

**OPERATING COSTS DIFFERENTIATION AMONG THE HAULAGE
COMPANIES: IN THE CASE OF SOUTHERN REGION**

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OPERATING COSTS DIFFERENTIATION AMONG THE HAULAGE COMPANIES: IN THE CASE OF SOUTHERN REGION

ABSTRACT

Malaysia container haulage was introduced in 1971, the number of player has been increased from time to time. This study is basically to determine the difference of the operating costs among the players in Southern Region, which related to costs element i.e. Fuel, maintenance, salary, tax, staff training and licensing. Since the haulage companies are operated with difference sizes of truck therefore the players have been divided into three categories i.e. Big Operators with > 50 units Prime Mover, Medium Operators with < 50 units Prime Mover and Small Operators with < 20 units Prime Mover. The findings of the research show that there is a difference of operating costs between the three types of haulage operators. Fuel being spending against total annual operating costs for both big and small operators is 30% whilst for medium is 35%, which it shows 5% higher. Maintenance costs for both big and medium operators have a same degree of 30% each whilst small operators incurred 25% which 5% lower compared to the big and medium operators. Salary costs had revealed that big and small operators are spending 25% which 5% higher compared to medium operators. Tax, licensing and training costs are showing 5% for those three players except licensing for small players showing a 5% higher if compared to both big and medium operators. The costs proportion showing that the major operating costs are apparently spending in fuel and maintenance, followed by the salary, licensing, tax and staff training. As to sustain the viability of this industry, the haulage companies have to consider other alternative of fuel e.g. using NGV or Bio-Diesel, outsourcing the repair maintenance works, review the existing strategy and policy and last but not least using high end technology for integrated planning and tracking systems even though it is costly but in the long term run it will be benefited to them. Ultimately the findings of the study will be guided decisions for estimating the magnitude of each operating cost among the operators.

PERBEZAAN KOS OPERASI DI ANTARA SYARIKAT-SYARIKAT PENGANGKUTAN KONTENA: DI SELATAN TANAH AIR, JOHOR

ABSTRAK

Pengangkutan Kontena telah dimulakan di Malaysia pada tahun 1971, jumlah syarikat pengangkutan kontena telah bertambah dari semasa ke semasa. Kajian ini dibuat bagi mengenal pasti apakah perbezaan kos operasi yang berlaku di antara satu syarikat kontena kepada syarikat kontena yang lain khususnya di selatan tanah air, yang mana elemen kos yang berkaitan adalah seperti kos minyak, baik pulih, gaji, latihan, cukai dan perlesenan. Syarikat pengangkutan kontena beroperasi dengan jumlah saiz yang berbeza-beza untuk itu syarikat tersebut telah dibahagikan kepada tiga kategori. Operator Besar beroperasi > 50 yunit penggerak utama, Operator Sederhana beroperasi < 50 yunit penggerak utama dan operator kecil beroperasi < 20 yunit penggerak utama. Kajian mendapati adanya perbezaan kos operasi di antara ketiga tiga jenis syarikat tersebut. Kos minyak menunjukkan persamaan jumlah 30% yang dibelanjakan oleh kedua dua syarikat besar dan kecil yang mana 5% lebih rendah jika di bandingkan dengan syarikat yang sederhana saiznya. Kos baik pulih memaparkan kedua dua syarikat besar dan sederhana membelanjakan jumlah yang sama iaitu sebanyak 30% dari jumlah kos tahunan mereka sementara syarikat kecil pula membelanjakan hanya 25% iaitu 5% lebih rendah. Untuk gaji kakitangan pula syarikat besar dan kecil telah membelanjakan 25% dari jumlah kos tahunannya. Yaitu 5% lebih tinggi dari syarikat yang sederhana. Cukai, perlesenan dan latihan menunjukkan kos yang sama bagi ketiga tiga syarikat kecuali untuk perlesenan untuk syarikat kecil yang membelanjakan 5% lebih tinggi. Pecahan kos menunjukkan kos yang besar melibatkan kos yang berkaitan dengan minyak, baik pulih kenderaan dan diikuti oleh kos gaji dan disusuli oleh kos perlesenan, cukai dan latihan. Bagi mengekalkan daya saing didalam industri tersebut, syarikat pengangkutan kontena perlu menimbangkan menggunakan sumber lain selain minyak. Di antaranya ; menggunakan NGV atau Bio-Diesel, menswastakan baik pulih kenderaan kepada orang ketiga, melihat semula strategi dan polisi sedia ada supaya lebih berdaya saing dan akhir sekali tapi tidak kurang pentingnya iaitu menggunakan sistem berteknologi canggih IT untuk perancangan yang lebih menyeluruh dan sistem pengesan perjalanan kenderaan, walaupun ianyanya mahal tetapi dalam jangkamasa panjang sistem tersebut sangat berfaedah kepada mereka. Akhirnya dari hasil kajian yang

