

## Establishing a Logistics Cost Concept in Halal Logistics: From Perspective of Logistics Service Providers Point of View

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### ABSTRACT

Operational cost is the main apprehension amongst any logistics service providers. Therefore, the decision on the adoption of Shariah principles in logistics activities has had thoroughly studied all the consequences either Halal logistics will contribute more profits or adopting Shariah principles (religious purpose) regardless making a loss. In lieu of the need to be Shariah compliant, Halal logistics costs can be more expensive than the conventional logistic costs. However, being Shariah compliant provides good investment opportunities for logistics providers to penetrate the new market and increases their business income. Diverse background of logistics providers has led to a different concept of logistics costs in Halal logistics activities. The logistics providers who cater for Halal products and general goods bear more costs than dedicated logistics provider (only focus on Halal products) and tend to underutilize facilities such as warehouse, forklifts and trucks. Hence, this paper attempts to conceptualize the factors involved in Halal logistics cost and distinguish those costs that are specifically related to Halal logistics activities. This paper encompasses two methods; literature review and interviews. Literature reviews were gained from previous studies and articles related to the keywords such as logistics costs and halal logistics. The interviews consist of middle and top-level managers from logistics providers with reputable knowledge, expertise and experience in Halal logistics and setting up the cost.

**KEYWORDS:** Logistics, Halal, Halal Logistics, Cost, Halalan Thoyyiban.

### INTRODUCTION

In any business, cost has always been the main issues as company will keep the cost as low as possible. Therefore, the logistics service providers have main concern on practicing Halal logistics because it entails dedication or segregation between Halal and non-Halal products [11] that leads to the operational costs increased. Therefore, it creates apprehension amongst the logistics service providers and their perception of implementation Shariah principles in the logistics practices will cause to extra procedures or operations that usually have higher cost implications.

Halal logistics requires a large capital expenditure and not cost-effective [1]. This is due to more facilities are required to manage the Halal products and requires a thorough segregation between Halal products with the Haram and hazardous products throughout the supply chain activities. In [1] emphasized that Halal business is not the main source of income for several companies that have implemented Halal logistics. Demand for Halal logistics such as Halal transport, Halal warehouse and product handling are still low. Furthermore, to involve on a Halal logistics practice will require a certain special handling investment. Thus, the extra costs incurred by a company and charges foist to the customers have influenced the whole development of Halal business and created the negative perceptions of Halal logistics industry.

In [21] proposed that the need to differentiate the load carriers for Halal and non-Halal in distribution and transportation, storage as well as loading and unloading activities. This differentiation is to ensure Halal integrity and control the risk of contamination. In other words, with extra regulation and the process required to ensure that the logistics operations to be Halal compliant. Nevertheless, there are several studies that define Halal logistics and conventional logistics have more or less similar as including of logistics planning, executing and distribution and storage of Halal certified products are manageable from the point of origin to point of consumption [6,27]. In lieu of this conflicting view points, hence this study attempts to conceptualize the factors affecting the Halal logistics costs and determine the specific costs involved in Halal logistics activities.

### LITERATURE REVIEW

It is very important to highlight the terminologies that have been used in this study to make the points clear and understandable. According to [2], Halal is an Arabic term, Al-Halal (The lawful) which means 'permitted,

with respect to which no restriction exists and the doing of which the Law-Giver, Allah SWT has allowed'. On the other hand, Haram or Al-Haram (The prohibited) refers to that the 'Law-Giver has absolutely prohibited. The Makruh comes in between Halal and Haram. The Makruh means detestable and indicates disapproved by Law-Giver in a lower degree than the Haram (not very strong). Whoever commits Makruh will not be punished as punishment take place for a Haram act except if the behavior or act does it in excess, may lead the person towards Haram.

