Distribution Channel of Imported Halal Foods to Jakarta, Indonesia

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ABSTRACT

In-depth interview and IDEF0 diagram of a business process of major stakeholders in the supply chain of imported halal foods to Jakarta are used to identify key issues and to develop some notifications for both government and private sectors. Indonesian government should set a priority in improving port and road conditions in the Java Island to enhance long-term national logistics performance and to reduce both dwelling and distribution time, strengthening and develop integrated national single window with all related departments such as Indonesian Food and Drugs Administration (BPOM), The Council of Indonesian Ulama (MUI), quarantine, customs and port in order to prevent overlapping activities, long processing time and unofficial costs. At the same time, developing good communication between importers and manufacturers to accommodate customer's needs and demand and to avoid misunderstanding, while minimizing time and cost during both pre-clearance and clearance must be encouraged. Coordination among importers, freight forwarders, 3PLs, and warehousing service providers using warehouse management and IT system is necessary to prevent the demurrage risk at the port. Distributors and retailers should enhance their information sharing to improve the distribution efficiency. Lack of a cold chain system may give chance for an investment from international cold chain corporation.

Key Words: Imported Halal Foods, Logistics Performances, Supply Chain, IDEF0 Diagram, Business Process

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INTRODUCTION

Integrated supply chain is needed to build a collaboration among all stakeholders within the supply chain, while integrated logistics serves to link and synchronize overall supply chain as a continuous process and is essential for an effective supply chain connectivity (Bowersox et al., 2013). Indonesia is one of the countries with high logistics cost around 23.6% of GDP (Jakarta Post, 2014). Major logistics issues in Indonesia are inadequate infrastructure, poor export and import lead time, and bottleneck in the port service. Logistics Performance Index (LPI) rank of Indonesia was 53rd in 2014 compared to Malaysia in 25th, Thailand in 35th and Vietnam in 48th (World Bank, 2014). Cost to import in Indonesia was stable at 646.80 US$ per 20ft container in 2014 which was higher than Malaysia (560 US$) and Vietnam (600 US$) but lower than Thailand (760 US$). These costs include cost for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport (World Bank, 2015).

For an archipelago with around 17,000 islands, Indonesia is passed by the Sea Lane of Communication (SLoC) which gives a direct access to the largest market in the world and global container shipping line. Indonesia ranks 4th in the world in terms of its population with more than 249.9 million people, leading to a high food consumption. Moreover, middle and upper income class of Indonesians are growing as shown by high growth of sales of canned food, chilled processed food and frozen processed food (USDA Foreign Agricultural Service, 2014). High food consumption and instability of local production may lead to insufficient food supply and ignite import activity. Organization for Economic Co-operation and Development (OECD) (2012) stated that 83.8% of international container volume is concentrated in Java Island, while Tanjung Priok port, Jakarta accounts for approximately 63.8% of the international container volume throughout Java Island. This research will investigate the distribution system of imported halal foods to Jakarta by analyzing the stakeholders along the supply chain through their business process. Recommendation can thus be developed to improve the effectiveness of the distribution system.

MATERIALS AND METHODS

This research focuses on the distribution system of imported halal foods to Jakarta, Indonesia.

1. A secondary data on the distribution system of imported halal foods is collected to identify a supply chain structure of imported halal foods to Jakarta, Indonesia.
2. Carry out an in-depth interview for the following stakeholders along the supply chain
   2.1. Importers
   2.2. Tanjung Priok Port, Jakarta
   2.3. Freight Forwarders (FFs)
   2.4. Third-Party Logistics (3PLs)