diperolehi ianya mungkin boleh digunakan sebagai panduan bagi mengangarkan kos operasi di antara operator pengangkutan kontena tersebut.

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CHAPTER 1

INTRODUCTION

1.1 Background

The transport industry in Malaysia, comprising of land, sea, air and pipelines has gone through numerous changes especially in the 1990s in terms of infrastructure facilities, operators, equipment, manpower and operating systems. The main contributors to the development of the local transport industry beside the industrialization and international trade are the operational cost (Mc Mullen, 1987). This key factor is a complementary in nature and created the necessary growth of our existing transport and logistics services.

Operating costs is the amount spent for the running of company's vehicle fleet. It can include a range of functions, such as vehicle financing, vehicle maintenance, vehicle telematics (tracking and diagnostics) (Barnes and Langworthy, 2003).

Fleet Management is a function which allows companies which rely on transportation in their business to remove or minimize the risks associated with vehicle investment, improving efficiency, productivity and reducing their overall transportation costs, providing 100% compliance with government legislation (duty of care) and many more (Winston *et al.*, 1988).” These functions can be dealt with by either an in-house fleet-management department or an outsourced fleet-management provider. Currently the number of fleet on the seems to be increased from time to time because of the logistics industry become one of the important elements in today business scenario. In the transportation industry, your revenue is directly correlated with the amount of sound equipment available to move freight at any one time. This seems pretty straight forward; keep as much equipment as possible, fully operational. However, to do this efficiently and cost effectively is the real challenge. At any given time, an organization's equipment can be spread across the country or across the globe. Breakdowns and damage can occur anywhere, any time during the shipping process. Different vendors and surveyors are required with the added challenge of accuracy and accountability. Fleet managers worldwide need a powerful set of tools that enables them to control the entire maintenance and repair process quickly and easily with complete transparency across all phases.

1.2 Malaysian Economy

The Malaysian economy in the 1950s and 1960s was agro-based, dominated by rubber, palm oil, pepper and timber. In 1970, the agricultural sector contributed 30.9% to the GDP compared to only 14.8% from manufacturing. The growth in manufacturing sector began in the sixties and accelerated with introduction of the Investment Incentives Act, 1968 and promotion of the free trade zones (FTZ) in 1971. These incentives managed to attract many multinational corporations (MNC) to establish export oriented operations supported by competitive wage, good infrastructure facilities and economically and politically stable environment.

In the early 1980s, the Government took several measures to develop selected heavy industries such as iron and steel, petrochemicals, cement and automobile with the objective of strengthening the industrial base and further develop our capabilities in manufacturing sector. As a result, the manufacturing sector's share in GDP rose to 33.1% in 1995. The policy framework laid by the Industrial Master Plan (IMP) and the subsequent liberation and deregulation of the economy after the recession in mid 1980s, provided the foundation for rapid growth of manufacturing sector. It became the lead sector in 1987 when its' share of GDP rose to 22.6%, surpassing agricultural sector's share of 21.7%. In 2003, it has stabilized around 30% and estimated to stay between 30 to 31 percent for 2004 (Bank Negara Malaysia, 2003). It is difficult to foresee a far greater share of the economy, coming from manufacturing.

Based on the economic structure of developed countries, the next phase of economic expansion has to come from the service sector that includes transportation and logistics. Between 1990 and 2000, world services output was reported to have grown by 2.9% and the share of services in world GDP expanded from 57% to 64% over the decade (World Bank, 2001). In the case of Malaysia, the services sector expanded to 57% of GDP in 2002 (Ministry of Finance, 2003). With the progressive realization of ASEAN Free Trade Area (AFTA), economic integration in Southeast

Asia and in the broader East Asia Region is making headway. Companies have started establishing their manufacturing facilities in one or several ASEAN countries and developing their distribution channels throughout ASEAN.

