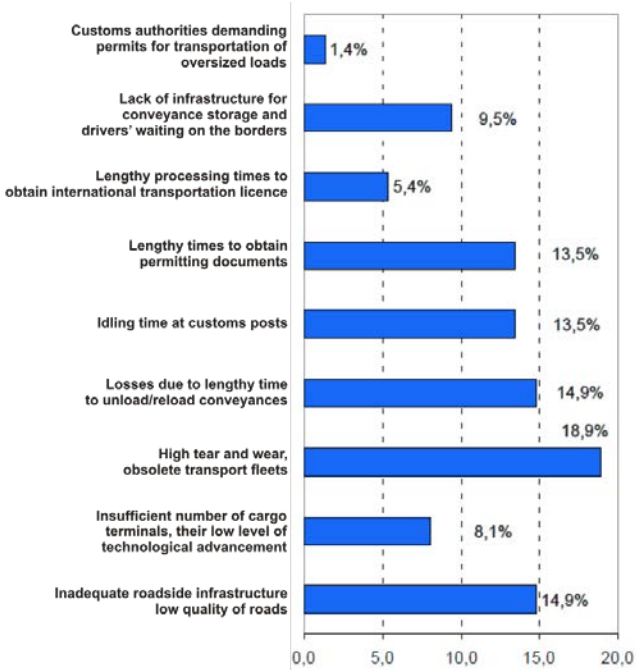
Moreover, 25% of respondents stated that efficiency of logistical processes depends on how optimised freight transportation is, 18% quoted level of innovation; efficient supply chain management, personnel management and motivation yielded 22% each, with 13% indicating efficiency of warehouse logistics. All these factors can be considered an integrated element of supply chain, and each method is somehow interdependent on others and we therefore believe that the respondents have thus suggested and prioritised the ways of optimising the freight transportation process.



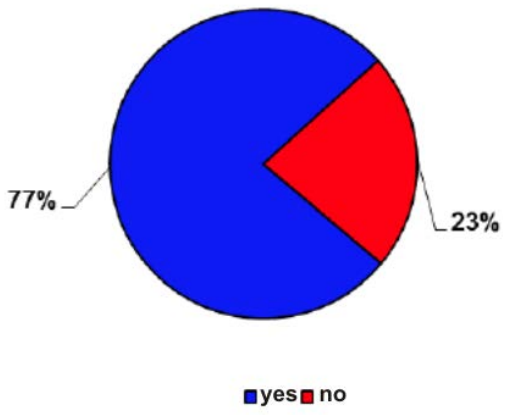
At the same time, responded were requested to indicate the most acute challenges, problems in the sector. The responses related to freight transportation were as follows:

- 19% indicated high level of wear and tear of rolling. Of course, this mostly applies to railway transportation;
- Also, 15% mentioned low level of roadside infrastructure, low quality of automotive roads;
- At the same time, about the same number of respondents pointed at losses arising from conveyances idling while waiting for loading and unloading;
- Lengthy time required to obtain permits and delays at customs posts were quoted by 13% respondents;
- Almost 10% of respondents indicated the lack of infrastructure for conveyance storage and driver waiting areas at the border;
- Insufficient number of cargo terminals and low level of their technical advancements was mentioned by 8% respondents.

These issues facing the carriers in their day to day practice are all of systemic nature thus requiring comprehensive and systemic approaches to resolution.

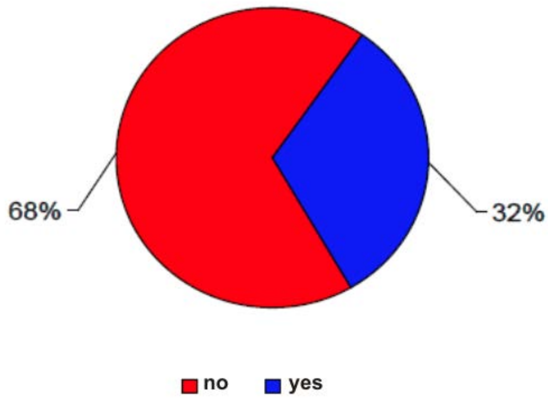


A system to monitor conveyances and escorting of freight was an important thing welcomed by 77% respondents which shows the consumer's increasing interest to logistical services.