Halal and haram are part of the total legal system of Islam, its Shariah, a system whose primary objective is the good for mankind. Shariah is the religious legal system governing the members of the Islamic faith [4]. It is derived from the religious precepts of Islam, particularly the Quran and the Hadith. The term Shariah comes from the Arabic language term, which means a body of moral and religious law derived from religious prophecy. The Islamic Shariah principles aiming to ease and simplify the business of day to day living and protect human beings from oppressive customs, harmful and having irrational belief.

The basic Shariah principle in food and beverages, all foods and drinks are Halal exclude those which are forbidden in Qur'an and Sunnah. In order to obtain holistic benefits, the concept of Halal and Tayyib should bind together as proposed by Islamic scholars such as Ibn 'Asyur, al-Sayuti, al-Qurtubi and Ibn Kathir [12]. In [20] highlighted, to elucidate more holistic and ample clarification of the Halal concept, the term Halalan Tayyiban has been used which Halal means lawful and acceptable and Tayyib means good. Although the term Tayyib has not been widely used, the combination of the two phrases Halalan Tayyiban which implies "permitted and good or wholesome". In essence, it encompasses the elements of hygiene, safety and quality [13]. In [3] emphasize that good quality food bounded by Islam is strongly related to the development of good quality human capital.

Ihtiyad is another Arabic terminology that has been highlighted from the representative I. Representative I has Islamic study background and logistics operations experience for more than 20 years. According to him, as Halal logistics are still relatively new in the Halal industry, the authority especially the Department of Islamic Development Malaysia (JAKIM) has implemented the concept of Ihtiyad to avert mistakes due to the low efficiency level in managing Halal products and awareness on handling Halal products. Ihtiyad means taking the safe, prudent line by adopting a precautionary stance in those matters of which one is unsure [14].

Logistics cost is the costs associated with logistics activities [26], normally consist of the following components: transportation, warehousing, order processing, customer service, administration and inventory holding. In [8] define logistics cost comprise a significant amount of business costs in which calculated as a percentage turnover and include cost components such as transportation, transport packaging, warehousing, indirect costs of logistics and logistics administration [16,23]. As [10] indicate transportation, warehousing, inventory carrying and logistics administration have commonly used in logistics costs. In [17] describe that the combination components inventory carrying and warehousing were added in logistics costs, for example the opportunity cost of capital and storage, risk costs and cost of lost sales (under inventory costs).

Before identifying the logistics costs, in [18] indicates the functions and the factors contributing logistics operations should be studied and acquainted in order to comprehend the cost concept in the logistics process. There are seven main functions in logistics operations which are warehousing, transportation, order processing, inventory management, inventory handling and information management [24]. These seven main functions could simplify the entire logistics cost concept, but that these functions probably not attribute to the logistics costs and may have no correlation between these functions [18].

Hence, these logistics functions that highlighted by [18] need to view first and adopt Shariah principles into Halal logistics practices. As [22] defines Halal logistics as the process of managing the procurement, movement, storage and handling of material parts, livestock, semi-finished or finished inventory both food and non-food, related information and documentation flows through the organization and the supply chain in compliance with the general principles of Shariah. In [6, 27] described Halal logistics and conventional logistics has almost similar activities such as logistics planning, executing and controlling distribution as well as storage of the Halal certified products from point of origin until point of consumption. Consequently, Halal logistics cost refers to all costs involved in logistics activities, for example, transportation, material handling, inventory management, warehousing, packaging, order processing and information management that are in accordance with Shariah principles.

## METHODOLOGY

In achieving the objectives of the study, several past literatures related to areas of Halal logistics and logistics costs are reviewed collected to gather pertinent information related to the study. In addition to complement the dearth of literatures on this area, this study also conducts qualitative studies where data are collected through series of interviews and focus groups [19]. Focus group is widely used for research to discover the new phenomenon and for studies that are exploratory in nature. Hence, focus groups lets free-flow, spontaneous, open and in-depth discussion among the focus groups [25, 19], Hence, allowing more inputs in

digging more issues in Halal Logistics. This study applies unstructured interviews as suggested by [19] that it allows determination of several critical factors that may be vital to the broad problem area. Accordingly, the interview questions are derived and developed from previous literatures in order to ensure the study includes important and relevant issues.