As a result, they require increasingly complex cross border supply chain management capabilities i.e. financially strong and capable third party logistics (3PL) providers. Moreover, “a new set of international trading disciplines for services under the General Agreement on Trade in Services (GATS) and the World Trade Organization (WTO) would make ASEAN, in general, and Malaysia, specifically, a target for investments as well as an export market for multinational and global providers of services, including logistics services. These global providers are highly competitive. On the other hand, Malaysian services industries have not been brilliant as exporters due to capacity constraints, technological backwardness and insufficient capitalization” (Sieh Lee, 2003).

The Government is aware of these increasing demands, competition and problems faced by the logistics industry and have put in place the necessary infrastructure and incentives to stimulate greater private sector initiatives to spearhead the logistics industry. For example, apart from improving the basic logistics infrastructure such as roads, highways, seaports and airports, the government initiated the multimodal transport operator (MTO) status with the view of creating Malaysian 3PL providers. Additionally, it provides tax incentives with a view of creating a more business-friendly environment as well as facilitating the private sector to reduce their cost of doing business. After the 1997 financial crisis, the economy has fully recovered to achieve sustainable growth. GDP grew at an annual average rate of 5.4% during the period. Despite the less than favourable external environment, growth is estimated at 5% for 2005. Economic growth was achieved in an environment of stronger balance of payments and manageable inflation as well as full employment. Global economic prospects are expected to be more challenging, following persistent sharp increases in oil

prices and the less accommodative monetary stance of developed countries, particularly in the US. Given the context of the globalization of services and growing competition in the logistics sector, this thesis aims to study the progress of haulage players in Southern Region and analyze its strategies in term of cost optimization and their ability to compete, taking into account the above-mentioned scenario.

1.3 Container Haulage in Malaysia

The container haulage was introduced in 1971. In its Second Malaysia Plan (2MP), the government proposed the formation of a National Haulage Company to meet the inland transport requirements. Thus, Kontena Nasional Berhad was established in August 1971. As demand increased with industrialization, additional haulage companies were approved, as per Table 1.1.

Table 1.1 : The 5 Major Container Haulage Providers

| Year Licensed | Provider/Licensee |
|----------------------|----------------------------|
| 1971 | Kontena Nasional Berhad |
| 1981 | Diperdana Holdings Berhad |
| 1983 | Konsortium Logistik Berhad |
| 1991 | MISC Haulage Sdn Bhd |
| 1991 | Multimodal Freight Sdn Bhd |

Source: Container Haulage Association of Malaysia (CHAM), 2003

The industry is capital intensive with a complex transportation chain that involves several parties namely shipper, consignor, consignee, port operator,

custom department, 42 warehouse operator and others. Conservatively, the 5 hauliers spent at least RM3 billion by the year 1999 on prime movers, trailers, land, buildings, equipments, depots and containers monitoring systems (CHAM, in press). Due to the continuing bottleneck crisis at the ports throughout Peninsular Malaysia up to the year 2000 that resulted in customers paying extra port charges and demurrage for their containers, the Government decided to deregulate the haulage industry and give more licenses to new players.

Table 1.2 shows the increase in the number of licenses issued throughout the years and Table 1.3 lists the increase in the number of permits issued for prime movers and trailers.

Table 1.2 : Number of Licensed Container Haulage Companies

| | 2000 | 2001 | % Increase | 2002 | % Increase | 2 yr % Increase |
|-----------|------|------|---------------|------|---------------|--------------------|
| Licensees | 5 | 52 | 940 | 68 | 31 | 1,260 |

Source: CHAM, 2003

Table 1.3 : Number of Permits issued for Prime Mover and Trailers

| Year | Prime Mover | % Increase Year to year | Trailers | % Increase Year to year |
|------|-------------|----------------------------|----------|----------------------------|
| 2000 | 2587 | - | 12,715 | - |
| 2001 | 3509 | 36 | 19,684 | 55 |
| 2002 | 3826 | 9 | 22,225 | 13 |

Source : CHAM, 2003

During the same period when the number of trailers supplied grew at a tremendous rate, the total increase in container hauled was only 15.1% (Table 1.4). Consequently, the market became overcrowded with high level of competition that led to providers resorting to price-cutting and offering extended credit period to customers. These conditions have created financial pressure on the companies and reduce their ability to reinvest in capital equipment and technology in order to maintain their service standards.