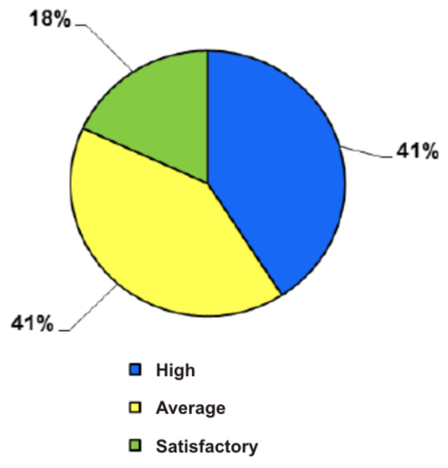
By asking the previous question we have ascertained that the interest to the use of information technology by logistics expert in their work is high, and an additional question was asked to find out the opinions on the use by organisation of software for systemizing and automating provision of transport and forwarding services.

However, we were surprised to find out that 70% of respondents did not use such software. And this clearly is an omission on their side because it is proven that such software substantially increases efficiency and productivity of organisations.

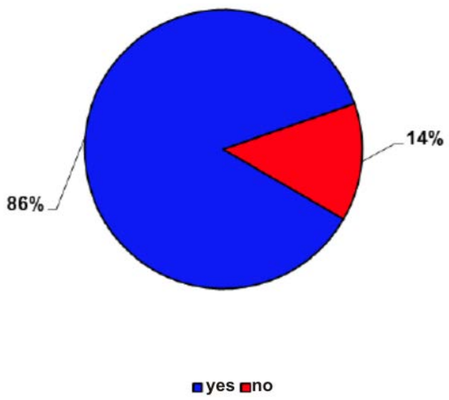


On the other side, however, we concluded that there are many software products in the market that are not compatible with each other, and their utilisation by logistics experts is often complicated. This, in turn, leads to additional financial costs. Therefore, there is a need to develop a domestic software products tailored to the needs and requirements of national users or to adapt existing software products to our needs.

Next objective was to establish the level of human resource capacity in the respondent organisations. Being a self-criticizing question, it was difficult to answer, and not every respondent would be able to honestly answer, however, 41% of respondent believe that the staff capacities are either high or average, and only 18% believe that it is at a satisfactory level.

