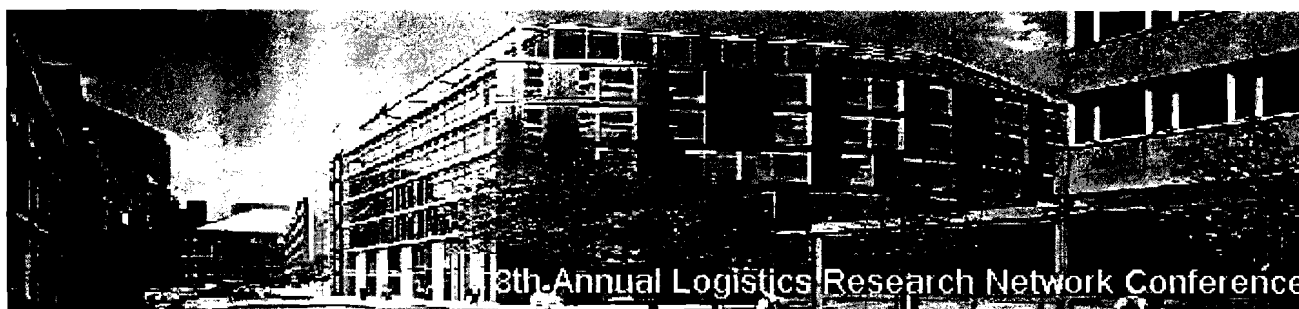


LRN 2003

**The Institute of
Logistics and Transport**

8th Annual Logistics Research Network Conference

10th-12th September 2003
Cass Business School, City University, London

The Faculty and Staff of Cass Business School at City University, in London, is proud to host the 8th Annual Conference of the Logistics Research Network. This will be the largest event to date to be hosted in this new purpose-built business education facility.

"Enhancing Global Trade Through Supply Chain Solutions" is the theme for this year's conference. It is an appropriate theme for the host city, London, which as a major international hub, is also host to much global trade. The LRN Conference maintains its position as one of the main European forums for the presentation and discussion of research results, current practice and new ideas in the fields of supply chain management, logistics and transport. This year is no exception. With a total of 68 papers, to be presented over the two days, a variety of topics is on offer.

In keeping with the Conference theme, the authors are based in over 16 countries. We look forward to enlightened discussion and interaction with all of these colleagues. The Conference topics will consider a variety of industries; both large and small companies from developed and from developing nations; both urban and rural communities; forward and reverse logistics; and automated and manual techniques. In addition, topics cover a wide range from the macroscopic (the management, structure, modeling and simulation of supply chains) to the microscopic (item management, data capture and control), and from customer focus to the other end of the supply chain, i.e. after-market support.

Much work was expended in putting these Proceedings together, not just by the editors and students from Cass Business School MSc in Logistics, Trade & Finance Programme, but from the contributors themselves. We want to thank everyone who contributed to this year's Conference to

make it as prestigious as it has become over a short period of time.

We sincerely hope that you both enjoy and learn from this year's conference. We also hope that you are able to use the Proceedings that follow as a valuable resource that assists you in your future endeavors in the Logistics and Supply Chain area.

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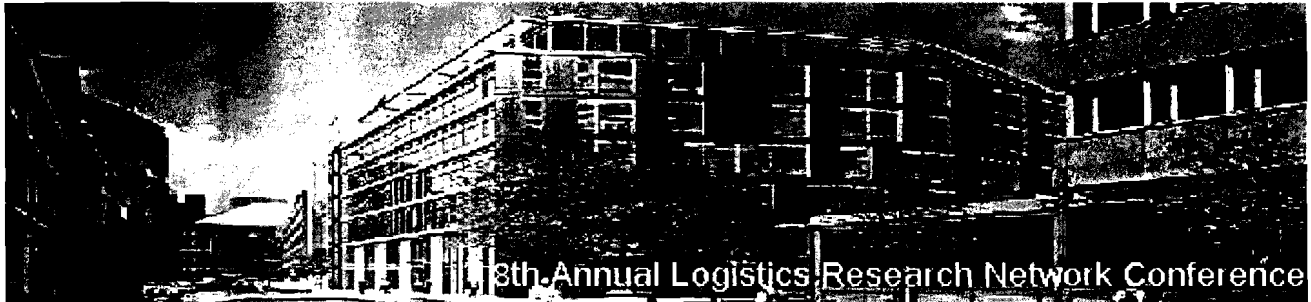


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Khaled A. Abbas and Mohamed Gamal El Deen Aly



The Efficiency Of The Forward Bunker Market

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Integration And The Fat Lamb Supply Chain: Obstructive And Conducive Influences, Structures And Agency, Pre And Post FMD