Table 1.4 : Total Containers Hauled (in TEUs)

| Location | 2000 | 2001 | % Increase | 2002 | % Increase | 2 yr % Increase |
|-----------------|-----------|-----------|------------|-----------|------------|-----------------|
| Klang | 1,420,635 | 1,435,873 | 1.1 | 1,638,322 | 14.1 | 15.3 |
| Penang | 472,685 | 454,207 | -3.9 | 493,032 | 8.5 | 4.3 |
| Pasir Gudang | 450,164 | 416,512 | -7.5 | 478,673 | 14.9 | 6.3 |
| Tanjung Pelepas | 10,887 | 58,945 | 441.4 | 100,622 | 70.7 | 824.20 |
| Total | 2,364,371 | 2,365,537 | 0.5 | 2,710,649 | 14.6 | 15.1 |

Source: Malaysian Port Authorities/CHAM, 2003

CHAM had expressed their concern on these matters, stressing that the hauliers were weak and would not be in a position to compete against additional foreign-based competition, with the opening up of borders within ASEAN upon AFTA implementation. Accordingly, the government has stopped giving new container haulage licenses. Hence, haulage rates were expected to stabilize [rebates of between 20% and 40% have been stopped since January 2004]. Since most of the 3PL providers either own or sub-contract haulage services, stabilized rates would definitely benefit them in terms of lower operational cost which would improve their bottom lines.

1.4 Factor Contributing of Cost Escalating to Haulage Operators

There are many factors which contribute to escalating cost in the haulage industry of Third Party Logistics (3 PL) in this country, for examples;- size of equipments, firm strategy, type of firm, and it also contributed by the fuel price, truck maintenance, salary, tax, staff training, licensing, journey planning and driver behavior (Boyson et al., 1999). Some of the identified contributed factors are:-

a) Size of Equipments

Economies of scale in larger firms would reduce cost so that larger companies would have a lower cost per unit distance. For the case of Southern Region we have divided the haulage operators into three categories, where there are Big (Table 1.5), Medium (Table 1.6) and Small Operators (Table 1.7). Every category has their own revenue and operating costs respectively.

Table 1.5 : Big Operators (Operates > 50 units Prime Mover)

| Company | Total Prime Mover (Unit) |
|-------------------------------------|---------------------------------|
| 1.Agenda Wira Haulage Sdn Bhd | 60 |
| 2.Diperdana Selatan Sdn Bhd | 100 |
| 3.Kontena Nasional Berhad | 80 |
| 4.Perceptive Logistics Sdn Bhd | 90 |
| 5.MISC Integrated Logistics Sdn Bhd | 60 |

Source : Johor Port Berhad, 2008.

Table 1.6: Medium Operators (Operates < 50 units Prime Mover)

| Company | Total Prime Mover (Unit) |
|-----------------------------------|---------------------------------|
| 1.Integrated Haulage Sdn Bhd | 40 |
| 2.Jangkauan Galaksi Sdn Bhd | 50 |
| 3.JP Logistics Sdn Bhd | 50 |
| 4.Multimodal Sdn Bhd | 40 |
| 5.Pelangi Forwarding Sdn Bhd | 30 |
| 6.Tiong Nam Trading & Tpt Sdn Bhd | 30 |
| 7.To Tuan Kwee Sdn Bhd | 30 |
| 8.Xin Hwa Trading & Tpt Sdn Bhd | 30 |
| 9.Yinson Haulage Sdn Bhd | 30 |

Source : Johor Port Berhad, 2008.