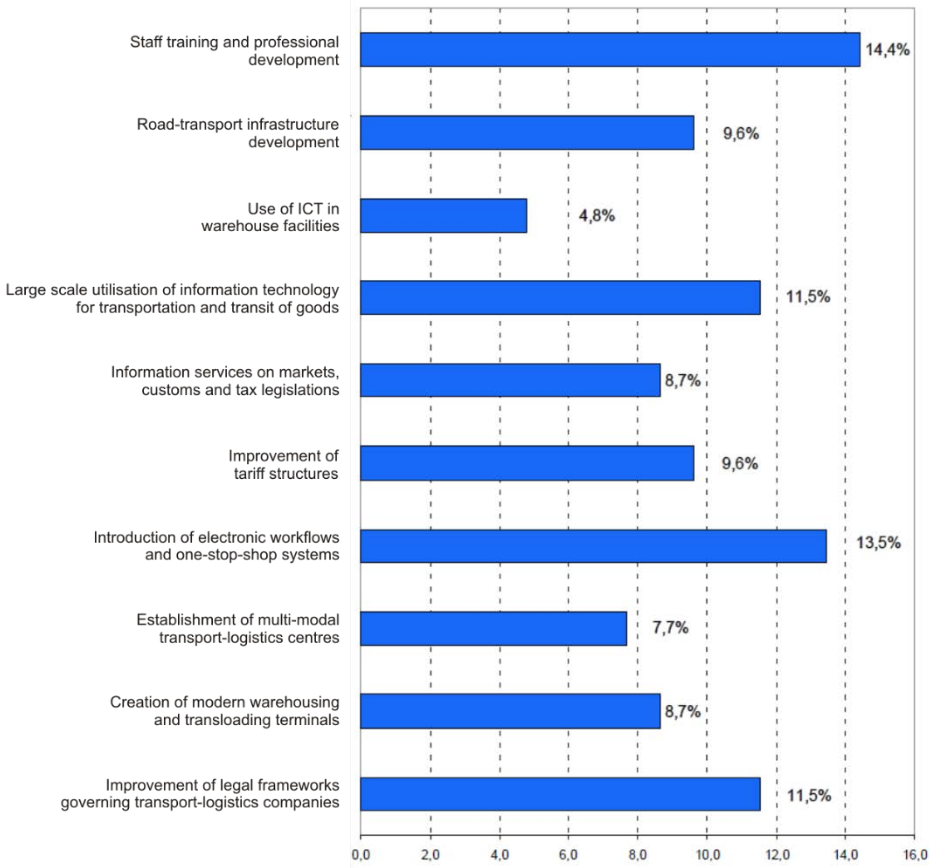


Given the high level of staff capacity in respondent organisations, 86%, however, were interested in training and professional development of their logistics experts. And only 14% believe it is not necessary.



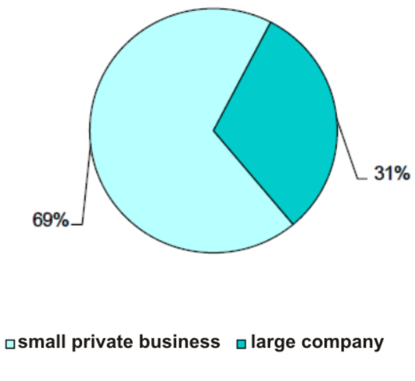
Finally, respondents from transport and logistics companies were asked to answer a question as to what needs to be done to ensure further development and improvement in logistics. As a result:

- over 14% voted personnel training and professional development, leading us to a conclusion that "cadres are all-important";
- 13% respondents call for electronic documentation and one stop shop services;
- large scale implementation of information technologies in transportation and transit; and improvement of legal frameworks for transport and logistics companies scored 11% each;
- about 10% ask for improved transit infrastructure;
- about 10% for development of road transport infrastructure;
- about 9% requested information services on markets, customs and tax legislations;
- 8% cited creation of modern warehousing facilities and transloading terminals;
- 7% were for development of multi-modal transport-logistics centres;
- about 5% mentioned application of information technologies in warehousing facilities.

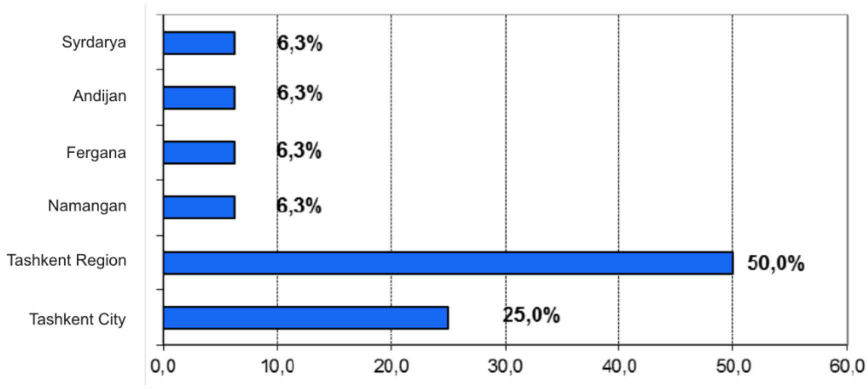


III. Category 3 – operators of warehouse facilities

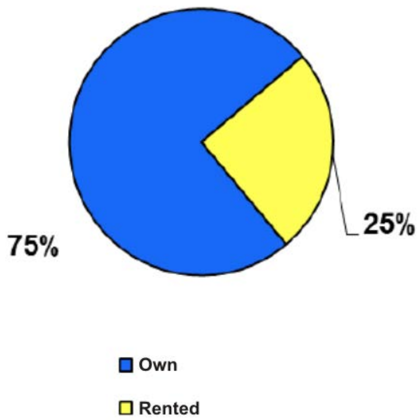
A number of warehouse facility operators was also surveyed by the project. They were requested to answer 13 question. Participants of the survey included 16 companies, with 69% representing small and medium businesses and 31% being larger companies.



