

# SME FACTORY

Presents

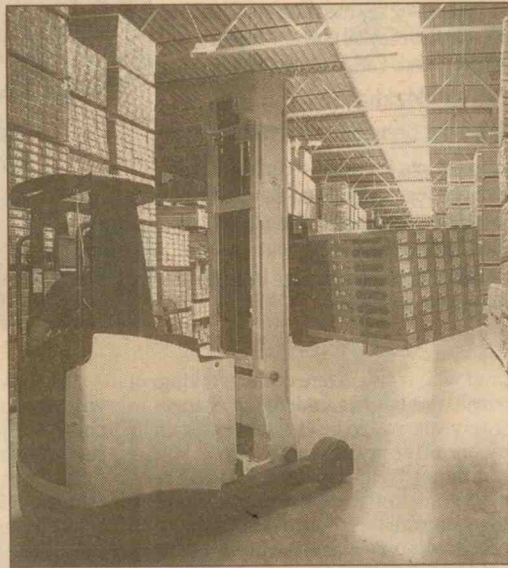
BUSINESS ASSOCIATE FEATURE

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## Taking Logistics to the Next Level

As the Indian logistics industry booms, SMEs in the sector can gain a foothold with the implementation of new technologies

The adoption of the latest technologies and the introduction of improved business models in the post-liberalisation era have initiated a new phase in the Indian logistics industry. Backed by fast-evolving distribution channels and warehousing facilities, the upcoming business models in the industry are more cost-effective and efficient. Moreover, with ongoing diversification across industry verticals and increasing material handling demands, the logistics industry has ample growth opportunities. Substantiating the fact, a recent survey by CII reveals that the Indian logistics sector has been ranked second in terms of growth potential. However, a key issue hindering the growth of the industry is its fragmented structure and the huge presence of SMEs. According to Anil Arora, MD, MJ Logistic Services Ltd, "SMEs, which account for a major percentage of the logistics industry, are lagging in terms of implementing standard logistics practices. There are disparities in compliance, which has resulted in fragmented operations." As a consequence, SMEs, and hence the logistics sector, lag behind their third-party logistics (3PL) counterparts in developed countries.



### The Solution File

SMEs in the Indian logistics industry need to adopt innovative models to enhance their efficiency. Such logistics models can be developed on the basis of factors such as volume, regional and rural-urban split, distribution layout, market penetration desired, time to market and customer specific needs. Moreover, considering the dynamic fluctuations in the sector, flexibility of operations should also be considered while designing such service models. Apart from developing service-delivery models, SMEs also need to adopt the latest IT-based solutions such as Warehouse Management Systems (WMS), Freight Management System (FMS), and Track and Trace for 3PL applications. Such solutions can update the service provider on a real-time basis and simultaneously facilitate the integration of end-to-end logistics operations. For example, Gati Limited, a mid-level 3PL service provider, has implemented a web-based warehouse management system to provide both functionality and flexibility for customers. The system can be updated online and thus provides consolidated real-time information on customer operations and warehouse activities. In this regard, Mahendra Agarwal, MD, Gati Limited says, "We have adopted the latest IT-based logistics solutions, which help us deliver services beyond customer expectations."

Looking at the significance of IT in logistics operations, investment in IT-based solutions is clearly justified for both SMEs and big players. Moreover, the Indian industry is among the fastest-growing 3PL businesses worldwide, which pinpoints the need for such solutions. According to a report by ASSOCHAM, with the ongoing economic revival in the manufacturing, retail and real estate domains, the 3PL business in India is expected to reach \$90 million by 2012. This will bring more business opportunities for SMEs, and, hence the need for innovative business models and IT-support architecture.

### To Summarise

While the Indian logistics industry has its shortcomings, there are also a number of positive factors that can be leveraged for future growth. However, the need of the hour is to build innovative business models and adopt latest technologies to unify industry fragmentation, particularly those associated with SME operations. With the industry's high growth prospects in the near future, service providers must work to eliminate their shortcomings and boost their inherent strengths.

— PAYAL AGRAWAL

more flexible services in specific territories. Also, most of these SME units have single proprietorship, which facilitates service delivery and helps in customer dealings.

Apart from the above drivers, versatility of services is another positive factor in the development of the Indian logistics industry. "A vast number of logistics companies in India now provide services such as warehousing, distribution, transportation and tracking of goods with special packages for fragile and perishable items, which is a driving factor for the industry," says Ramesh Nair, MD, Warehousing and Logistics Solutions Pvt Ltd. All these factors have brought Indian SMEs a surge of multinational companies in need of integrated logistics solutions. However, to tap the potential, SMEs will have to take a planned approach, with the adoption of newer technologies.

### SYNOPSIS

- SMEs in Indian logistics industry need to adopt innovative business models to enhance their efficiency.
- The significance of IT in logistics operations clearly justifies such investments for both SMEs and big players.
- WMS, FMS, and Track and Trace are among the leading IT solutions for logistics industry.

### Industry Roadblocks: Current Scenario

The greatest issue facing logistics SMEs in India is the diversity in the country's regional, geographical and legislative aspects. This has spawned other issues such as inappropriate industry practices and disparities in terms of regulatory compliance. Industry fragmentation is also apparent in terms of proprietorship of warehousing facilities and transportation systems, which has hindered logistics services capabilities. Another major issue is the slow growth rate of allied infrastructure undertakings—the modernisation of ports and the development of national highways, railway freight corridors and toll roads. Such slow infrastructure development has been a major bottleneck in the growth of the logistics industry in India.

### Growth Drivers

One of the key growth drivers for the industry is the preference given to organised, integrated service providers over the unorganised service providers. However, development in the sector is backed by the investments made by private equity players in the business, which have helped SMEs scale up their core business. In recent times, consumer inclination has also shifted to logistics services, specifically in terms of services delivered vis-à-vis the levied costs. Another growth driver for the industry is the rich local experience of SMEs in the logistics business, which enables them to deliver faster,