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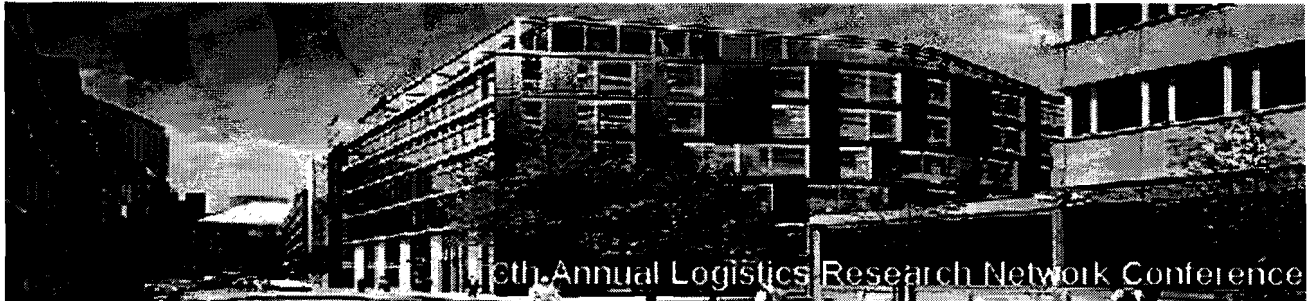
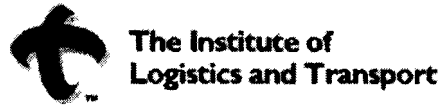
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DEVELOPING TRANSPORT COST AND REVENUE MODELS BASED ON LOGISTICS CHAIN ANALYSIS OF WHEAT MILLING COMPANY

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Abstract

In this paper, a methodological approach that is meant to compute and assess financial efficiency of transport activities within an own account company is developed. The applicability of this approach is demonstrated by using 98/99 data and information of Upper Egypt Wheat Milling Company. The approach involves several stages, the first of which is concerned with constructing a logistics chain that simulates the process involved in wheat milling business in Egypt. This chain is used as the basis for identifying types of transported commodities, unique transport phases, trip origins and destinations of each of these phases as well as the transport modes and providers involved. This is followed by compiling and synthesizing, for each transport phase, a number of origin/destination matrices representing basic operational data and generic operational variables. In addition, similar size matrices are synthesized for transport costs and revenues. Manipulations of the developed matrices are undertaken in an effort to compute financial efficiency for transport activities as well as to develop disaggregate route-based cost and revenue allocation models for transported wheat and flour. These are used in identifying those routes, where transport activity is profitable or alternatively not profitable.

Keywords: Logistics, Cost, Revenue, Models, Efficiency, Transport, Wheat, Flour, Egypt

Introduction

The wheat milling industry is one of the most important strategic industries in Egypt. Wheat cultivation in Egypt is not sufficient to meet the needs of domestic consumption. In 1998, locally cultivated wheat reached 1.13 million tons; while imported wheat reached 4.39 million tons, which means that Egypt is importing approximately 80% of its wheat needs. Currently four main companies are dominating the wheat milling industry with each concentrating its operation in a different geographical zone, thus covering the whole of Egypt. Upper Egypt Wheat Milling Company (UEWMC) covers the consumption of four main governorates, namely Sohag, Qena, Aswan and the Red Sea governorates. The population of this region is approximately 7.3 million capita, which represent approximately 12% of Egypt's population. In 98/99 approximately 0.86 million tons of wheat was handled (i.e. transported, stored, milled, distributed) by this company which represent approximately 15.6% of wheat handled in Egypt.

Own account companies are those companies that possess a fleet of trucks serving the transport of required raw materials and produced finished goods by the company. Such transport sector within the company is meant to support the company in achieving more profits. If such sector is incurring losses, it might be better for the company to lease transport services from specialized transport service providers. A key indicator of the performance of the transport sector is to measure its financial efficiency. Financial efficiency is concerned with comparing financial outputs i.e. the transport operational revenues to financial inputs i.e. the transport operational costs. Once the financial performance of the sector is identified, other tools should be used in an effort to remedy or enhance such performance in the future. This paper advocates the view of building cost and revenue models to act as the basis for directing future actions aimed at improving the financial efficiency of transport activities. A comprehensive review of cost modeling approaches and their benefits was presented in Abbas and AbdAllah (1999). One of these approaches, known as the average cost allocation model, is based on allocating costs of all resource requirements to a

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single system operating output such as travelled kilometers, operable hours, operable vehicles, patronage, or transported tonnage.

This core of the paper lies in developing a methodological approach that is meant to compute and assess the financial efficiency of transport activities within an own account company. The applicability of this approach is demonstrated by using 1998/99 relevant data and information of UEWMC. Limited research has tackled the issue of wheat transportation costs, see Bessler and Fuller, 2000 for a US example. This research is concerned with analysis of costs and revenues of transporting wheat and flour by UEWMC. The proposed approach involves several stages. These are discussed in detail with reference to their applicability to UEWMC.

Constructing Logistics Chain For Uewmc

More firms are adopting a supply chain management approach to guide business operations. In such arrangement, trading partners within the channel work together to leverage multi firm assets and competencies toward the identification and satisfaction of customers, see Bowersox (1991). According to Trace, 2001, the logistical issues posed by bulk commodities may be explored more effectively using a system approach. In this context, the first stage in the proposed approach, see figure 1, is concerned with constructing logistics chains to represent and show activities and flow of raw materials and products for UEWMC. Activities considered in this chain include procurement, transport, storage, and milling of wheat, as well as transport, storage, and distribution of flour to wholesale & retail customers. The chain is used as the basis for identifying the types of transported commodities (i.e. imported and locally cultivated wheat, as well as ordinary and high grade flour), the unique transport phases, the trip origins and destinations of each of these phases as well as the transport modes and providers involved.