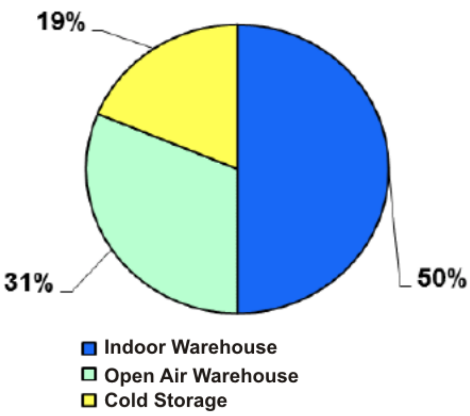
Of these, majority operated in Tashkent region (50%), followed by the city of Tashkent (25%), Syrdarya, Andijan, Fergana and Namangan regions (6.3% each).



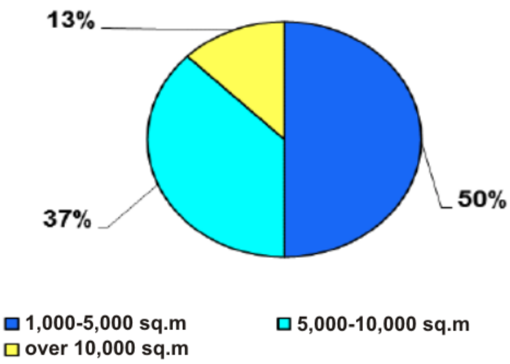
75% respondents own their warehouses and 25% rented them.



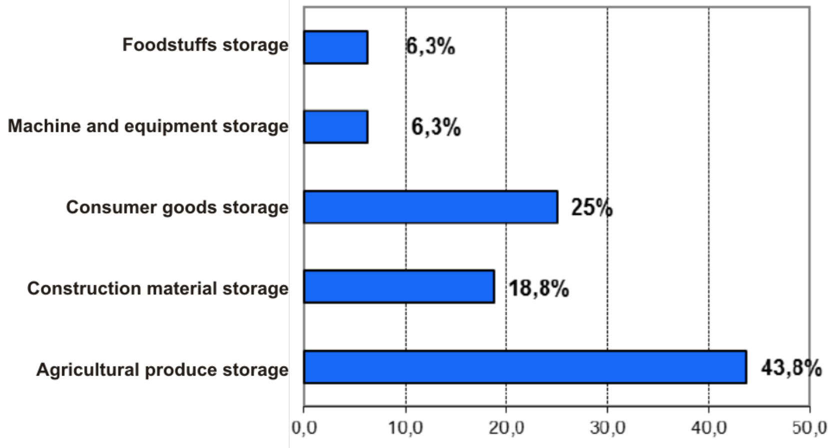
Distribution by type of facility was as follows: 50% respondents operated indoor warehouses, 31% - open air warehouses and 19% owned refrigerated storage.



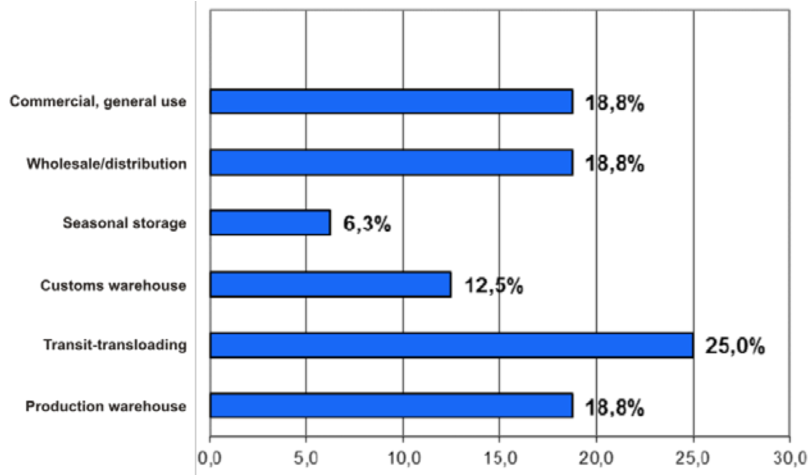
49% respondents indicated that the total area of their warehouses is 1,000 to 5,000 sq.m, for 38% it was 5,000 to 10,000 sq.m and for 13% - over 10,000 sq.m.