Table 1.7 : Small Operators (Operates < 20 units Prime Mover)

| Company | Total Prime Mover (Unit) |
|--|---------------------------------|
| 1.Antara Asia Sdn Bhd | 5 |
| 2.Baiduri Dimensi Sdn Bhd | 15 |
| 3.Barakat Andalus Sdn Bhd | 20 |
| 4.Bersatu Maju Express Sdn Bhd | 10 |
| 5.BJ Rising (M) Sdn Bhd | 10 |
| 6.Blossom Deluxe Sdn Bhd | 20 |
| 7.Delta Haulage Sdn Bhd | 10 |
| 8.Generasi Jitu Sdn Bhd | 10 |
| 9.Hoor Fatt Enterprise Sdn Bhd | 10 |
| 10.HRH Logistics Sdn Bhd | 15 |
| 11.Infinity Haulage Sdn Bhd | 10 |
| 12.Interway Transport Sdn Bhd | 20 |
| 13.JCS Logistics Sdn Bhd | 10 |
| 14.KH Haulage Sdn Bhd | 10 |
| 15.L & R Haulage Sdn Bhd | 20 |
| 16.Mahamiru Ent & Trading Sdn Bhd | 15 |
| 17.MGS Transport Sdn Bhd | 20 |
| 18.Narita Forwarding & Transport Sdn Bhd | 20 |
| 19.Navegacian Shipping Sdn Bhd | 10 |
| 20.Nespalm Logistics Sdn Bhd. | 10 |
| 21.PRO CNC Sdn Bhd | 10 |
| 22.Sarmina Haulage Sdn Bhd | 10 |
| 23.Damai Haulage Sdn Bhd | 10 |

| | |
|---------------------------------|----|
| 24.Tanjung Express Sdn Bhd | 15 |
| 25.Timur Permai Haulage Sdn Bhd | 10 |
| 26.ZLA Tpt & Service Sdn Bhd | 20 |

Source : Johor Port Berhad, 2008.

b) Firm Strategy

Each firm has its own strategy based on management policy, which may lead to differences in operating costs for firms (Coyle *et al.*, 2003). For example; if the company has their International Standard Organization certificate (ISO) definitely they have to put some budget as to establish the requirement in the sense to meet the policy needs.

c) Type of Firm

Owner or Operator indicates the company owns and operates its own trucks. The survey results will indicate a difference in operating cost for owner or operators versus non-owner or operators. Owner or operators have larger cost per kilometer (ATA, 2003). The reason for this may be the absence of economies of scale and that they have fewer trucks over which to distribute their firm's fixed costs.

d) Fuel Price

Soaring diesel fuel costs and slow economy are putting the squeeze on the trucking industry. Diesel prices in the world have surged to record levels, and with crude oil continuing to hit new highs on the global markets, the price for diesel is set to climb further (McGreal, 2007). However despite the difficulties, it could be an opportunity

for the company. The shipping public is getting hurt by the escalating cost of fuel as well as the haulage company. As a haulage company their job is to try to get the best truckload carrier available at the rate that the customer wants to pay. The customers are trying to hold down costs and the carriers costs are going up.

e) Truck Maintenance

Maintenance of fleet is one of the cost elements in trucking industry (Clarke and Wright, 1964). for examples; the cost of repair, spares part, tires, labor fee and the soaring of fuel price has also affected the logistic cost as well such as; sending the spare part and tire from vendor place to customer premises.

f) Salary

In all organization employees salary is a vital element which has direct correlated to their day-to-day cost, people tend to work because of to earn an income. Beside the salary they were some other costs which related to this, for examples; Employee or Employer Provident Fund, Socso, allowances and employee medical bill. These costs will definitely be increased every year.

g) Tax

Another cost that to be considered in each organization is the tax that to be paid to the government as regulated. Even thought the amount paid is based on the company net performance but is still consider

one of the cost contributors toward each organization. A tax rate of 28% is applicable to both resident and non-resident companies (<http://www.lawyerment.com.my/tax/corporate.shtml>).

h) Licensing

Compliance to the government law and regulation is a must to all trucking company. Every single truck that moves on the road must be provided with valid road tax, truck permit and must be approved of vehicles inspection by the respective authorities. Those costs that incurred are subjected to the total number of fleets owned by the operators.

i) Training

Mr. R. Wayne Mondy and Mr. Robert M. Noe in their book title *Human Resource Management* have defined Human Resource Development as a planned, continuous effort by the management to improve employee competency levels and organizational performance through training and development programmes (Wayne and Robert, 1996).

Human Resource Development (HRD) is a continuous effort by management as to improve employee's competency levels. Even though it will definitely a cost to the company but in practice the training is a critical factor in any organization. One of the benefits by having trained staff it will be increased their knowledge and as a result it will increase the company productivity.