The chain represents the flow of imported wheat, originating from exporting countries, transported by sea to main ports in Egypt, where the physical involvement of UEWMC starts in terms of custom clearance at ports and transportation of wheat from ports and central barn in Cairo to be stored in regional barns in upper Egypt. This is followed by wheat transportation from regional barns to regional mills. Together these stages constitute the inbound logistics chain of imported wheat. Four regional mills are involved in producing high-grade flour from imported wheat. High-grade flour is then transported to wholesale distribution centers located all over Egypt but particularly concentrated in upper Egypt. Together these stages constitute the outbound logistics chain of high-grade flour. The chain also represents the flow of locally cultivated wheat, its collection at regional collection centers, followed by its transport to the 24 regional mills, where ordinary flour is produced. Together these stages constitute the inbound logistics chain of locally cultivated wheat. More than twenty regional mills are involved in producing ordinary flour either from locally cultivated wheat or from imported wheat. A small portion of the ordinary flour is transported to seven regional automated bakeries owned by the company. The biggest share is transported to regional warehouses for storage and distribution. Wholesale customers are responsible for the transportation of ordinary flour from the company warehouses to their wholesale and retail outlets. Together these stages constitute the outbound logistics chain of ordinary flour.

It is worth mentioning that the logistics chain depicted in figure 1 can act as the basis for analysis of other major activities, within the company, such as warehousing and production. Also, it has to be noted that there is other transport activities shown in the figure, which are outside the scope of this research. Further research could consider the profitability of these transport activities as well as the effect of profitability on selection of modes available for transporting wheat and flour.

Commodity And Route Identification

The second stage in the proposed approach is concerned with identification of types of commodities transported by road using company owned fleet. Examining the logistics chain depicted in figure 1 shows that UEWMC is handling four types of commodities. The first two namely imported and locally cultivated wheat, represent the raw materials required for the production (milling) process. The other two, namely high grade and ordinary flour, represent finished products to be distributed to customers. These four commodities are transported through several unique transport phases with different origins and destinations. This research concentrates on those transport phases where the company fleet is utilised to move commodities via the Egyptian road network.