The companies are chosen based on Halal logistics certified and ongoing Halal certified. Therefore, these companies have gone through all the Halal logistics activities. The participants for this focus group consist of middle and top-level managers from logistics providers with reputable knowledge, expertise and experience in Halal logistics and setting up the cost. In [7] states that focus group made up of experts from the related field should consists of six to ten respondents with vast experience of the related field, in this case, Halal, logistics environment as well as holding respectable positions in their respective companies. Hence, in this study, 8 respondents from different companies have been chosen to discuss the issue of logistics costs in Halal logistics. In addition, all conversations are in Malay language and are recorded using voice recording devices with the consent from respondents.

The theme for the focus group is Logistics cost in Halal Logistics. All the questions are designed and arranged from general to specific to invite openness and avoid bias [9]. Once all the conversation are recorded and information are extracted from the focus group, data are transcribed, analysed and conclusions are drawn [15]. Table 1 indicates the profile of the respondents that are suitably chosen to ensure reasonable representations of Halal logistics service providers in Malaysia.

Table 1: Respondents profile

Company	Position	No of Years in the Industry	Job Description
Company ABC	Manager	15 years	Shariah-compliant logistics service provider certified by IHIAS
Company DEF	Assistant Manager	5 years	Shariah-compliant logistics service provider certified by JAKIM
Company GHI	Manager	10 years	Shariah-compliant logistics service provider certified by JAKIM
Company JKL	Assistant Manager	5 years	In process of Halal certified
Company MNO	Sector Head and Shariah advisor	23 years	Shariah-compliant logistics service provider certified by JAKIM
Company MNO	Director	22 years	Shariah-compliant logistics service provider certified by JAKIM
Company MNO	Director	More than 20 years	Shariah-compliant logistics service provider certified by JAKIM
Company PQR	Assistant Manager	17 years	Not Halal certified yet but practice Halal logistics

## FINDINGS AND DISCUSSION

Apparently respondents have two contradicting views on the cost concept related to Halal logistics. Representatives from Company ABC and DEF indicate that cost in implementing Halal logistics is not a significant contribution to the total logistics cost as Halal logistics activities follow the same standard process of the conventional logistics activities with exception that extra steps are needed to ensure Shariah compliance along handling activities. Furthermore, feedback from a representative of Company DEF stated that charge price of Halal Logistics is not so costly and found that after implementation of Halal logistics activities, the sales of company DEF has increased by 5% and in most cases the containers are 95% utilized.

Representative from Company ABC explained that its company has been involved in the Halal industry for many years, and therefore indicate that company faced no main issue in practising Halal logistics with exception to those companies that involves various kinds of products including Haram products. Additional task is required by the company to initially identify the history of delivering of the products. Since most of the Muslim operators do not handle Haram products, this saves the company from the sertu (purify and cleanse) cost as sertu is not needed in logistics activities.

On the other hand, according to the representative II of company MNO, due to low demand in Halal logistics service providers, the company is struggling on costs in Halal logistics especially when the facilities and equipment are underutilized as well as investing on maintenance.

To determine the cost in logistics activities is critical issue as logistics cost denotes a huge percentage of entire supply chain costs [5]. Therefore, to comprehend and estimate the numerous logistics cost components become complex in order to determine the profit margin [26]. Furthermore, when implement Shariah in logistics activities, costs become more complicated and dependent on current guidelines and procedures. The representative from Company JKL boast that segregation between Haram and Halal products in same working area is almost impossible to get Halal certificate from JAKIM body because low integrity and high risk. According to the representative from company GHI which following the current JAKIM requirement, company needs new set of operation in order to handle only Halal products and it creates cost.