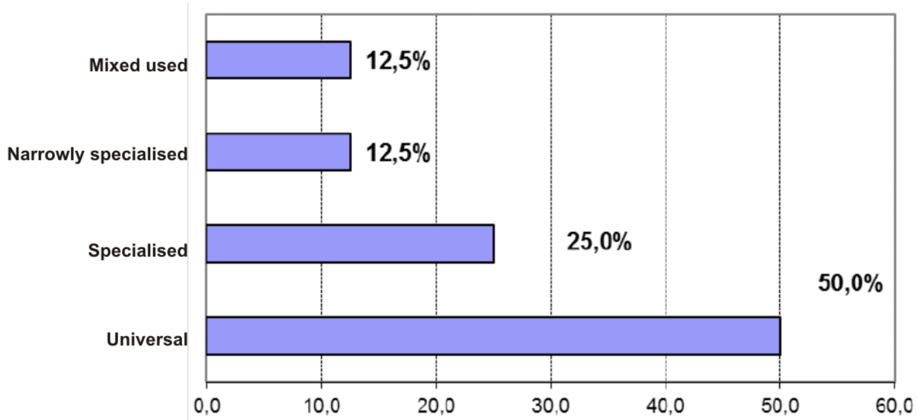
Distribution by type of products stored featured warehousing facilities for agricultural products (44%), with 25% being intended for consumer goods, 19% for construction materials; foodstuffs, machinery and equipment storage warehouses contributed 6.3% each.



By types of operations, 25% were wholesale and distribution facilities; transit-transloading, commercial general use and production warehouses had 19% share each, 12.5% - customs warehouses, and 6.3% were used for seasonal storage.

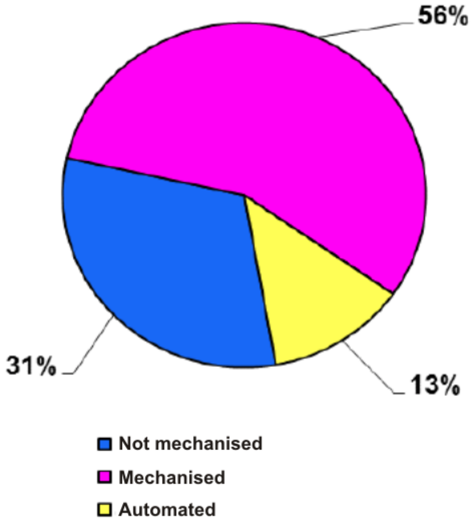


Distribution by specialisation: 50% indicated that they operated universal warehouses able to accept different types of goods; 25% - specialised, i.e. warehouses tailored for specific types of goods; and mixed use and narrowly specialised warehouses contributed 12.5% each.

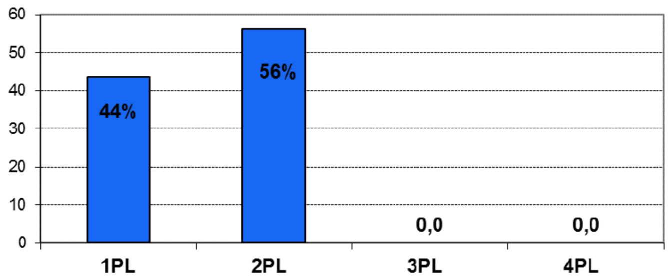


A dedicated question was asked about the level of automation in warehousing facilities. This was an important question, and the responses have shown that 56% warehouses were mechanised, 31% non-mechanised, i.e. predominantly used manual labour. And only a small number of warehouses