2.5. Distributors

2.6. Retailers

3. Analyze the business process from each stakeholder using the IDEF0 Diagram by

3.1. Identify the main activity

3.2. Determine input, control, mechanism, and output of each main activity

3.3. Link the flow of information and product in each activity

4. Identify issues in each stakeholder based on the in-depth interview and the IDEF0 diagram

5. Give a recommendation to improve the effectiveness of the distribution system

RESULTS AND DISCUSSION

1. Supply Chain Structure of Imported Halal Foods to Jakarta, Indonesia

Main stakeholders in supply chain of imported halal foods to Jakarta include importer, FF, 3PL, distributor, sub-distributor and retailer (Figure 1). It was observed that overseas company mostly used third parties such as FF and 3PL to accelerate and manage their logistics activities, especially with customs clearance and quarantine at the port as mentioned in Pujawan and Mahendrawathi (2010). The role of each stakeholder may be different from one distribution model to another which depends on the type of product, product volume and its level of urgency. The type of product affects the role of the distributor, for example imported cooking spices for a restaurant is distributed by a FF not a distributor, while in fast moving consumer goods (FMCGs) either main distributor or sub-distributor are required for helping the importer. The product volume will dictate whether a full container load (FCL) or a less container load (LCL) is required as well as a size of a forwarder being chosen. The level of urgency relates to the freight decision. Instead of sea freight, a product with high level of urgency will be distributed by an air freight.

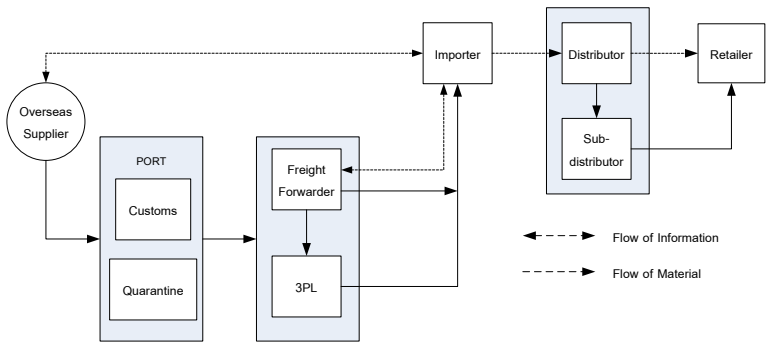

Figure 1. General Supply chain of imported halal foods to Jakarta, Indonesia

Supply chain starts from an importer who owns import licenses and places an order for particular imported foods to the overseas supplier or exporter. Some FFs own import licenses and act as importers for all customs and Indonesian Food and Drugs Administration (BPOM) issues, while many importers technically give an authority to the FF for preparing the document required, handling customs clearance and quarantine, and delivering the product to the importer's warehouse or

appointed place. In some cases, the FF will hire the 3PL or transporter for the delivery task. Furthermore, the importer will delegate a specific distributor to distribute the products to the modern retail stores throughout Indonesia. In this case, the distribution can be carried out either by a main distributor only or sub-distributors. Product distribution to outside big city in Java needs a sub-distributor available in that particular area. Many importers also act as the distributors, exclusive agents or consolidators and have offices or local distributor in major cities of Java Island. In addition, few retailers are also importers but they are not responsible for any logistics activities. Generally, the imported products move to distributor warehouse in a hub city, then come to sub-distributors before delivering to retailers as shown in Figure 2.