1.5 Action Taken by Haulage Operator to Overcome the Cost Escalation

In anticipation of the costs escalating becoming critical and in order to improve the situation, the 3PL operators had taken a number of positive steps (Armstrong, 2003). Whatever the selection criteria, price is a critical factor once the must-have capabilities have been confirmed, but price is really an issue

a) Tactical Resource or Strategic Partner

When it comes to logistics, price is only one of the variables that contribute to cost. It is vital to procure 3PL services at competitive rates, but it is equally important that the relationship is structured so that the company can maintain or improve customer service while reducing the cost of doing business. A 3PL provider relationship often begins with the goals of reducing transaction costs and improving efficiency. This is accomplished through outsourcing of transportation, warehousing and etc. This tactical approach, when executed well, delivers excellent results. But, could those results be multiplied to reduce internal resource costs, enable greater agility in decision making and improve your business ability to adjust to changes in customer demands or the business environment as well (Berglund *et al.*, 1999). By making a strategic decision on how to

move the relationship to another level it takes mutual commitment will definitely, focus on clear objectives, flexibility and, above all, trust.

b) Choosing a Partner

There was a natural apprehension about inviting a vendor to sit at the table when business decisions are being made. However, in our experience a shared understanding of our customers' business models, short and long term objectives, competitive pressures, cost issues and customer demands enables them, and us, to be more successful. Transparency is essential, a willingness to share information confirms that goals are aligned. That enables us to be proactive so we can anticipate and identify opportunities to improve, suggest innovative ways to increase logistics effectiveness and provide business intelligence that helps 3PL users make more effective decisions and improve profitability (Dapiran *et al.*, 1996). Choosing the right partner is a successful strategic 3PL relationship, and getting to know each other to build the necessary trust is vital.

c) Strategic Goals

The potential for the partnership to be win-win, or lose-lose, encourages partners to work together to achieve the desired results. The objective should not be to create a partnership, but to achieve specific goals through partnership by working to the same performance standards (Chew, 2003). There should be consequences

for both organization should they not meet the standards, and rewards when they meet or exceed them. While a transactional relationship is more appropriate and effective for some organization, strategic 3PL relationships represent an exceptional business opportunity for others.

1.6 Effect of Escalating Cost in Haulage Industry

There are certain effects on the escalating of the operating costs in the haulage industry. The effects are discussed below:

a) Business Out Sourcing

Given the high price of fuel, we could observe some of 3PL companies are re-sourcing their services to their business partnership. By re-sourcing to other they can seize new opportunities for establishing competitive advantage (Armstrong, 2003). It is too early to judge how long this re-sourcing activity will last or how far-reaching it will get.

Fears of economic instability are surging higher with the continuing rise of the oil price. The weak dollar and the limited supply of fuel are two factors that are contributing to oil rising to over US\$100 a barrel. Businesses, particularly the transport industry, have suffered catastrophic effects from the incessant rise of fuel. Projections from the American Trucking Association (ATA) have recorded higher than ever fuel costs for this year (ATA, 2008).

b) Low Profit Margin

The low margins in the trucking industry therefore mean that transport companies have to transfer the costs onto customers, affecting businesses and consumers all over the world. Haulage companies are also digging deeper into their pockets due to the increase in world petroleum charges.

c) Changing in Tariff

The increase in the cost of fuel over the past couple of years is alarming, and at the end of the day, as a logistics provider they have to ultimately increase their tariffs as to cover the operating costs. Many companies design their supply chains once and then drive savings within specific cost elements, such as warehousing or transportation, assuming that the cost relationship between these elements will remain relatively static. In many cases, these supply chains have been optimized in the past and do not reflect current cost paradigms (Bowersox, 2002). Because the underlying supply chain cost elements have changed so dramatically over the past few years, companies now must revisit their overall network, and the corresponding costs within them, to determine if the optimal balance of transportation, handling, and inventory carrying costs is being achieved within today's cost structures

c) Impact on International and Local trade

The impact of high fuel prices has particularly affected the shipping and aviation industry. Nonetheless the high fuel rate is affecting trade both internationally and regionally, and if transport costs continue to rise it will put further pressure on how we conduct business in the region.

d) Inflation.

