

Indian Warehousing: A weak link in the supply chain story

Warehouses have a pivotal role to play in making the whole supply chain experience seamless. Although winds of change are sweeping across Indian supply chain business, warehousing still remains a weak link. **CARGOCONNECT** tries to find out the ground situation in terms of warehousing in India from industry experts.

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With the manufacturing sector growing in leaps and bounds, warehousing has gained tremendous importance in the supply chain. It is the vital link between the manufacturing facility and the suppliers, as it regulates the flow of materials that ultimately drives productivity.



Sugato Chandra, President –
Projects & Technology, M J Logistic Services

For the industry in any economy to run smoothly, there must be efficient warehousing. For warehouses to run efficiently, it is important that they are technologically sound – meaning, from safe storage, efficient inventory management to hassle-free retrieval of goods to maximum utilization of space, everything should be done smoothly, without any glitches.

Sugato Chandra, President – Projects & Technology, M J Logistic Services, a leading Third Party Logistics (3PL) player, says, “With the liberalization of Indian economy which started in the 90s, competition to win over the customer in the market place has intensified. The focus, after mastering the technology and quality, has shifted to the ‘supply chain’. The strategic importance of having an agile, lean and responsive supply chain has become imperative.”

Ankur Minda, Project Head - Warehousing, Om Logistics, says, “A warehouse is to supply chain what the heart is to the human body. Warehousing accounts for 20 per cent of the



Ankur Minda, Project Head –
Warehousing, Om Logistics

total domestic logistics industry. The 11th Plan provides for expansion of warehousing to 110m MT by 2012. In India, at present, 50 per cent of the warehousing industry lies in the hands of unorganized players due to which we are not getting state-of-the-art warehousing facility for fulfilling clients’ needs.”

The Indian Scenario

In India, a warehouse has been generally perceived to be a place to store things, out of sight, and out of mind, certainly not an image of high tech or sophistication. In fact, most plant modernization efforts have typically ignored or bypassed the warehousing segment completely. Since quality warehouses are few, warehouses charge a premium for providing value-added services.

Describing the Indian scenario, Chandra says, “Till the 90s, most of the warehouses were nothing but a tin shed with four walls.

All the goods were mostly stored on the floor and handled by manual labour. Automation was practically unheard of except in some MNCs who were present then. With the entry of many new MNCs as well as global 3PL service providers in late 90s and early 2000, the warehouse infrastructure started improving. Storage and material handling equipments (MHE) started getting much needed attention. Today we have many players, both domestic (TCI, Indo Arya, Safexpress, M J Logistic) and foreign (Toll, Arshiya, etc.) who are investing



GP Kamath, General Manager, Green Earth

millions of rupees to construct world class warehouses/logistics centres and equip them with the latest storage and handling equipments as well as IT systems.”

Earlier this year, MJ Logistic, a leading 3PL solutions provider, began operations of its state-of-the-art four-million tonne capacity cold storage warehouse and distribution facility with new customer acquisitions in the frozen food & vegetables segment at its Palwal facility in Haryana near Delhi/NCR.

According to GP Kamath, General Manager, Green Earth, most warehouses in the country are primitive in terms of modernization and

technology. "Till 15 years ago, the concept of 3PLs had not evolved and warehousing services were provided by Stockist-turned-Clearing and Forwarding Agents (CFAs) who provide warehousing facilities also," he says.



Vineet Kanaujia, General Manager, Marketing, Safexpress

According to CRISIL research estimates, the market size of the warehousing industry as on March 2009 stood at Rs 250-300 billion, with size of the industrial and agricultural warehousing segment, excluding temperature controlled warehousing, in the range of Rs 220-260 billion and Rs 30-40 billion, respectively.

Warehousing industry has grown at a CAGR of 8-10 per cent per annum. Industrial warehousing and agricultural warehousing have grown at the rate of 9-11 per cent and 3.5- 4.5 per cent per annum, respectively.

Typically, the small players do not have long-term plans, and, therefore, look for quick results from their investments. Warehouse automation requires considerable investment and the benefits are only realised after a while.

Several factors such as growth in external trade, growth across major industry segments



such as automobile, pharmaceutical, fast moving consumer goods (FMCG) and the emergence of organised retail have favourably impacted growth of the warehousing industry.

Despite this growth, the general perception is that warehouses are places to simply store

on the services provided by private operators, mostly in the unorganized sector.