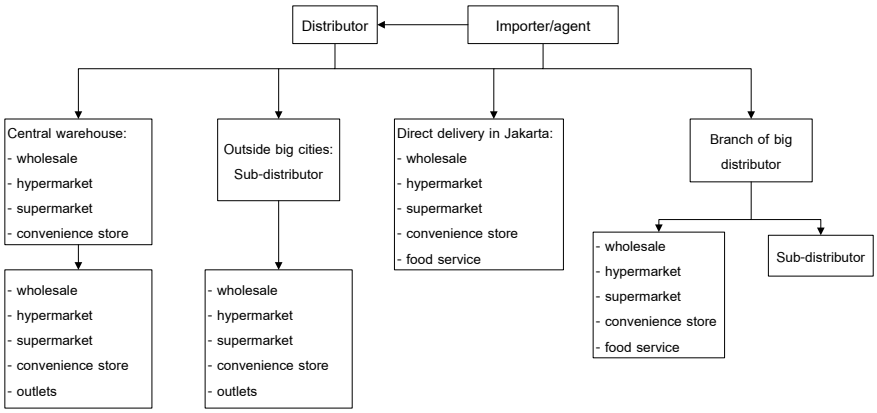

Figure 2. Distribution channel for imported products

2. Business Process of Each Stakeholder

2.1. Importers (Activities A1 - A3)

Figure 3 displays a business process of an importer which consists of preparing initial document, ordering and shipping. Based on Presidential Decree No. 10 Year 2008, Indonesia has officially applied Indonesia National Single Window (INSW) as a national electronic system to improve an efficiency of a flow of goods and customs through the port. Based on an in-depth interviews, some stakeholders state that INSW helps accelerate the importing process and reduces transaction cost including unofficial cost. However, for an activity of applying ML number (product number for imported products), it may take 14 days to 2 years because of inadequate samples received by an importer and BPOM and lack of required documents. Moreover, shipment booking and product volume being shipped should be taken into importer's consideration to reduce the cost and shipping time which takes 7 days on average from Lam Chabang port, Thailand to Tanjung Priok port, Jakarta. Since the importer orders the product through the trader not directly from the manufacturer, it is difficult to communicate the market need and demand directly to the manufacturer. In addition, some proposals from importers to co-promote the products with the traders or manufacturers are turned down or ignored.

