****

9B19D020

LAJPAL TEA: Black Gold at Stake—Supplier Selection

Abdul Rehman, Asad Ali, and Alison M. Konrad wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com. Our goal is to publish materials of the highest quality; submit any errata to publishcases@ivey.ca. i1v2e5y5pubs

Copyright © 2019, Ivey Business School Foundation Version: 2019-09-23

On September 30, 2014, Javed Memon, the national logistics manager at one of the leading tea brands in Pakistan, Lajpal Tea Pvt. Limited (Lajpal Tea), had received notice that one of the company’s oldest transporters would be terminating its services. This transporter had worked with the company for more than a decade. After discussing the situation with the head of the supply chain, Memon and the supply chain head decided that they would need either to negotiate a new agreement with the transporter or to find an alternate transporter within the time stipulated in the notice. They did not want to risk having their product unavailable in the market as this would have an adverse effect on sales and might result in lost customers.

Memon, who had a master of business administration degree from one of the top business institutes in Pakistan, was an experienced supply chain professional with a background in logistics and distribution. He had been successfully leading the logistics department for three years, and he always showed great zeal and passion for taking risks and new challenges. He was believed to be one of the key players of the team, and contributed significantly to the company’s innovations and organizational changes. He had already achieved a great deal and was always ready to take up challenges and develop particularly unique solutions, even under unusual circumstances.

This time, finding a solution was critical, as the company had already planned a geographic expansion to achieve incremental sales targets of 500 tons annually. The company could not afford to take any risks regarding the planned sales forecast, and any decline in sales would not only affect the supply chain performance but would also cause the company to miss its annual sales target, resulting in lost annual performance bonuses for employees across the company.

Background of Lajpal Tea

Lajpal Tea was the leading tea supplier in the country. Despite being a local company, it had worked hard to achieve the highest ever sales and to grow ahead of all the multinational corporations (MNCs) operating in the country. The company had started from a retail outlet in Kotri in the late 1960s and had continued to grow since then. It currently had average annual sales of around 50,000 tons, excluding exports, which were around 2,000 tons per year.

Lajpal Tea had two manufacturing facilities: one in Kotri and the other in Hattar. The plant established in Kotri was the oldest, had higher production capacities, and covered the sales regions from Karachi to Khanewal, while the Hattar factory was smaller in terms of production capabilities and generated the production for the sales regions of Lahore and Islamabad, including northern areas of the country. The raw tea, which was imported from countries like Kenya, Indonesia, and India, was received at the port in Karachi and stored at the Kotri factory’s warehouse. From this point, the raw tea was transported by road to the Hattar factory for blending and packaging as needed.

With six distribution centres in the cities of Karachi, Kotri, Rohri, Khanewal, Lahore, and Hattar, the company covered almost the whole of the country by utilizing the services of local and national transporters. Some of the transporters had worked with the company for decades, while others had been recently inducted to keep up with current transportation trends and technologies, using well-equipped vehicles that were tracked by global positioning systems (GPSs). In a country where tea was also known as “black gold” and was always under threat from hijackers, the oldest transporters provided product safety through experience, trust, and long-term relationships in every market, including with feudal lords and high-profile criminals. However, they did not have the benefits of the latest third-party logistics (3PL) service providers; these benefits included GPS tracking, reports of vehicle utilization, and professional services.

Logistics Operations at Lajpal Tea

The company’s logistics department had dedicated staff at the head office in Kotri and at each regional office. The national logistics manager and his support team, including two assistant managers, were stationed at head office, while one logistics officer and his assistant were employed at each regional office. The company used primarily two types of transport services: full truck loads (FTL) for transferring materials from one warehouse or production facility to another, and less than truck load (LTL) for dispatching products to authorized distributors countrywide, who would serve the local consumer orders.

The company had two national-level transporters, which carried the raw tea and sometimes final product from the Kotri factory to the Hattar factory. Both these transporters also provided services for the inter-transfer of the final product from one warehouse to another. These transporters were old and had worked with the company for more than 10 years. The company was responsible for insuring the product to cover any in-transit losses or thefts. Also, at least two transporters in each region shipped the orders of the authorized distributors. The company had a policy of engaging two transporters to avoid providing any one transporter with a monopoly or a competitive edge over other transporters.

Ahad Walla Transport Company (Ahad Walla) was the only transporter that provided both FTL and LTL services. However, delayed payments from the company and poor responses from the staff of the logistics department had caused problems for Ahad Walla, whose owner was willing to terminate his contract for FTL services (inter-transfer shipments from one warehouse to another). The owner had served three months’ notice according to the terms of his contract. He explained:

I have tried multiple times to personally meet with the CEO and discuss with him regarding my unsettled invoices, as I am not getting any positive response from the logistics team, but every time, I am told that he is not in the office. I have no other option but to terminate the FTL services, which account for 80 per cent of total revenues in my business.

