

Originaltitel **Dubai still most preferred regional logistics hub**
 Datum **29.03.2010**
 Quelle **EMIRATES Business 24|7**
 Sprache **englisch**

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Business 24|7

Dubai still most preferred regional logistics hub

GAC has been reducing operating costs to battle the impact of global economic crisis.

Image by GettyImages

Dubai continues to remain the most preferred logistical hub in the region and with added emphasis on infrastructure development it will match the best in the world, said Peter Bengtsson, Managing Director, Gulf Agency Company (GAC), Dubai.



However, the logistics and supply chain industry has suffered setbacks due to the slowdown in the economy with business volumes dropping by almost 30 per cent, mainly due to a drop in imports of construction materials and luxury goods. Profit margins have also dropped by almost 50 per cent.

"The volumes have dropped. There has been a drop in construction related commodities and materials. Although imports in general have reduced, container activities in the port continues to be high according to the port authority," he said.

The company has meanwhile delayed its expansion plans and is focusing on improving the existing facilities, said Bengtsson.

Wider presence

GAC, he said, is present in most parts of the world and also have some operations in Africa. "That market is being developed slightly more now. Group wise, the objective now is mostly focused on improving efficiencies rather than expansion. We are aiming at consolidating existing capacities and abilities," he said.

"We have ups and downs and GAC operates with a long-term focus. We tend to ride out the downturn. We are introducing some new services, but the shipping services remain the very core of our business," he added. GAC, one of the leading provider of shipping, logistics, marine and other related services, has been operating from more than 300 offices across the world with about 8,000 employees.

"Each of the departments has suffered a significant reduction in business volumes at varying degrees varying between 10 and 30 per cent last year. Our forwarding and sea freight side has dropped significantly. There is a huge oversupply of capacity especially in the container industry. The bulk imports of commodities, such as steel and cement and other construction materials has dropped significantly. Consumption of luxury goods has also dropped significantly," said Bengtsson.

"So far shipping, especially the tanker business has been the strongest sector. But even this segment will see some slowdown next year. There is uncertainty about the oil sector as well, because of the volatility of the prices of oil and the demand of crude in the northern

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hemisphere due to low temperatures. The overall uncertainty is causing the volatility, in general," he said.

He, however, added that there has been some upward movement with regard to steel imports. "I have heard that there is some improvement, but I am not sure if it is just temporary or replenishment of stocks. But there are indications of some movement," he added.

GAC has been adopting various measures to deal with the current situation, which includes improvement in processes and taking advantage of the reduction in operating cost as a result of the slowdown, he said.

"Through efforts and work with our long-term partners and customers, we have been able to maintain our business and made the necessary improvements to see some positive results. We are focusing on improving the efficiency and services. The slowdown has offered opportunities to all companies to reduce cost," said Bengtsson.

While inflation is down according to him, cost of materials, services and contracts are all lower than they were a year or two ago and logistics companies are taking advantage of it to reduce cost.

"A large proportion of services and costs are dropping and that is what all logistics companies are taking advantage of. Sea and air freight, the cost of labour, rent, the overall cost of doing business has stopped increasing as drastically as it was five to 10 years ago," he said.

"The free zones are offering a lot of new warehouses this year, and the rates are better. With sea freight having dropped and with the fall in demand, there is an oversupply and overcapacity and all companies are trying to make the best of a difficult situation. A lot of companies like us are forced to review rates and contracts and do the best for customers. With the competitors dropping their rates to attract more business anywhere between 10 and 30 per cent, our rates too have had to follow the market condition," he added.

Quest for better deals

A lot of customers are looking for better deals with other suppliers and contractors, said Bengtsson.

"Now that there is a surplus of contract logistics capacity in the market, our customers are looking for a review and in some cases we have lost some clients while we have also managed to retain many of them.

Compared to 2008, profit margins have also dropped. "Depending on which segment we are talking about it has gone down up to 50 per cent. It is anywhere between 10 and 50 per cent."

Meanwhile, the competition in the industry has also grown with the entry of new players. "GAC has been around for more than 30 years and we have had a strong presence. However, that position has been challenged in the past few years with the entry of European, Chinese and American contract logistics operators, freight forwarders as well. It is good for the industry. Of course, it is a challenge for us, but we have the product and the service to meet the competition," he said.

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GAC has delayed many of its expansion plans. "We had some plans that we reviewed and delayed mostly in relation to our partners and customers' decision to delay their expansions. We work very closely with people and generally do not speculate on projects. Given that they all on average have cut back their forecasts and put projects on hold, we are following this course," he said.

The decisions is being constantly reviewed. "When the situation stabilises, and when companies are more clear on what the direction is for their business, they can come back and we can work together again. We will review each situation and take it forward step by step. Certainly, there is a lot of opportunities here and the region is growing," he added.

The logistics sector in the region, according to him, is young but "it definitely is not an infant market. It is growing and more and more is expected of the supply chains here in the Middle East, compared to a few years ago. Most people now expect the same quality and sophistication than any where in the world", where the cost too is much higher, said Bengtsson. Dubai is not a cheap place to operate and freight forwarding and shipping in general need to improve and upgrade their services, he said.

"Dubai by far is the best developed from the supply chain management perspective. Bahrain probably is envisage a similar role to Dubai in many ways in terms of being a hub and attracting foreign shipping operators and logistics operators to centralise their businesses in Bahrain. But I think Dubai has probably got further in that regard already and overall is better positioned in my view," he said.

"Although Dubai is no more a cheaper place to operate, but it continues to be the most preferred place because of its infrastructure facilities. With the demographics in the region on track and increasing, the demand for consumer goods will also increase. The demand for necessities will increase more than luxury items," he added.

The biggest challenge in the next couple of years is the restoration of confidence in the region. "While local companies are quite confident, foreign investors need to be reassured and that is going to be a bigger challenge," said Bengtsson.