Warehousing Automation

Warehouse automation in India is at its infancy. Right now, only big players are in a position to implement automation. Most small and medium enterprises are yet to adopt it. Typically, the small players do not have long-term plans, and, therefore, look for quick results from their investments. Warehouse automation requires considerable investment and the benefits are only realised after a while. This has dissuaded the small players from investing in warehouse technologies. "High end technologies such as Radio Frequency Identification (RFID), Barcodes and other advance tracking system are must for any warehousing company to sustain in the market today," says Minda.

Emphasizing that the warehouses should have adequate mechanical, technical and auxiliary systems to facilitate speedy functioning, Minda says, "Loading unloading, material handling, ciphering, transferring and tracking would be the key operational attributes of warehouse. WMS (Warehouse Management System) are there with visibility and key warehousing analytics."

Shying Away From Technology

Explaining the present scenario, Kamath said, "Here is a typical example of Fast Moving Consumer Goods (FMCG) companies. They are not willing to invest in technology

things, while big companies have their own warehousing facilities, smaller ones depend



so they rely on these stockists who provide storehouse facilities rather than warehousing facilities. The CFAs don't have the resources to provide world-class automated warehousing facilities.

"On the other end of the spectrum are multinational 3PLs who have the money and the technology. They came to India and invested heavily to provide warehousing infrastructure. But they had some problems - they did not know the geography of our country and the bureaucratic hurdles in moving goods from one state to another. Also, these big players had different decision-making layers which often resulted in delayed decisions," Kamath opines.

Explaining the problems faced by the warehousing industry, Minda says, "Delays in land acquisition, lack of large contiguous land parcels near major industrial hubs and high cost of the land are hindering the establishment of modern warehouses. Investment in land and construction is more

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capital intensive and yields return over a longer period of time in comparison to the service models of the logistics business. So logistic companies try to focus and invest on their core competency rather than on warehouses."

"Moreover getting approvals from various government departments for building a warehouse is also a very cumbersome process and consumes lot of time so many companies tries to get warehouse on rent rather than building up their own. There is also a limited adoption of modern systems and technologies (WMS) by LSPs due to which client is not getting all the valuable data about his product," Minda explained.

Scope for investment

With the manufacturing industry growing in leaps and bounds, the need for efficient warehousing has become all the more important. The sector offers tremendous scope for investment, driven by growth in organised retailing, changing tax structure and potential savings in carrying costs. Besides, there has been a spurt in construction of logistics parks and Free Trade Warehousing Zone (FTWZ). Obviously, there would be demand for world-class warehouses.

"There is a huge growth opportunity for the warehousing business in India.

Special Economic Zones (SEZs) are one of the major driving forces for Warehousing business in India. A large number of upcoming SEZs have necessitated the development of Logistics Parks for the domestic market as well as for global trade," says Vineet Kanaujia, General Manager, Marketing, Safexpress. Safexpress is developing world-class warehousing in the key cities. The logistic and supply chain major intends to launch 32 logistics parks - new name for warehouses - in the next two years.

Automation application

Adopting basic technologies in warehouse automation can go a long way in preventing loss of precious raw material and finished resources. Warehouse automation is an important tool for saving on the costs incurred in material replacement and manpower. Automation can thus help on manpower-related direct costs. It's not just about automated material handling, the equipment need to be smaller yet smarter.

Sugato Chandra, President - projects & technology, M J Logistic Service lists the various application of automation inside a modern logistics centre in India.

Receipt & Dispatch

Use of dock levelers (both hydraulic and air filled) along with inter locking dock doors. Although most of the goods in a domestic distribution chain are moved in a non-palletized truck loads. Dock levelers become almost mandatory when heavy loads are handled using hydraulic hand pallet / fork lift trucks.

Storage

Large varieties of equipments are available and used depending on the nature of the product (length, breadth & height and weight/volume) as also expected throughput. These range from the most widely used Selective pallet racking, double deep racking to drive-in and mobile racking and a range of shelving and bins for small parts. Multi-tier mezzanine is also a good option where light but voluminous cargo needs to be stored.

Material Handling

Here again we have multiple choice depending on the load and the use. Simple platform trolleys and hydraulic hand pallet trucks for horizontal movement to counter balance trucks and reach trucks which can operate up to a height of 12 metres. Use of various types of conveyors especially in value added service area is quite common.