Because of his unsettled invoices, the owner of Ahad Walla had been unable to pay for the petroleum, oil, and lubricants expenses of his trucks, and therefore could not continue to keep his FTL trucks, which accounted for almost 80 per cent of his revenues, on the roads. During the notice period, he had to continue to provide services as per the agreement and as demanded by the company; however, after three months, he would be relieved of his services, and all his payments would be settled within 60 days. Afterward, he would provide only LTL services for Lajpal Tea.

The owner of Ahad Walla, who had started the transportation business with Lajpal Tea during its start-up phase, was a close friend of the chief executive officer (CEO) and owner of Lajpal Tea. He had supported Lajpal Tea at the time when it was emerging and evolving and there were fewer people associated with the company. Therefore, they all knew each other well and had good relationships with each other.

Company Policy on Payments

As Lajpal Tea was a local company that had grown from a single outlet to become a registered export company in a multi-storey building, its management had always cared for its business partners and understood the national dynamics well. The company had a strong commitment to growing new businesses and giving opportunities to new entrants in the market, even if they were not well established. Therefore, management had a policy of timely payments and always wanted a proper rotation of funds to help get maximum benefits. Management had established a standard payment procedure of issuing cheques to suppliers within 15 days after receiving their invoices. It also instructed its regular suppliers, such as transporters, to submit their invoices on a fortnightly basis so that they could be paid for their services within the next 15 days (see Exhibit 1).

The company had also opened transactional accounts with multiple banks to ease the process of payments from the banks’ end. This not only saved time for bank clearance—the time required for cheques to clear if the payees’ accounts were in other banks was normally three days—but it also strengthened the trust of suppliers and helped them rotate their finances more quickly. The only factor that was causing problems for the payment policy was the availability of a cheque signatory. The CEO was normally out of the office and busy with social or humanitarian activities.

Transportation Sector in Pakistan

The transportation network was considered to be vital and played a critical role in the economic and socioeconomic development of any country. Pakistan had a large network of roads and railway lines, as well as air transportation. The total estimated length of the road networks in Pakistan was around 270,971 kilometres.[[1]](#footnote-1)

There were many transportation companies working in the country, and their modes of transport varied according to their services. Different companies offered LTL, FTL, and cargo services. Transportation was one of the major businesses in Pakistan and was dominated by small groups of transport handlers or cargo handlers, who formed an inter-connected network with offices in almost every city and town and worked in coordination to provide cargo transportation services from one city or town to another. This was a form of LTL transport.

Emerging transport service providers included large conglomerates and MNCs, which normally worked on FTL modes of transport and, unlike local adda transport handlers, provided dedicated and containerized vehicles on a monthly basis, for fixed and variable costs (see Exhibit 2). These providers included Agility, DHL International GmbH, M&P Express Logistics, and TCS Logistics.

Replacing Ahad Walla

Operations

Ahad Walla’s fleet contained 20 12-metre containerized vehicles, which carried the raw tea or final product according to the schedule provided by the logistics department and returned from the destination warehouse without a load. These trucks were parked outside the Kotri factory if inside parking space was not available. Ahad Walla also provided four-metre Mazda vehicles to dispatch the final product from the company’s warehouses to authorized distributors within the Kotri region, according to the needs of the company.

All of Ahad Walla’s vehicles were available 365 days a year, irrespective of any national or religious holidays, and were used solely for Lajpal Tea even though the company’s financial model was based on per-trip charges instead of a fixed cost model. Ahad Walla provided between one and three loads daily for the different routes (see Exhibit 3).

As Ahad Walla had served notice of the termination of his services, Lajpal Tea would require services from a new transport company beginning the same day, as transportation could not be risked. Otherwise, the company might have to halt production at the Hattar factory, which might cause stock-out situations on market shelves, leading to declined sales. Management had to quickly arrange for a supplier who could provide the necessary number of trucks and work according to their terms and conditions. Ahad Walla had been providing significant services in terms of tonnage per day (see Exhibit 4). While Ahad Walla had no technology advantage, his trucks were old-fashioned, and his support staff had poor business understanding, the company had acquired a competitive edge by providing services 365 days per year, regardless of the market social and political conditions. Ahad Walla’s trucks were always on the road because of his strong geopolitical influence and his approach to government officials. If Ahad Walla did not agree to further extend or continue his service agreement, Lajpal Tea’s management would have to select from a number of options to find a local transporter like Ahad Walla or any of the high-tech-enabled 3PL MNCs.

Pricing

Like other open transporters, Ahad Walla charged per kilometre or—where the number of kilometres for FTL routes was fixed—per trip (see Exhibit 5), whereas MNCs like Agility used a dedicated trucking model in the region. The MNCs could charge a fixed amount per month and per vehicle, irrespective of vehicle utilization, in addition to variable charges on a per-kilometre basis (see Exhibit 6).