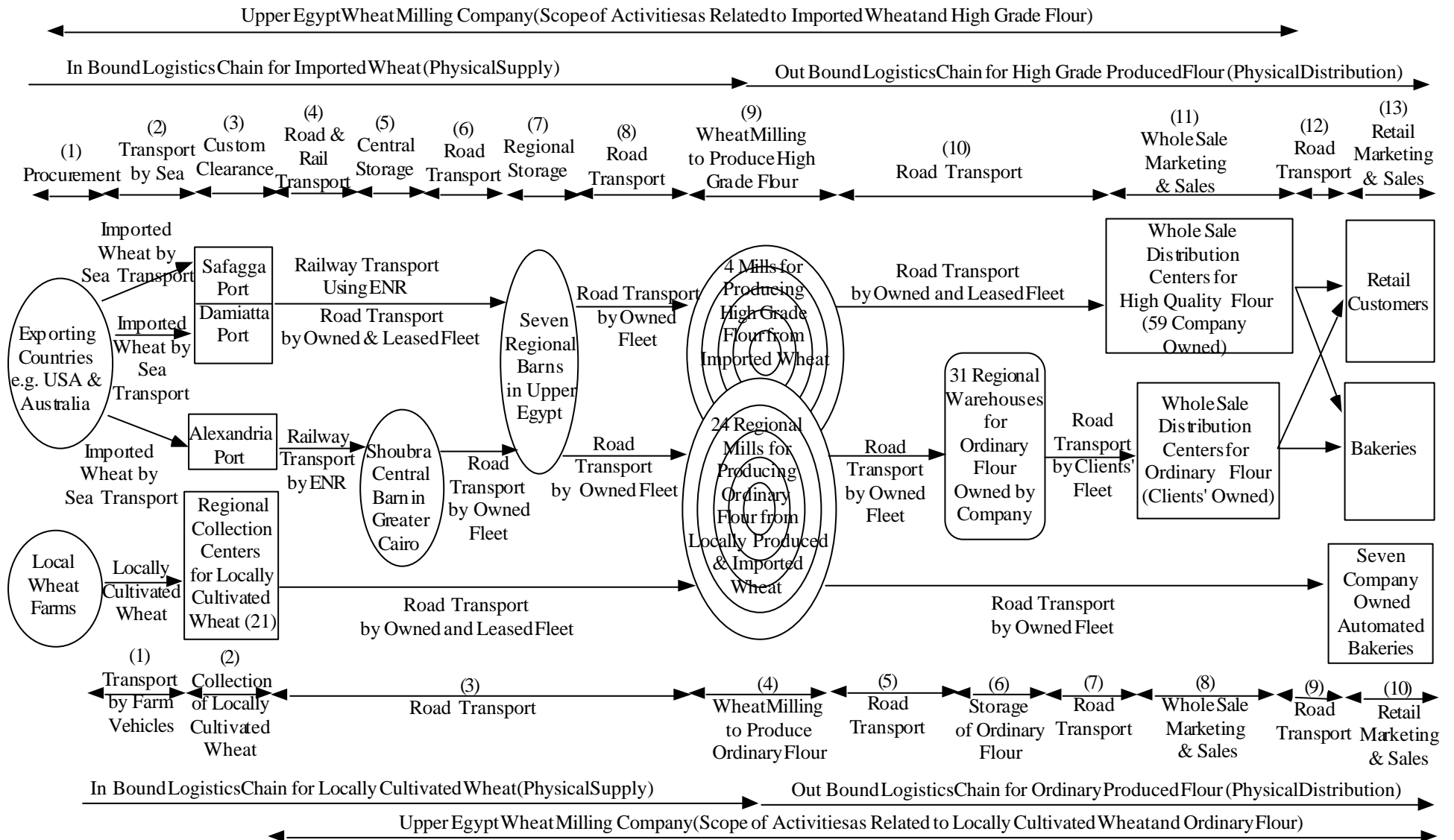


Figure 1: Logistics Chain for Upper Egypt Wheat Milling Company

The third stage in the proposed approach is concerned with identification of origins and destinations (routes) for each transport phase, where company fleet is involved. These include:

- Transport of imported wheat (IW) from Safagga and Damiatta ports (P) of as well as from the central barn in Cairo to seven regional barns (B) located in Upper Egypt. This produces 3X7 matrix i.e. 21 routes. In reality, transport activities took place along 13 routes only.
- Transport of imported wheat (IW) from seven regional barns (B) to 24 regional mills (M), producing a 7X24 matrix i.e. 168 routes. In reality, transport activities took place along 97 routes only.
- Transport of high-grade flour (HGF) from 4 regional mills (M) involved in producing high-grade flour to 59 distribution centers (D). This produces 4X59 matrix i.e. 236 routes. In reality, transport activities took place along 168 routes only.
- Transport of locally cultivated wheat (LCW) from 21 regional collection centers (C) to 24 regional mills (M), which are geographically aggregated into 13 zones. This produces 21X13 matrix i.e. 273 routes. In reality, transport activities took place along 50 routes only.
- Transport of ordinary flour (OF) from 21 regional mills (M) to 31 regional warehouses (W). This produces a 21X31 matrix i.e. 651 routes. In reality, transport activities took place along 69 routes.

Compilation And Synthesis Of Matrices

The fourth stage in the proposed approach is concerned with compilation and synthesis of raw data representing basic operational parameters for each of the five identified unique phases of transport. Data is drawn from company records in an effort to produce four matrices, namely transported quantity, average loading, distances and tariff matrices. In stage five of the proposed approach, a process of matrix manipulation is conducted to produce matrices representing four key operating variables, namely round trips, operated hours, traveled kilometers and ton kilometers. Mathematical formulations used to compute these variables for each transport phase are as follows:

$$RT_{ij}^C = TQ_{ij}^C / AL_{ij}^C \quad (1)$$

Where: RT = Number of Round Trips TQ = Transported Quantity
 AL = Average Loading C = Type of Transported Commodity (IW, HGF, LCW, OF)
 i = Trip Origins, i.e. i = P = 1,...,3 for IW, or i = B = 1,...,7 for IW, or i = M = 1,...,4 for HGF, or i = C = 1,...,21 for LCW, or i = M = 1,...,21 for OF
 j = Trip Destinations i.e. j = B = 1,...,7 for IW, or j = M = 1,...,24 for IW, or j = D = 1,...,59 for HGF, or j = M = 1,...,13 for LCW, or j = W = 1,...,31 for OF

$$OH_{ij}^C = ((D_{ij}^C / AS_{ij}) * 2) + ALT^C + AUT^C * RT_{ij}^C \quad (2)$$

Where: OH = Operated Hours D = Distance between origin & destination (route distance)
 AS = Average Speed ALT = Average Loading Time AUT = Average Unloading Time

$$TK_{ij}^C = RT_{ij}^C * D_{ij}^C * 2 \quad \text{Where: TK = Traveled Kilometers} \quad (3)$$

$$\text{Ton.Km}_{ij}^C = ((TQ_{ij}^C * TK_{ij}^C) / RT_{ij}^C) * ULF_{ij}^C \quad \text{Where: Ton. Km = Number of Ton-Kilometers} \quad (4)$$

ULF = Unloaded Factor i.e. a factor representing number of return trips where vehicles are empty. Values can range from 0.5 to 1.