There is no denying that inflation in the region will have an effect on businesses as the increase on fuel, as well as materials for the construction industry and the rise in salaries will force companies to re evaluate their profit margins. The inflation in the region is having a snowball effect on businesses, suppliers and individuals. It is an issue for everyone but it is just a stage that any fast-paced economy must confront. Even though our customers may have to pay a little extra due to the fuel prices, nevertheless the services and solutions that 3PL provides will add value to our clients' business, increase their productivity and ultimately enhance their margins. Although the increase in diesel costs has had a significant impact on their operations, particularly in Malaysia, they will undertake various activities to mitigate the effect. The 3PL companies admit that the large increase in fuel prices over the past one and a half years has forced them to pass part of the cost onto customers, but by no means all of it. They have to absorb some of these costs by increasing utilisation of their vehicles through consolidations.

e) High Capital Investment Using Technology Driven.

Currently Information Technology is one of the effective tools in the sense to have better monitoring of truck journey through satellite tracking whereby they can monitor the performance of the drivers and avoid driving that incurs greater usage of fuel and the need to be rigorous in reducing costs to stay competitive in this country. But to have it to be fixed to each truck will incur huge amount of capital investment.

f) Increase of Contract Binding

3PL need to ensure to create a long-term contract with their suppliers to reduce fluctuating prices for related truck spares, otherwise they will be confronted with increased costs of spares and etc. Whether this will be sufficient is yet to be seen, but 3PL Company is certainly aiming to try and counteract the cost of fuel as much as possible. The increasing price of fuel is a reality and is set to continue. The demand for transportation in this market is increasing almost daily, which accumulates pressure on prices in the region. This is not something that 3PL companies can shy away from; instead they need to act quickly to ensure they continue to provide a good service to their customers, even if it is at a higher cost to the company and customer. At the moment to see how 3PL react, and therefore they need to act efficiently and professionally to stay afloat in the competitive financial market (Browne and Allen, 1997). The 3PL companies need to ensure that its prices are benchmarked against the best in the industry to ensure that it stays competitive. Service level expectations are also plan to focus on in order to stay buoyant in the market.

g) High Financial Strain

However, the risk is that many regional operators are absorbing the cost, which could potentially cripple the 3PL companies. Margins in the industry are already low, so if companies swallow the fuel increase themselves they are faced with a high financial strain. The fierce competition in the US and its encouragement in welcoming international businesses mean small regional companies have to lose part of their margin just to secure the business. The cost of staff is increasing day by day and the average salary per person has almost doubled, so with that in mind the overall expense of companies is

higher than a few years ago. Consequently, profits will be reduced in the region. If this problem persists, then local Haulage Operators will not be able to afford to stay competitive in the market. Although there are contingencies that companies can put in place, the worry is that these will not be sufficient in the long term.

1.7 Problem Statement

After so many haulage players in the market, the escalating of operating cost is still occurred. Since the topic of the research is to discover ‘The difference in term of operating costs among the haulage company in Southern Region’ in which the problem statement can be translated into a form of questions that this will define the information needed and how the information can be obtained through the variables.

- a) The difference in term of operating costs among the haulage companies in Southern Region.
- b) The fleet’s number owned by each operator has influenced their day-to-day operating cost.
- c) Lack of staff training will cause of low productivity due to less exposure to the right knowledge in working field.

1.8 Study Objectives

The primary goals for this study are:

- a) To explore and to examine whether the current Operating Costs

Proportion among the three operators i.e. Big, Medium and Small are at the same degree.

- b) To identify what are the higher element
- c) of individual operating cost within themselves .i.e. fuel, maintenance, salary, tax, licensing and staff training.
- d) In order to understand the current situation related to the operating cost that faced by the haulage company.

1.9 Study Methodology

A questionnaire was designed to find out the operating costs of each haulage company in Southern Region (i.e. fuel, maintenance, salary, tax, licensing and training). The study relies heavily on the interview via face-to-face, mail and telephone. The technique used is using census research. Every member of the population has essentially an equal probability of being included (MHM, 2005).

a) Population size

The sizes of population are 40 companies. The population sizes were determined based on the total number of active haulage operator in Southern Region Table 1.8. For this study 40 questionnaire forms were used by self to interview the respondent via face-to-face and telephone. Only 38 forms were completed for analysis purposes.