The representative I of company MNO has had explained that there are 7 main costs involved in Halal logistics. These are:

1. Transportation-Truck has been upgraded to Halal truck and it always related with consolidation. According to JAKIM, hazardous goods and Haram products are not allowed to use Halal truck. This means, upgraded truck must be registered under Halal truck. Halal truck also is not allowed to carry non-Halal products and non-hazardous product such as electric goods even though with proper packaging (current practice). This situation leads to a few numbers of customers using Halal truck.
2. Warehouse-Halal products need dedicated space for storage. In JAKIM procedure, Halal products and general goods (even though non-hazardous) are now allowed to be stored in the same space. This led to the rate of Halal storage to increase and customers have choice to request conventional storage with cheaper price. The arrangement of warehouse is also needed as hazardous goods should be kept away from Halal products.
3. Human capital-Company needs workers to handle Halal products as well as truck driver. Therefore, company needs to invest training cost for handling Halal products, process of sertu and knowledge in Halal. The efficiency of workers decreased when underutilize and again, company needs to continuously provide training to their workers.
4. Forklift-Halal forklift only allowed using for Halal products.
5. Sertu-Company needs to provide a sertu area and buy additional equipment for sertu purposed.
6. Maintenance-Even though trucks and equipment are underutilized, but company needs to maintain the cleanliness and service the trucks. Once specific area has been certified Halal, company needs to maintain the whole area. For example, company needs to ensure no termites and faecal pigeons in the whole operations area. This in line of the concept of Halalan Thoyyiban.
7. Pallet-Wood pallets is not allowed, therefore plastic pallets should be used for Halal products.

As mentioned above, as Halal logistics demand is slow, most of facilities and equipment are extremely underutilized. Consequently, this pushes up the logistics costs and ultimately the customers will have to bear the costs. As illustrates by representative II from company MNO, mostly food products are cheaper and affordable. However, if food manufacturers requested Halal logistics services but only utilize half of container space, then this will become extremely expensive and cost of products will increase. The representative III from company MNO has highlighted that food products, in this case, Halal products should be reasonable price as other food products in order to keep Halal products can be afford by customers. If Halal products are expensive due to Halal logistics cost, it will interrupt Halal food industry to growth as customers will choose alternative products.

Due to low demand in Halal logistics, the representative from company PQR proposes if JAKIM can enforce to all Halal products manufactures to use Halal logistics services to ensure Halal integrity along the supply chain. Consequently, demand of Halal logistics will be increased. The representative III from company MNO stressed on current regulations in Halal logistics which in current practice, the economics of scale is impossible to apply. To encounter this, segregation can be done if company can guarantee no contamination between Halal products with other products during logistics activities. The representative I from company MNO has explained, even though JAKIM implementing Ihtiyad concept in Halal logistics practices, but until to what extent that JAKIM can tolerate the conditions to logistics service providers in handling Halal products but with strict condition which contamination will not occur.

## **CONCLUSION AND RECOMMENDATIONS**

Different types of company backgrounds lead to varies logistics cost in Halal logistics practices. Logistics service providers that provide service in food and beverages industry and Halal products will have no immense issue in following all the regulations in Halal Logistics and ensuing, the cost issue will not occurred.

In logistics nature of business, facilities and equipment have to fully utilize. Logistic service providers are not able to sustain in industry if run half container or empty cargo in return. Hence, logistics service providers have to charge more costs to their customers and customers may not favour with this situation and have option to switch to other logistics service providers.

In addition, there is no enforcement to customers to use Halal logistics. Hence, customers have many options to choose logistics service providers which can offer them cheaper price regardless look upon Halal logistics services.

Therefore, the crucial part of logistics costs in Halal logistics is when the logistics services providers handles varies products such as food and beverages products either Halal or Haram products, hazardous goods and general products. Therefore, more studies in logistics cost are needed especially to calculate the total cost of Halal logistics. As indicate by representative I from company MNO, no business enjoy loss.If the companies continuously face loss, they are no longer interested in providing Halal logistics services and withdrew from the industry. Hence, Halal industry will plummet.

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