Market Competitors: Overview

The existing 3PL providers in the market included MNCs and national conglomerates: unlike Ahad Walla, they provided highly advanced, new trucks with complete safety and security measures, including the latest vehicles, with inbuilt facilities that could handle situations such as fires, accidents, and medical emergencies, which allowed them to avoid further losses. They also provided GPS and live tracking facilities and could monitor various activities; for example, they could track when a vehicle was fuelling, starting, or stopping over—the essence of any 3PL.

The emerging market in Pakistan did not lack well-known 3PLs. While Pakistan was home to many local and national transporters, there was also a huge area where top-tier 3PLs like Agility were performing. The multinational 3PLs like Agility were already providing services to many Pakistani firms based on a dedicated trucking model since they believed in optimizing costs and maximizing the utilization of their carriage capacities.

The other open transporters normally provided vehicles on a per-trip basis, rather than by means of dedicated trucks, which allowed their vehicles to be utilized by multiple companies on multiple routes. Unlike the 3PL companies, these open transporters did not possess strong software systems for the purposes of reporting and measuring vehicle and capacity utilization; neither did they provide the facility for live tracking of their trucks. Some open transporters did not even own their own fleets of trucks; rather, they worked in groups and supported each other by sharing their trucks as needed, sometimes engaging trucks from owner-drivers. However, this sharing model meant that they had the capabilities to meet customer demands for any number of required vehicles. Most of these companies were evolving and following MNC trends since these open transporters included retired MNC officials who had a good understanding of business operations but were weak in financial capabilities.

Future of Logistics at Lajpal Tea

Lajpal Tea was expanding quickly and could soon require an expert in logistics to better plan and design its routes. The company was also in the midst of implementing an enterprise resource planning system, which would help enable live tracking of trucks only if the trucks were equipped with GPS tracking systems. This meant it was mandatory to have all vehicles equipped with GPS-enabled systems. What should Lajpal Tea do now: negotiate with Ahad Walla or identify an alternate transporter from among the available options?

Exhibit 1: Payment Process Flowchart

Not OK/ OK

Receipt of invoice

Invoice verification by logistics team

Return to vendor

Not OK/ OK

Invoice verification by accounts team

Return to logistics team

Forward to accounts

Cheque signing

Cheque printing

Cheque handover

Source: Created by case authors using information collected from the company.

Exhibit 2: Financial Models and Transportation Service Types in Pakistan

|  |  |  |
| --- | --- | --- |
| **Model** | **Type / Load** | **Financial Model / Billing Method** |
| Dedicated | Full truckload | Fixed cost (per day / per month) |
| Variable cost (per kilometre) |
| Non-Dedicated or Open Trucking Model | Less than truckload | Per case / carton (volume based) |
| Per kilogram (weight based) |
| Full truckload | Per trip |

Source: Created by case authors using information collected from the company.

Exhibit 3: Average Daily Loads of Ahad Walla Vehicles

|  |  |  |  |
| --- | --- | --- | --- |
| **Route** | **Trips / Loads** | **Product Type** | **Weight Summary** |
| Kotri to Sukkur | 3 | Final product | Final product: 18 tons / 12 metres  Final product: 4 tons / 4 metres  Raw tea: 26 tons / 12 metres |
| Kotri to Karachi | 3 | Final product |
| Kotri to Khanewal | 1 | Final product |
| Kotri to Hattar | 2 | Raw tea |
| Kotri to Lahore | 1 | Final product |

Source: Created by case authors using information collected from the company.

Exhibit 4: Load share of Ahad Walla (in tons per day)

Source: Created by case authors using information collected from the company.

Exhibit 5: One-way Distances

|  |  |  |  |
| --- | --- | --- | --- |
| **Route** | **Distance (in km)** | **Route** | **Distance (in km)** |
| Kotri to Karachi | 155 | Kotri to Sukkur | 330 |
| Kotri to Khanewal | 800 | Kotri to Lahore | 1,100 |
|  |  | Kotri to Hattar | 1,360 |

Note: km = kilometres

Source: Created by case authors using Google Maps.

Exhibit 6: Cost Analysis—Ahad Walla versus Other Transporters

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of Billing Model** | **Ahad Walla** | **Multinational Corporation** | **Open Transporter** |
| Dedicated cost per month | NA | PKR190,000/month | NA |
| Variable cost per km | NA | Rs50/km | NA |
| Trip cost per km | PKR60/km |  | PKR59/km |

Note: km = kilometres

Source: Created by case authors using information collected from the company.

1. Finance Division: Government of Pakistan, *Finance Division, Pakistan Economic Survey 2018–19*, June 10, 2019, accessed July 12, 2019, http://finance.gov.pk/survey/chapters\_19/Economic\_Survey\_2018\_19.pdf. [↑](#footnote-ref-1)