All answers to the questionnaires have been analyzed and verified by self immediately. Data collected will be represented in cross tabulation form and discussion on the cross tabulation will be made.

1.10 Scope of Research

The most important element of the scope of research is to analyze the current operating cost among the haulage company in Southern Region. What is the main cost element to the haulage company is also be determined. In order to understand the current operating expenses, and mitigate the future study for the viability of the haulage industries.

The number of active haulage company in Southern Region is about 40 as at 31st December 2008 (Please refer table 1.8) therefore the focus will be more in the operating cost toward the companies, basically on fuel, maintenance, salary, tax, licensing and staff training.

Table 1.8 : List of Active Haulage Companies in Southern Region

| | |
|--|-------------------------------------|
| 1. Agenda Wira Haulage Sdn Bhd | 21. L & R Haulage Sdn Bhd. |
| 2. Antara Asia Sdn Bhd | 22. Mahamiru Ent & Trading Sdn Bhd |
| 3. Baiduri Dimensi Sdn Bhd | 23. MGS Transport Sdn Bhd |
| 4. Barakat Al Andalus Sdn Bhd | 24. MISC Integrated Logistics |
| 5. Bersatu Maju Express Sdn Bhd | 25. Multimodal Sdn Bhd |
| 6. BJ Rising (M) Sdn Bhd | 26. Narita Forwarding & Tpt Sdn Bhd |
| 7. Blossom Deluxe Sdn Bhd | 27. Navegacian Shipping Sdn Bhd |
| 8. Delta Haulage Transport (M) Sdn Bhd | 28. Nespalm Logistics Sdn Bhd |
| 9. Diperdana Selatan Sdn Bhd | 29. Pelangi Forwarding Sdn Bhd |
| 10. Genarasi Jitu Sdn Bhd | 30. Perceptive Logistics Sdn Bhd |
| 11. Hoor Fatt Enterprise Sdn Bhd | 31. PRO CNC Tpt Sdn Bhd |
| 12. HRH Logistics Sdn Bhd | 32. Sarmina Haulage Sdn Bhd |
| 13. Infinity Haulage Sdn Bhd | 33. Damai Haulage Sdn Bhd |
| 14. Integrated Haulage Sdn Bhd | 34. Tanjung Express Sdn Bhd |
| 15. Interway Transport Sdn Bhd | 35. Timur Permai Haulage Sdn Bhd |
| 16. Jangkauan Galaksi Sdn Bhd | 36. Tiong Nam Trading & Tpt Sdn Bhd |
| 17. JCS Logistics Sdn Bhd | 37. Teo Tuan Kwee Sdn Bhd |
| 18. JP Logistics Sdn Bhd. | 38. Xin Hwa Trading & Tpt Sdn Bhd |
| 19. KH Haulage Sdn Bhd | 39. Yinson Haulage Sdn Bhd |

| | |
|-------------------------|-------------------------------|
| 20.Kontena Nasional Bhd | 40. ZLA Tpt & Service Sdn Bhd |
|-------------------------|-------------------------------|

Source : Johor Port Berhad, 2008

From the observation done by self during his 25 years service to the haulage company, it was noted that there is still room for improvement in the sense of cost reduction among the haulage companies. The escalating of operating cost due to inefficiently could give drastic impact on both the business and financial risk to the company.

1.11 Significance of Study

a) Individual

This study will help the individual manager to understand the overall of operating cost among the haulage player which, they can make a comparison on how there be a certain different of each company to another.

b) Organization

As a tool for the company to conduct further study in terms of overall organization performance and for them to evaluate the operating cost level and to increase the productivity of the organization.

c) Country

Malaysia is moving into an industrialization country and as to meet the current globalization requirement through trade liberalization competitiveness is an important element to meet

this competitiveness productivity by conduct a good business practices.

1.12 Limitation of Study

The study only concentrates on operating costs of Haulage Companies in Southern Region basically in Johor State (As per Table 1.8 at page 23). The important element of the scope of research is to analyze the current operational costs particularly that faced by the existing players. The study will also highlight the different of the operating costs among them. The quantitative study is more appropriate for this research because the main research problem of this thesis involves a lot of information that related to the calculation of costs, dollar and cents. Nevertheless, some comparisons will also be made wherever possible using data obtained from the questionnaire.

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