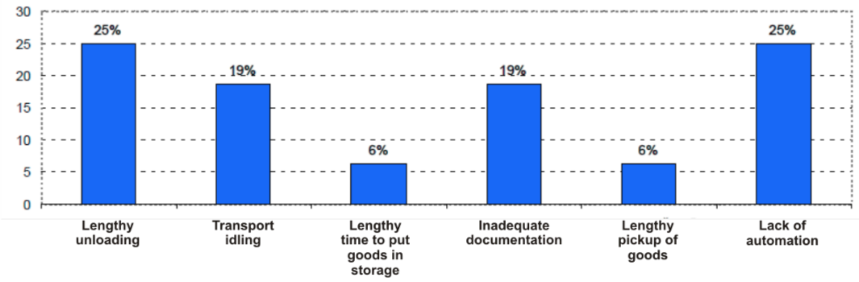
(13%) is automated. It should be noted that it is unknown whether the level of automation in these warehouses corresponds to generally accepted warehouse automation standards.



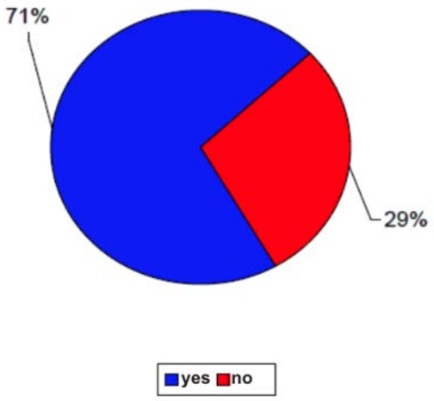
Given that there only 4 types of logistics services operators in the market, it was interesting to find out how operators position themselves in the market. As the diagram below shows, the result was that 56% respondents classified themselves as 2PL businesses, and 44% - as 1PL companies. And there are no 3PL and 4PL operators which indicates of a huge growth potential of this market since the market is going to demand availability of better services.



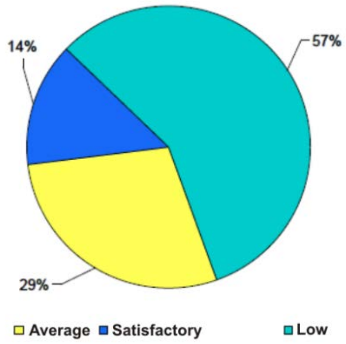
The survey had also looked into main challenges that warehouses are facing. Lengthy unloading and lack of automation was quoted by 25% respondents each, total conveyance idling and inadequate documentation was mentioned by 19% respondents each, followed by lengthy time to put goods and draw goods from warehouses mentioned by 6% respondents respectively.



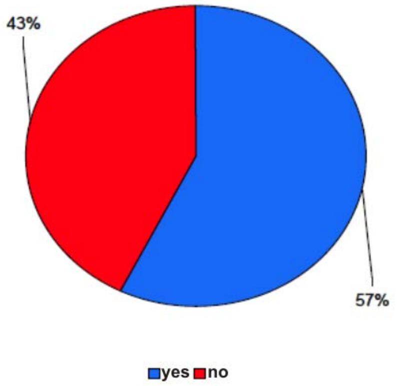
When asked about prospects of further expansion of warehousing floors, 71% responded positively and 29% said they were not interested.



Since level of automation was mentioned by respondents several times, a dedicated question was formulated to this regard. 57% respondents indicated a low level of automation, 29% believed it was satisfactory, and 14% said it was average.