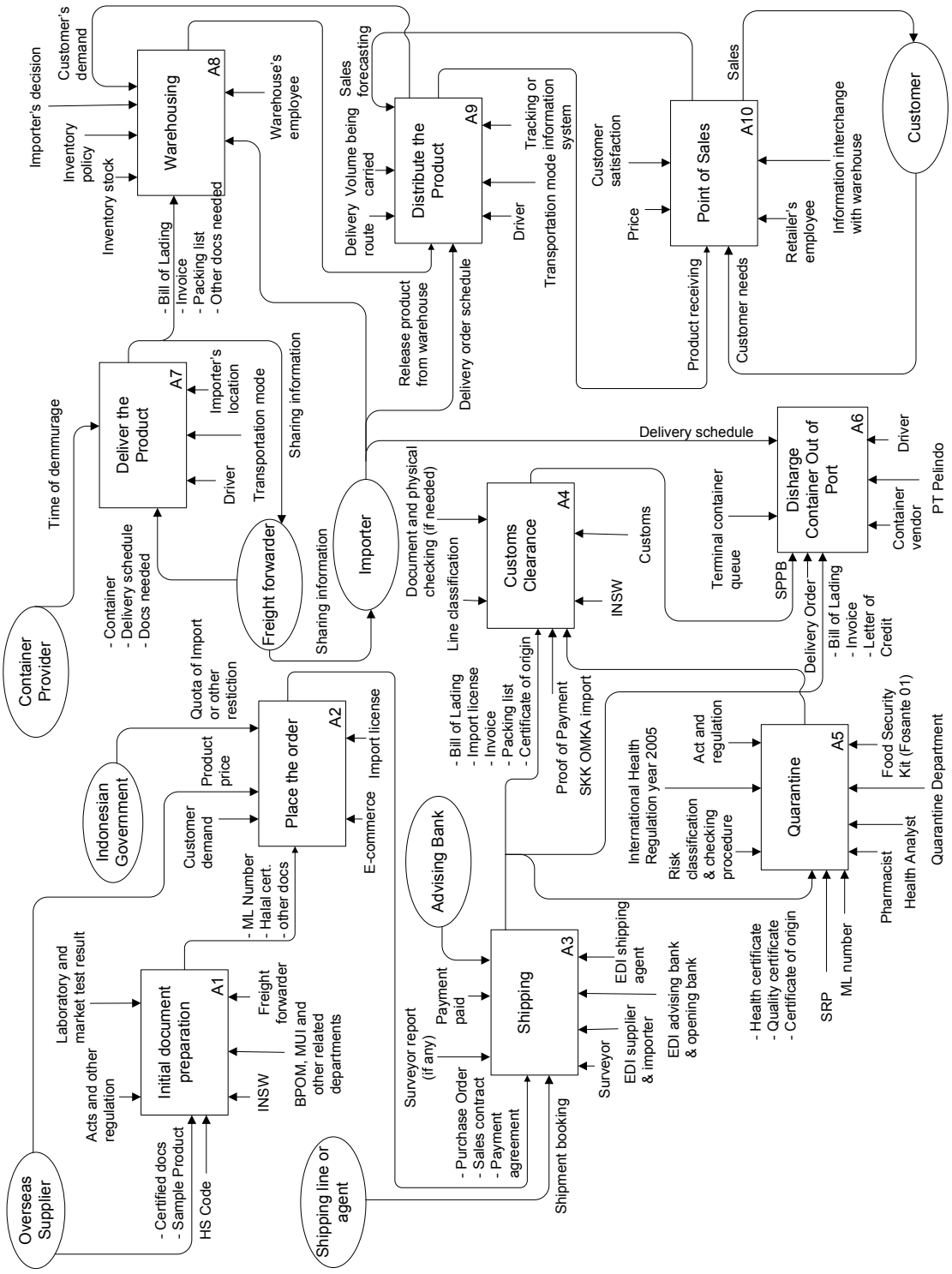

Figure 3. Business process of all stakeholders

2.2. Tanjung Priok Port, Jakarta (Activities A4 and A5)

After the container arrives at the port, it will be moved to a quarantine unit and requires several documents such as ML number from BPOM, health certificate, halal certificate from The Council of Indonesian Ulama (MUI), quality certificate and certificate of origin to be checked. Retailed food products with other countries halal logo are not allowed in retail stores and may delay the processing time at the port. Furthermore, applying for a halal logo from MUI may take from 3 months to 2 years. Halal logo is not mandatory now, but may be enforced in 2019. The quarantine unit classifies the products based on the risk as low, middle and high. Low risk products include processed foods which are released at once the documents are completely submitted. Medium risk products are primary processing products that require detailed review of all documents (2-4 days), while high risk products including vegetable, fruit and live animal will require deeper inspection on either documents or laboratory and it may take 4-5 days before the quarantine release of SKK OMKA import (Certificate of health for imported food, drugs and cosmetic). This document is required for the customs clearance besides the import licenses, invoice and packing list. Customs also classifies the clearance line into green (5-7 minutes), yellow ($\leq$ 4 days) and red (4-5 days) based on the risk of products and import history. Green zone is for the product with a good import history, while yellow zone is for the general product and red zone is for the new item, controlled goods or bad import history goods. The importer should pay all taxes and duties before a customs release of SPPB (A letter of approval to release the goods) and shipping line agent can then discharge the containers out of the port.

2.3. Freight Forwarder (Activities A4 - A6)

Generally, a large FF will facilitate the communication between an importer and an exporter in terms of documents required. The FF can access and help the importer to prepare the documents by INSW which provides a feedback to the importer and the FF as users. In some short shipping distance cases, even though the product already arrives at the port, original documents such as Bill of Lading for customs clearance from the exporter have not arrived yet. This delay can keep the products in the port longer and incurs a higher cost. In addition, there is an overlap activity between the customs clearance and the quarantine unit when the quarantine requests a stringent check and it ends up with container being opened twice which is inefficient and takes longer time. A survey indicates that an average time for the FF to get the SPPB after the container arrival is 4.62 days for the green zone. Nevertheless, a good relationship between the FFs and customs or quarantine staffs and a good reputation of the FF and the importer can help reduce those processing time. Without the FF, average time at the port can range from 7-30 days. With the FF, dwelling time in the port was between 5-8 days during 2011 to 2013. In some cases, even though a SPPB release of the product has been issued, there might be a long terminal container queue for discharging container out and thus leading

to longer dwelling time and costly demurrage risk. It is observed that a perfect order fulfilment rate of the FFs in Jakarta is around 60-90%.

2.4. Third-Party Logistics (3PL) (Activities A7 and A8)

The 3PLs in this distribution system are either transporters or warehousing service providers. Large FFs own trailers or trucks for delivering the products to an appointed place, while others hire transporters. The warehousing service providers may rent their warehouse to the importers or help the importers maintain their warehouses. It is apparent that the FFs, 3PLs, warehousing service providers and importers must well-coordinated for an efficient distribution. If a space in the importer's warehouse is not available, an instruction is given to keep the products in the port or deliver to the FF's or 3PL's warehouses. Large importers and import-export based firms have employed advanced information technology (IT) for inventory management in their warehouses. Large transporters provide global positioning system (GPS) for their competitive advantage, while medium and small FFs lack of this tracking system. General 3PLs still lack of a cold chain system. Major logistics cost for 3PLs is a transportation cost and a congestion around Tanjung Priok port can be very costly. Transporters can make only one trip/day from the port to any destination regardless of the distance, while many transporters prefer working during night time. Nevertheless, the road congestions in Java also lead to high transportation costs, for example, from the port to a close city such as Cikarang (55.4 km) may cost 750 US$ for 20ft container while 56.4 km from Pasir Gudang to Tanjung Pelepas, Malaysia costs only 450 US$ for 20ft container. As for the halal packaged food products, they are delivered using the same truck as non halal foods but in different section or area.

