

# Indian Logistics Industry

## Making headway despite challenges

The logistics and supply chain industry could well be termed as the barometer for the economic situation in the country. When there is a sudden emergence of multitude of small and medium so called “3PL / Logistics” companies, it is a clear indication that the economy is booming and the need to produce, store and move is at its peak. **Vikram Mansukhani**, National Operations Head – DIESL, discusses about the emerging opportunities, challenges before the industry and the ways out.



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National Operations Head – DIESL

Interestingly, when the downturn sets in, there is a sudden dearth of quality 3PL / Logistics which can add value to a customer’s supply chain rather than just taking on ‘outsourced problems’ related to manpower management, relevant license management and property leasing. The current INR fluctuation, where the rupee slipped dramatically, sent shockwaves down the industrial backbone and forced every single organisation to look at costs in a far more focussed and objective manner. Logistics costs for an organisation could range from about 1.5 per cent to approximately 12 per cent of an organisation’s turnover depending on the industry and complexity of the supply chain.

It is therefore inevitable that organisations would do everything possible to ensure that when the markets are under pressure, logistics costs are minimised and value adds are sought for every rupee spent. In such times, companies look for 3PL service providers who can provide benefits of scale based on a diverse and well spread customer portfolio that they have. Resources must be shared, automation and technology needs to be deployed and infrastructure needs to be easily scalable so that an uncertain demand in the market place can be catered to in quick time through inventory management and transportation optimisation. In an industry (supply chain) that is highly unforgiving,

scalability and operational excellence are vital especially when an uncertain market at large is cutting all corners.

### Areas of Opportunities

Manufacturing companies are now more actively looking at inplant management within their factories of a flexi-scalable mode, rather than engaging with fixed workforce unless the skill set demands a high retention factor. While this has already been in an advanced stage in the automobile sector, other engineering companies are also catching up. Kitting and packaging while not new are definitely on the rise for 3PL operators who can provide a semi skilled workforce with scalability in numbers at short notice. On-site management for infrastructure projects is also being now outsourced to 3 PL companies. In short, any activity that requires inventory management, fast movement of goods and scalability of infrastructure and manpower deployment is now an open playing area for 3 PL companies.

According to DIESL’s analysis on the sector wise data, organised retail has seen a phenomenal growth in modern India over the past 5–7 years. The retail sector of India is now among top five fastest-growing markets globally and by 2015 it is going to touch US\$637 billion. Most of it is going to be through modern retail i.e. through shopping malls, which



is expected to increase by 22 per cent by 2015. The number of malls is going to touch a promising figure of 500 approximately by 2015. The total mall area available in India is more than 900 lakh sq ft. All of this requires an extremely lean and JIT (just-in-time) supply chain to ensure that the store front never faces a stock-out and neither it is over-supplied. All of this will entail forward stocking locations by 3PL operators within city limits in easy striking distance of the final outlets as well as transportation consolidation given that parking and docking space is not freely available within high street market / mall areas.

In addition, the e-commerce market in India has grown by 34 per cent in the last seven years, was about US\$ 600 million in 2011-12 and is expected to touch US\$ 9 billion by 2016 and US\$ 70 billion by 2020. According to Forrester, the Indian e-commerce market is expected to grow at a CAGR of over 57 per cent between 2012 and 2016, which is the fastest within Asia-Pacific region. The key factors that are driving this growth are the rise of Internet usage (growing at 20 per cent) and 3G penetration, and increasing smartphone users with availability of Internet on mobile phones. It is estimated that currently there are 27 million mobile Internet users in India, out of which 4 per cent are buying products on mobile. This figure is expected to increase to 20 per cent mobile shoppers in the next four years.

This explosion will need supply-chain capabilities that are nimble, widespread and provide visibility of inventory and delivery both to the manufacturer/retailer and the end consumer. Physical dispatch capabilities, minimising order processing errors, providing secondary in-city distribution channels and embedding technology into the entire transaction is the only way to survive.

### **DIESL's Focus**

DIESL's focus is to constantly upgrade its physical infrastructure, workforce skill sets, bring in automation/technology and deliver constantly improved services to its customers. With specific reference to e-commerce, retail, inplant logistics and on site management the company is positioning a mix of technology solutions (based on WMS and DMS), leveraging our in city distribution network, capability of providing skilled / semi-skilled and un-work force and wide spread warehouse availability on a pan-India basis.

### **Challenges and Bottlenecks**

Customers must agree to move to outsourcing of supply-chain management to 3PL companies. If organisations continue to maintain a force of supply chain experts within their fold and also outsource the management of actual supply chain to a 3PL, the net result will be an increased overall cost of logistics which finally transcends to overall higher

cost of product. The chosen 3 PL must be able to execute the KPIs on the ground far better than they display on PowerPoint slides. The 3PLs need serious help with labour regulations to make it more industry-friendly. Today, a warehouse is in many ways akin to a mid-sized factory and availability of skilled/ semi-skilled/ unskilled workforce is becoming more and more difficult. In certain pockets, the workforce is completely under 'local influence' and 3 PL operators are held to ransom at the most inopportune moments. The policy-makers must ensure that the entire local administration supports a work-friendly environment.

The policy-makers may also look at the feasibility of allocating land-banks to 3PL operators / logistics infrastructure developers over a 10 to 20-year loan moratorium within reasonably striking distance of main cities.

For the overall development of the industry, there is a need of a separate Ministry of Logistics. A separate ministry would benefit not only the logistics industry, but also the manufacturing, and retail industries as logistics is an integral part of 'go-to market' strategy for any B2B or B2C organisation. It is a much-required voice for the logistics industry, which today survives primarily on individual strengths and market forces at large. 