Values resulting from matrix summation for each of the operational variables representing the five transport phases are displayed in Table 1. The table shows that the largest quantity being transported by the company fleet is the imported wheat from the seven regional barns to the 24 regional mills. The table also shows that this in turn has an effect in increasing the number of round trips and hence operated hours for this phase of transportation activities. However, this is not the case for ton-kilometers which is the highest in the case of transporting imported wheat from the 2 sea ports and the central barn in Cairo to the seven regional barns. This can be logically explained by noting that the average distance for this type of trip is around 615 kilometers, versus 93 kilometers for the average trip between regional barns and regional mills. Also more consolidation of loads, i.e. 33 ton/trip versus 15 ton/trip on average, occurs for this phase of transport activity, where it is costly to leave imported wheat stored at ports. Such long distances and consolidation of loads lead to a lesser number of trips. It is well known that it is only in this phase that the company leases transport services from transport providers so as to be able to meet the peak demand of unloading ships coming to ports with imported wheat. The table also shows the relatively insignificance of the phase where locally cultivated wheat is transported from collection centers to regional mills.

| Commodity (C) | Origin (i) | Destination (j) | Operational Variables for Transport Phases | | | |
|------------------------------|------------------------|-------------------------|--|---------------------------------------|--|---|
| | | | Transported Quantity ($\sum_{ij} TQ_{ij}^C$) | Round Trips ($\sum_{ij} RT_{ij}^C$) | Operated Hours ($\sum_{ij} OH_{ij}^C$) | Ton-Kilometers ($\sum_{ij} \text{Ton.Km}_{ij}^C$) |
| Imported Wheat (IW) | 2 Ports & Central Barn | 7 Regional Barns | 151370 (11.9%) | 4599 (6.31%) | 70180 (18.48%) | 46177152 (26.76%) |
| Imported Wheat (IW) | 7 Regional Barns | 24 Regional Mills | 691343 (54.34%) | 47250 (64.8%) | 120552 (31.74%) | 33599166 (19.47%) |
| High Grade Flour (HGF) | 4 Regional Mills | 59 Distribution Centers | 113433 (8.92%) | 4603 (6.31%) | 83412 (21.96%) | 63191419 (36.62%) |
| Local Cultivated Wheat (LCW) | 21 Collection Centers | 24 Regional Mills | 12822 (1.01%) | 621 (0.85%) | 10594 (2.79%) | 6063239 (3.51%) |
| Ordinary Flour (OF) | 21 Regional Mills | 39 Regional Warehouses | 303316 (23.84%) | 15845 (21.73%) | 95036 (25.02%) | 23506191 (13.62%) |
| Total | | | 1272284 | 72918 | 379774 | 172537167 |

Table 1: Matrix Summation of Operational Variables for Five Main Transport Phases

(*) The 24 mills are aggregated in accordance with their regional locations into 13 locations

(**) As previously stated, only 21 out of 24 mills produced ordinary flour

Computation Of Matrices Representing Operational Costs And Revenues

The sixth stage of the proposed approach is concerned with the computation of matrices representing operational costs and revenues for the five identified transport phases. On reviewing company records, it was found that there are no separate data on transport cost for each of the five transport phases. Transport costs is aggregated for all of the transport activities conducted by the company. In order to compute transport costs for each of the five transport phases as well as for each of the considered routes, a proportional assignment of total transport costs was conducted. Travelled kilometers was selected as the basis for conducting such assignment as it is thought as the most significant operational variable affecting operation costs and revenues. The mathematical formulation for this proportional assignment is as follows:

$$TC_{ij}^C = TC * [TK_{ij}^C / (\sum_{ij} TK_{PB}^{IW} + \sum_{ij} TK_{BM}^{IW} + \sum_{ij} TK_{MD}^{HGF} + \sum_{ij} TK_{CM}^{LCW} + \sum_{ij} TK_{MW}^{OF})] \quad (5)$$

Values of computed transport costs for each of the five transport phases are depicted in Table 3. On the other hand, transport revenue for each transport phase is computed by multiplying the matrix representing transported quantities by the unit tariff matrix. Unit tariffs are determined in accordance with type of transported commodity as well as with journey distances. Such tariffs are decided and paid to the company by a government agency, holding the responsibility for securing strategic agriculture products for Egypt. Formulation for such matrix manipulation can take the following form:

$$TR_{ij}^C = TQ_{ij}^C * T_{ij}^C \quad (6)$$

Values of computed transport revenues for each of the five transport phases are shown in Table 2. In addition, the table displays the computation of financial efficiency as an indicator of the profitability/non-profitability of all transport activities conducted by the company as well as for each of the five transport phases. The table shows that transport activities for the company are generally on the profitable side, where financial efficiency reached 1.19 i.e. achieving 19% profitability. However, this is not a very high profitability value. Looking at each transport phase, it became clear that there are two phases which are incurring losses, the first is concerned with transporting high grade flour from regional mills to distribution centers scattered all over Egypt. The other phase, proving non-profitable, is concerned with transporting locally cultivated wheat from regional collection centers to regional mills. On the other hand, the table shows the high profitability achieved by the fifth transport phase, which involves moving ordinary flour from regional mills to regional warehouses.

