

STATE OF



3PL is set to emerge as a viable and effective alternative to firms who manage their own supply chains. However, there are quite a few challenges the sector faces. SCM Pro speaks to Samik Chakraborty, Zonal Business Head – East, DIESL on the state of 3PL Services in India.

What is your view of 3PL service in India?

Logistics in India has become an area of priority in the past few years. Increased industrial production and growing consumer market has fuelled the need of specialized logistics management which is the key growth driver for 3PL Industry. Though few Industries like Automobile, FMCG, Retail, Hi-tech & telecom have been the major users of 3PL services but gradually other Industries are also outsourcing their logistics.

According to the report of the working group on logistics outsourcing in India is not more than 52% and the average share of 3PL Industry is 1% only. So 3PL Industry is bound to grow and in a trice the growth rate would cross the current average of 15-20% per annum. Factors like Time, Cost, Complexity and Risk play a major role in the feasibility and surge of the 3PL Industry in India. In India some pieces of logistics hardware are not at par with the global standards like,

infrastructure, road & rail networks, sea ports and inland waterways, and warehouses. But of late some significant infrastructural improvement has been observed and also it is expected that there would be some uniform taxation policy and focus from Government to reinforce the supply chain Industry in India.

3PL Industry in India is progressively picking up focus and promises a substantial growth.

Who is an ideal customer for 3PL?

An ideal 3PL customer would be someone who needs low cost manufacturing connected to highly efficient supply chain network. However, any customer who wishes to ensure the supply of right product in right quantity, right condition, at the right place, right time, and right cost to his target consumer can be a 3PL user.

Where are the biggest opportunities, and threats, for 3PLs?

Opportunities:

- Surge of Organized retail
- Increase in Foreign Trade
- Entrance of MNCs and India's emergence as a Manufacturing Hub
- Increasing focus on maintaining core competencies and resulting outsourcing
- Leveraging the benefit of technology in Supply Chain

Threats:

- Threat of new entrants – Low entry risk and innumerable local players
- Bargaining Power of Customers – because of highly fragmented nature of the industry and strong presence of small business owners and local players, customers tend to squeeze LSPs on price which results inferior quality of 3PL services
- Competition among the organized players – Almost all the organized players offer the same quality of infrastructure and services. Lack of differentiators cause price erosion.
- Bargaining power of Suppliers – 3PL service providers cannot control the basic cost components like fuel price, minimum wages, cross border taxes etc.

How are you fighting commoditization in a tough market, and making sure you understand the needs of your customers?

It's true that business expansion is a challenge in a recessive economy. The differentiators play a major role for the customers while outsourcing their logistics. We always try to keep the uniqueness in our product offerings by understanding customer needs and customizing the solutions.

Consolidation of multiple services, making a cost effective efficient supply chain model and adding value to customers business is our preference and this also gives us immunity against commoditization in marketplace.

What are the challenges you find in growing your business in India?

Many Indian companies consider logistics as only a cost rather than a strategy for improving supply chain efficiency. They focus on logistics cost competitiveness only.

The Indian infrastructure is also far behind than the global standards. Setting up a warehouse takes at least 300 days in India, where countries like Finland, Korea, USA & Denmark make it within 100 days only.

National Highways consists only 2% of overall Indian road network but carries 40% of the major traffic. It's not difficult to understand why the transit time

in India is so high. The road congestion and time consumption to cross interstate borders are the deterrents of improving supply chain efficiency.

Railways are still a preferred mode for bulk transportation only like coal and minerals. It could not be put in use for other commodities yet.

The even spread of infrastructure and facilities are not there in water transportation also. 70% of the sea-borne trade is handled by only 2-3 of the major ports out of 12. Which causes higher vessel turnover time, custom inspection and clearance time, vessel berthing time etc.

Apart from Infrastructural bottlenecks, the tax regime and recovery process in India is cumbersome and complicated. The much expected GST implementation is still in jeopardy and uncertain as well.

What is your take on the role of technology in the 3PL sector?

Technology plays a key role in 3PL sector which differentiates the organized players from the unorganized ones. Barcodes, Scanning and RFIDs have changed the entire material handling process and inventory management now. It's the best way to curb the manual errors.

Advanced warehouse management and transportation management software also contribute to improving the supply chain efficiencies significantly.

Do you think the failure to stay on top of emerging technologies could put a company at a competitive disadvantage?

Partially true in the present scenario as there are a few instances where without much technological support some semi organized Indian players created a big logistics network and are managing a wide range of customers from different Industries. But technology would play the role of a major differentiator in future.

Without technology the cost cannot be kept competitive in the long run. Technology and automation will not only reduce cost of manual work but also reduce error and bring in efficiency and excellence in the system.

How can a 3PL provide its customers with greater awareness of risks and the means for their mitigation?

Continue to develop a cost-effective and efficient solution that brings value. 3PL service providers manage the supply chain of customers from different Industries. They cater to different business needs in different markets. The good practices of one industry can be replicated to another and the customers will get the benefit of staying competitive in market. 📌