IT Systems

A modern racked LC is practically impossible to manage well without a robust Warehouse Management System (WMS). Use of bar

"These logistics parks are all set to revolutionise the way supply chain functions in the country," he says.

Crisil projects an investments of Rs 100-120 billion in establishing warehouses by 2011-12. Significant proportion of investments in warehousing is expected to come in the free trade and warehousing zones and logistics parks. By 2012, more than 100 logistics parks spread over approximately more than 5,000 acres are expected.

codes with hand-held / stationary readers for proper receiving and dispatch at the LC are still a rarity in India.

Over the past few years, several types of automation systems and modules have been developed for warehouses.

According to the Indian Institute of Materials Management (IIMT), these are:

Automated Storage Retrieval System (AS/RS):AS/RS is an automation system with high-rise racks that are loaded and unloaded using automatic storage machines within the aisle.

The system ensures high-density material storage by optimizing the use of the available cubic space. The players can save the costs spent on managing inventory, as the automation systems enhance inventory control through computerization. With warehouse automation, the companies can ensure higher accuracy and efficiency in their inventory tasks. This ultimately leads to cost optimization for the firms. It integrates the storage system with the manufacturing and distribution systems through computer control logic. This enhances material security, system performance and thus the bottom line.

However, the trend - though it has been prevalent in the US for a long time - is towards greater centralization, and larger, more automated, warehouses. Instead of higher inventories spread across several smaller distribution centres all over the country, some companies prefer to centralize inventories. They find it more viable to ship from one point to various outlets.

Automatic Guided Vehicles (AGVs): These can be used to transport, store and retrieve loads for warehouses, which are mainly associated with the manufacturing and shipping industries. Besides, smarter material handling equipment such as forklifts, cranes, warehousing equipment, stackers and pallet trucks. Automated carousels are used in warehouse to move loads to a pick-and-drop station.

Real-Time Warehouse Control Systems (RTWCS): RTWCS integrates materials handling, data management, and human resources to achieve Computer Integrated Warehousing.



Pinning hopes on GST

Kanaujia expects the demand for high-tech ultra-modern warehouses to grow exponentially in coming years. "Initially, to save on Central Sales Tax (CST), the manufacturer used to maintain numerous warehouses at multiple locations to show the movement of goods from one company warehouse to another. However, with the phasing out of CST by 2010, manufacturers would be

more than willing to outsource their warehousing requirements to the 3PLs. This will not only help the manufacturers to save costs, but they will also be able to focus on their core business, he says.

"Implementation of GST will provide a major boost to the warehousing and transportation industry. It will also lead to increase in demand for integrated logistics solutions, thereby bringing down the relevance of small warehousing players," observes Chandra.

"With the phasing out of Central Sales Tax by 2010, many companies will start outsourcing their warehousing requirements to the 3PL player/LSP. This will act as an incentive to various LSP's to build their own warehouses, and will also help the LSP's clients to save costs and focus on their core business." Minda opines.

Om Logistics is also encashing on this opportunity and would create 15 lakh sqft of additional warehousing space across the country in the next couple of years. The company is planning to set up new warehousing facilities in Bangalore, Bhuj, Gurgaon, Pune, Halol and Goa. The company recently launched warehouses at Chennai, Ahmadabad, Patna, Faridabad and Jamalpur.

Long way to go

India has a long way to go to be at par with the warehousing industry in the West. Listing out the intrinsic differences, Minda says, "We are not at par with the west. They focus more on IT rather than manual work for warehousing activities. There is a substantial budget allocated by these LSP's in the West for warehousing automation. But now companies in India are also focusing on warehouse automation for sustaining in the market and providing better facilities to their clients. They have their own tracking system. They have their own Labor optimization software and materials handling automation tools. Om Logistics also uses all the warehousing automation methods to serve our clients as we believe IT applications could reduce significantly its warehousing costs."

Hybrid CFAs

Besides the usual warehousing service providers, there is a third type as well. They are the hybrid CFAs, like Green Earth. "Being run by professionals from the industry, we have the knowledge and the expertise. Therefore, we are well positioned to provide better warehousing facilities. Unlike MNC 3PLs, we do not have many layers of decision-making, ensuring speedy execution. Unlike stockists, we invest in technology. So you can say that we provide the best of both, minus their flaws." Sounding positive, Kamath added: "The future belongs to hybrid CFAs."



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