| Commodity (C) | Origin (i) | Destination (j) | Transport Costs (TC ^C) | Traveled Kilometers ($\sum_{ij}TK_{ij}^C$) | Transport Costs ($\sum_{ij}TC_{ij}^C$) | Transport Revenue ($\sum_{ij}TR_{ij}^C$) | Financial Efficiency (FE ^C) |
|--------------------------|------------------------|------------------------|------------------------------------|--|--|--|---|
| Imported Wheat | 2 Ports & Central Barn | 7 Regional Barns | Not Recorded | 2830857 (22.09%) | 3339470 (22.09%) | 4891524 (27.15%) | 1.46 |
| Imported Wheat | 7 Regional Barns | 24 Regional Mills | Not Recorded | 4398119 (34.33%) | 5188318 (34.33%) | 5897134 (32.73%) | 1.14 |
| High Grade Flour | 4 Regional Mills | 59 Distribut. Centers | Not Recorded | 3347374 (26.12%) | 3948789 (26.12%) | 3153707 (17.50%) | 0.8 |
| Locally Cultivated Wheat | 21 Collection Centers | 24 Regional Mills | Not Recorded | 337455 (2.63%) | 398085 (2.63%) | 354201 (1.97%) | 0.89 |
| Ordinary Flour | 21 Regional Mills | 39 Regional Warehouses | Not Recorded | 1899269 (14.82%) | 2240506 (14.82%) | 3721946 (20.66%) | 1.66 |
| Total | | | 15115168 | 12813074 | 15115168 | 18018512 | 1.19 |

Table 2: Financial Efficiency for Each Transport Phase Based on Transport Costs & Revenues
 (*) Currently 1US\$ \cong 6 Egyptian Pounds (denoted as L.E.)

Based on the previous analysis, several conclusions can be drawn. First, it is wise for the company to sustain and develop operation of its transport sector, as this sector proved to be profitable. On the other hand, the company should look seriously at all of its transport phases and particularly at the third and fourth transport phases, which proved to be unprofitable. In this context, and in accordance with figure 1, the research develops in Table 3 cost and revenue models for all of the transport activities operated by the company owned fleet as well as separate cost and revenue models for each of the five identified transport phases.

The calibration factors i.e. the unit cost and unit revenue factors of these models are examined. For the third transport phase to breakeven either an average transport cost reduction from 34.81 L.E./transported ton to 27.8 L.E./transported ton (i.e. a 20% reduction) should be targeted. Alternatively, an average increase in paid transport tariff from 27.8 L.E./transported ton to 34.81 L.E./transported ton (i.e. a 25% increase) can also achieve a breakeven condition. The same analysis applies for the fourth transport phase, where for this phase to breakeven either an average transport cost reduction from 31.05 L.E./transported ton to 27.62 L.E./transported ton (i.e. an 11% reduction) should be targeted. Alternatively, an average increase in paid transport tariff from 27.62 L.E./transported ton to 31.05 L.E./transported ton (i.e. a 12.4% increase) can achieve same results.

Financial Efficiency, Cost And Revenue Models For Transport Activities Disaggregated By Commodity & Route

The seventh stage of the proposed approach is concerned with the computation of financial efficiency for transport activities disaggregated by commodity type, i.e. for each transport phase as well as being disaggregated by each route joining a particular origin with a particular destination. Computation of this indicator demonstrates that the most two successful transport phases in terms of the number of profitable routes are the first and fifth phases, see Table 4. The table shows that out of 13 routes utilized by the first transport phase, 9 are profitable, i.e. 69%, while out of 69 routes utilized by the fifth transport phase, 46 are profitable, i.e. 67%. Of course the transport department within the company should be concentrating on identifying all those routes where transport operation is not profitable and particularly for third and fourth phase. Once such routes are identified, specific cost and revenue models representing transport operation along them are calibrated see Aly, 2000 for details of this analysis. For demonstration purposes, detailed analysis for the first transport phase is presented in Tables 5 & 6. Despite that this phase is the second most profitable; it was selected due to space limitations, which does not permit displaying the large matrices presenting other transport phases. However, analysis for this phase is sufficed to act as a prototype example. As shown in Table 5, four routes are identified as being unprofitable, i.e. financial efficiency of transport operation is less than 1. For all routes and particularly those four routes, cost and revenue models are developed and shown in Table 6. Looking at such models, one can deduce that for the four unprofitable routes to breakeven, either the unit transport costs should be reduced to reach the unit transport revenue or vice versa i.e. the tariff of transportation for these routes should be increased to breakeven with the unit transport costs. Another alternative for management is to completely drop operation of such routes using their own fleet and to lease such services from specialized transport providers. A computer model assisting in making such decisions is reported by Min (1998).