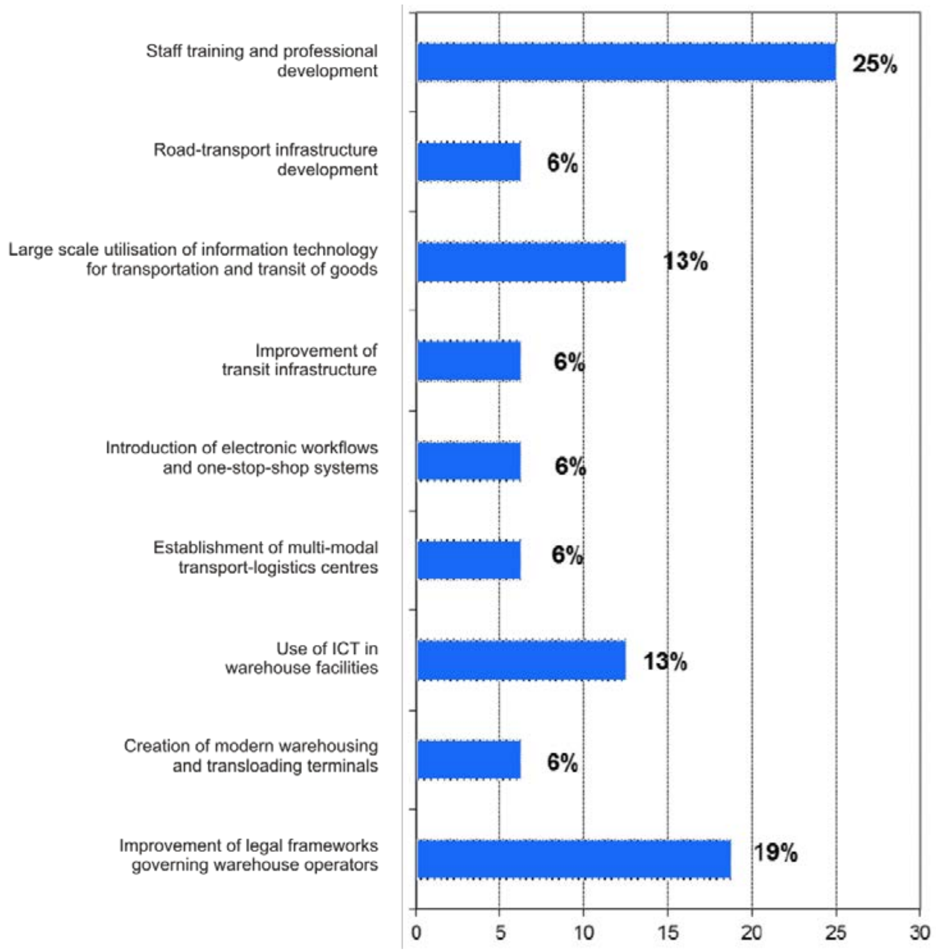
Moreover, the survey showed that 57% respondents have logistics specialists on staff and 43% did not.



Meanwhile, 100% would like to have their staff trained in logistics.

Several proposals aimed at further development of warehousing services were formulated and offered to the respondents who were invited to prioritise them.

As a result, 25% supported the need to train and develop personnel; 19% - to improve legal frameworks for warehouse operators, since a dynamically developing warehousing services market requires an improved legislation; the survey has shown that this market is far from perfection, needs further investments, international expertise and such initiatives would not be possible without improved legal frameworks; use of information technology in warehousing facilities and application of such technologies in freight transportation and transit were mentioned by 13% respondents each; proposals concerning introduction of electronic documentation flows and one stop shop services, creation of modern warehousing facilities and transloading terminals, creation of multi-modal transport and logistics centres, improving transit infrastructure and development of road and transport infrastructure were supported by 6% respondents each.



CONCLUSIONS AND SUGGESTIONS

Thus, based on the outcomes of the survey conducted, the following actions are proposed for joint implementation in the transport and logistics sector in order to realize full potential of Uzbekistan transport and logistics systems, substantially improve their efficiency and create safe supply chains for goods and products:

- training and professional development of staff, development and practical implementation of new policies in education, including introduction of various training formats and curricula as well as investment into specialised targeted human resource development programmes aimed at increasing the level of professionalism and competency of personnel;
- improvement of legal frameworks governing the operations of participants in the logistics market in order to attract investments, create joint ventures that will bring in international expertise, modern technologies into the country;
- development of a State Strategy for development of optimised transport, transit and road-transport infrastructure, creation of multi-modal transport corridors, networks of terminals and international transport/logistics centres and modern warehousing facilities ensuring technological

interaction between all modes of transport as part of integrated organisation and implementation of transportation services;

- large scale introduction of information technologies in logistics in the operations of transport, freight forwarding companies engaged in freight transportation and transit, in warehouse operations, introduction of electronic documentation and one stop shop services, and creation of global management information system for all means of transportation;
- optimisation of operations of transport, logistics companies, warehouse facility operators with a view to upgrade the level of services offered, develop competitive environment;
- improvement of customs administration and acceleration of customs procedures;
- simplification of documentation used in international and domestic transportation of cargoes.