2.5. Distributor (Activity A9)

The distributor must coordinate with the importer, warehousing service provider, and retailer. A distribution can be a pull system which depends on the demand from the retailer or a push system which is based on the importer's decision or mix between both. The main factors under consideration are the product volume and the route to retailers that determine a transportation mode being used. The sub-distributors do not provide a cold chain system and an advance tracking system as the main distributor. Email and phone are their communication and tracking methods. The large importers who need a cold chain systems will expand their business to be the distributor in order to facilitate their needs, or hire the specific cold chain transporters or distributors. Limitation in the distribution is lack of labor for a remote area. Halal and non Halal products are observed to share the same warehouse.

2.6. Retailer (Activity A10)

Most imported products are sold through a modern trade such as hypermarket, supermarket and convenience stores. Their retail store value is approximately at 115 million US$ (1,628 thousand millions IDR) and 60% of those values is food and beverages (USDA, 2014). For general hypermarket and supermarket, target customers are a middle-low income who buy in large a volume but with a low

frequency and are price sensitive. They mainly carry mass products with some imported foods. Non halal foods are separately shelved with identified tags. Their marketing strategies are to present the product with good price and price reduction. High-end supermarket's target are middle-high income customers and expatriates who buy in a small volume but with a high frequency and are not price sensitive. A wide variety of imported foods are available which also depends on the store locations. Non halal food products are shelved separately. Their marketing strategies are to present product's freshness and premium quality or exclusive products with good service. Target customers for a convenience store are middle class who buy in a small amount but with a high frequency and are not price sensitive while demanding convenience. Mass products are major items with few imported foods. Alfamart, the second largest convenience store (9,187 stores) in Indonesia, does not carry non halal food items. Their strategies are to expand more branches to get higher access from consumer and market. Seventy percent of the convenience store is owned by the company while 30% is franchise ownership. Moreover, a margin for the modern retail in Indonesia is around 18-19%. To increase the customer's satisfaction, the retailers should coordinate with the distributor and their warehouse service provider about a product procurement. Retailers point out that the halal logo is important to some Muslim, however high-end consumers do not emphasize on that because they have high education that allows them to analyze from the product label or detailed communication.

CONCLUSION

Major issues in this research related to government agencies include long time in applying ML number and halal logo, long and inconsistent clearance processing time in the port by customs and quarantine units stemming from the unintegrated INSW system. Moreover, port congestion and poor road conditions in Java Island increase the dwelling and distribution time. As a consequence, Indonesian government should set a priority in improving the infrastructure of the port and road, and strengthening INSW by integrating INSW with all related departments such as BPOM, MUI, quarantine, customs and port to avoid overlapping activities, long processing time and unofficial costs. Major issues from the private stakeholders are lack of close and direct coordination between importers and manufacturers or traders in terms of customer demand management and long-term strategic marketing plan, lack of good coordination among importer-3PL-FF-warehouse service provider, shortage of labor for the distributor in small and remote cities, lack of good communication between distribution and retailers via IT systems for delivery and inventory management, and lack of cold chain and tracking system for 3PL and small and medium distributors. Therefore, the following must be instilled: strengthening the good communication between the importer and the manufacturer to accommodate their customer's needs and demand, to avoid misunderstanding and to minimize

time and cost for both pre-clearance and clearance process. A coordination among importer-FF-3PL-warehousing service provider via IT system is necessary to prevent the demurrage risk. Sharing information between distributors and retailers is encouraged to improve their distribution efficiency. Inadequate cold chain system may give an opportunity for an international cold chain corporation to fill in.

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