| Four Operating Outputs Taken as Basis for Allocation of Transport Costs | | | | | | |
|---|------------------------|-------------------------|--|--|--|--|
| Commodity | Origin | Destination | Transported Quantity (TQ) | Round Trips (RT) | Operated Hours (OH) | Ton-Kilometers (Ton.Km) |
| Imported Wheat (IW) | 2 Ports & Central Barn | 7 Regional Barns | $TC^{IW} = 22.06 * TQ^{IW}$ $TR^{IW} = 32.32 * TQ^{IW}$ | $TC^{IW} = 726.13 * RT^{IW}$ $TR^{IW} = 1063.61 * RT^{IW}$ | $TC^{IW} = 47.58 * OH^{IW}$ $TR^{IW} = 69.70 * OH^{IW}$ | $TC^{IW} = 0.072 * \text{Ton.Km}^{IW}$ $TR^{IW} = 0.106 * \text{Ton.Km}^{IW}$ |
| Imported Wheat (IW) | 7 Regional Barns | 24 Regional Mills | $TC^{IW} = 7.50 * TQ^{IW}$ $TR^{IW} = 8.53 * TQ^{IW}$ | $TC^{IW} = 109.81 * RT^{IW}$ $TR^{IW} = 124.81 * RT^{IW}$ | $TC^{IW} = 43.04 * OH^{IW}$ $TR^{IW} = 48.92 * OH^{IW}$ | $TC^{IW} = 0.154 * \text{Ton.Km}^{IW}$ $TR^{IW} = 0.176 * \text{Ton.Km}^{IW}$ |
| High Grade Flour (HGF) | 4 Regional Mills | 59 Distribution Centers | $TC^{HGF} = 34.81 * TQ^{HGF}$ $TR^{HGF} = 27.80 * TQ^{HGF}$ | $TC^{HGF} = 857.87 * RT^{HGF}$ $TR^{HGF} = 685.14 * RT^{HGF}$ | $TC^{HGF} = 47.34 * OH^{HGF}$ $TR^{HGF} = 37.81 * OH^{HGF}$ | $TC^{HGF} = 0.062 * \text{Ton.Km}^{HGF}$ $TR^{HGF} = 0.050 * \text{Ton.Km}^{HGF}$ |
| Local Wheat (LCW) | 21 Collection Centers | 24 Regional Mills | $TC^{LCW} = 31.05 * TQ^{LCW}$ $TR^{LCW} = 27.62 * TQ^{LCW}$ | $TC^{LCW} = 641.04 * RT^{LCW}$ $TR^{LCW} = 570.37 * RT^{LCW}$ | $TC^{LCW} = 37.58 * OH^{LCW}$ $TR^{HGF} = 37.81 * OH^{HGF}$ | $TC^{LCW} = 0.066 * \text{Ton.Km}^{LCW}$ $TR^{LCW} = 0.058 * \text{Ton.Km}^{LCW}$ |
| Ordinary Flour (OF) | 21 Regional Mills | 39 Regional Warehouses | $TC^{OF} = 7.39 * TQ^{OF}$ $TR^{OF} = 12.27 * TQ^{OF}$ | $TC^{OF} = 141.40 * RT^{OF}$ $TR^{OF} = 234.90 * RT^{OF}$ | $TC^{OF} = 23.58 * OH^{OF}$ $TR^{OF} = 39.16 * OH^{OF}$ | $TC^{OF} = 0.095 * \text{Ton.Km}^{OF}$ $TR^{OF} = 0.158 * \text{Ton.Km}^{OF}$ |
| All | | | $TC^{All} = 11.88 * TQ^{All}$ $TR^{All} = 14.16 * TQ^{All}$ | $TC^{All} = 207.29 * RT^{All}$ $TR^{All} = 247.11 * RT^{All}$ | $TC^{All} = 39.8 * OH^{All}$ $TR^{All} = 47.45 * OH^{All}$ | $TC^{All} = 0.088 * \text{Ton.Km}^{All}$ $TR^{All} = 0.104 * \text{Ton.Km}^{All}$ |

Table 3: Cost and Revenue Allocation Models for Phases of Transporting Main Commodities by Fleet Owned by Upper Egypt Milling Company

| Commodity (C) | Origin (i) | Destination (j) | Financial Efficiency ≥ 1 | Financial Efficiency < 1 |
|--------------------------|------------------------|-------------------------|-------------------------------|----------------------------|
| Imported Wheat | 2 Ports & Central Barn | 7 Regional Barns | 9 routes (69%) | 4 routes (31%) |
| Imported Wheat | 7 Regional Barns | 24 Regional Mills | 34 routes (35%) | 63 routes (65%) |
| High Grade Flour | 4 Regional Mills | 59 Distribution Centers | 65 routes (39%) | 103 routes (61%) |
| Locally Cultivated Wheat | 21 Collection Centers | 24 Regional Mills | 25 routes (50%) | 25 routes (50%) |
| Ordinary Flour | 21 Regional Mills | 39 Regional Warehouses | 46 routes (67%) | 23 routes (33%) |
| | | Total | 179 (45%) | 218 (55%) |

Table 4: Computation of Financial Efficiency for Routes Utilised by Each Transport Phase Based on Transport Costs and Revenues Matrices

| Origin/Destination | Sohag Barn | Beleena Barn | Qena Barn | Qous Barn | Asna Barn | Edfo Barn | Aswan Barn |
|--------------------|------------|----------------|----------------|----------------|----------------|----------------|------------|
| Safagaa Port | 1.7 | 1.36 | 1.69 | 1.79 | 1.28 | 1.38 | 1.05 |
| Damiatta Port | 1.14 | 0.95 | Not Applicable | 0.99 | Not Applicable | Not Applicable | 1.02 |
| Cairo Central Barn | 0.86 | Not Applicable | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 0.92 |

Table 5: Computation of Financial Efficiency for Routes Utilised by First Transport Phase Based on Origin/Destination Transport Costs and Revenues

| | Sohag Barn | Beleena Barn | Qena Barn | Qous Barn | Asna Barn | Edfo Barn | Aswan Barn |
|--------------------|--|--|--|--|--|--|--|
| Safagaa Port | $TC^{IW} = 20 * TQ^{IW}$ $TR^{IW} = 34 * TQ^{IW}$ | $TC^{IW} = 22 * TQ^{IW}$ $TR^{IW} = 30 * TQ^{IW}$ | $TC^{IW} = 13 * TQ^{IW}$ $TR^{IW} = 22 * TQ^{IW}$ | $TC^{IW} = 14 * TQ^{IW}$ $TR^{IW} = 25 * TQ^{IW}$ | $TC^{IW} = 25 * TQ^{IW}$ $TR^{IW} = 32 * TQ^{IW}$ | $TC^{IW} = 26 * TQ^{IW}$ $TR^{IW} = 36 * TQ^{IW}$ | $TC^{IW} = 43 * TQ^{IW}$ $TR^{IW} = 45 * TQ^{IW}$ |
| Damiatta Port | $TC^{IW} = 51 * TQ^{IW}$ $TR^{IW} = 58 * TQ^{IW}$ | $TC^{IW} = 65 * TQ^{IW}$ $TR^{IW} = 62 * TQ^{IW}$ | Not Applicable | $TC^{IW} = 73 * TQ^{IW}$ $TR^{IW} = 72 * TQ^{IW}$ | Not Applicable | Not Applicable | $TC^{IW} = 89 * TQ^{IW}$ $TR^{IW} = 91 * TQ^{IW}$ |
| Cairo Central Barn | $TC^{IW} = 42 * TQ^{IW}$ $TR^{IW} = 36 * TQ^{IW}$ | Not Applicable | Not Applicable | Not Applicable | Not Applicable | Not Applicable | $TC^{IW} = 71 * TQ^{IW}$ $TR^{IW} = 65 * TQ^{IW}$ |

Table 6: Cost and Revenue Allocation Models for Routes Utilized by First Transport Phase (Imported Wheat from Ports and Central Barn to Regional Barns)

Conclusions

This paper was concerned with developing a methodological approach to compute and assess financial efficiency of transport activities within an own account company. The applicability of this approach, which involves eight stages, was demonstrated by using 98/99 data and information of UEWMC. The first stage in the proposed approach was concerned with constructing a logistics chain to represent and show the activities and flow of raw materials and products for the company. Such chain acts as the basis for computing financial efficiency and developing cost and revenue models for transport activities operated by the company owned fleet. The research shows how financial efficiency for five distinct transport phases was computed. The largest quantity being transported by the company fleet is imported wheat from barns to mills. This is followed by ordinary flour from mills to warehouses. These two transport phases are completely operated by company fleet. In terms of financial efficiency, both phases proved to be profitable. Transport activities for the company are generally on the profitable side, where the financial efficiency reached 1.19. However, this is not a very high profitability. It became clear that two other phases are incurring losses, the first is the phase concerned with transporting high grade flour from mills to distribution centers scattered all over Egypt. The other non-profitable phase is concerned with transporting locally cultivated wheat from collection centers to mills. Based on such analysis, it is wise for the company to sustain and develop operation of its transport sector, as this sector proved to be profitable.

The transport department within the company should be concentrating on identifying all those routes where transport operation is not profitable and particularly for the third and fourth phase. Once such routes are identified, it is advisable to calibrate specific cost and revenue models representing transport operation along these routes. Looking at such models, one can deduce that for the unprofitable routes to breakeven, either the unit transport costs should be reduced to reach the unit transport revenue or vice versa i.e. the tariff of transportation services along these routes should be increased to breakeven with the unit transport costs. Another alternative for management is to completely drop operation of such routes using their own fleet and to lease such services from specialized transport providers. To demonstrate such analysis, the research developed disaggregated route based cost and revenue models for transporting imported wheat from ports to regional barns. These are meant to assist in predicting and showing the relative magnitude of expected changes in the cost and revenue expected of transport activities. The development of such models is thought to contribute in raising the profitability consciousness with an ultimate benefit of reducing costs and increasing revenue and hence achieving efficiency gains. The company should look seriously at all of its transport phases and particularly at the third and fourth phases, which proved to be unprofitable. The question for future research is what is the most efficient option for the whole transport activities within the logistics chains of UEWMC. In addition, efforts for optimally locating distribution centers and warehouses to reduce transport costs for the company should be pursued see Das (1997) and Nozick & Turnquist (1998) for research on developing analytical tools to assist in such decisions.

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