

A Closer Look At Logistics

The advent of new solutions and technologies for the logistics sector promises immense opportunities for Indian SMEs

THE implementation of new technology and the introduction of cost-effective models have propelled a paradigm shift in the Indian logistics industry. The new models for logistics are supported by strong distribution and warehousing services. A recent survey placed India second to China in terms of the growth potential of the logistics sector. India's high rank can be attributed to the fact that Indian firms are implementing innovative business models, which are driving an increase in the volume and significance of trade. However, the pace of implementation has been relatively slow in this country. As a result, the players in the Indian logistics sector lag behind the developed 3PL (third-party logistics) businesses in Western and European countries in terms of technology, infrastructure and quality of service.

Challenges Faced

The biggest challenge that service providers face is the regional, geographical and legislative diversity in the country. This results in a lack of standard practices, procedures, regulations as well as disparities in the level of compliance. The fragmented ownership of key components like warehouses and trucks makes the consolidation of services a humongous task, and the resultant offering becomes extremely inflexible to suit customers' needs. The various logistics-related infrastructure projects such as the modernisation and expansion of ports, national highways, railway freight corridors and toll roads are proceeding at a very slow pace as compared to the rapidly growing needs of the industry. In the double-digit growth years, the sluggish development of infrastructure has been the major bottleneck in the development of the logistics industry.

These are a few glitches that need to be overcome. Typically, India's infrastructure presents an overwhelming challenge to the rapid expansion of this industry, with the country's weak infrastructure costing the industry about three to four percentage points of GDP growth annually.

The Way Ahead

The industry has worked to overcome the challenges and keep pace with the growing industrial and consumer sectors over the past 7 to 8 years. A key driver of the growth has been the preference given to organised, consolidated service providers rather than constituent suppliers. This growth and development has been further fuelled by significant investments by private equity

players, resulting in the scaling up of the core businesses of SMEs.

Users of logistics services are no longer lured by buzzwords or big names; the focus is clearly on costs and delivered value. Hence, the emergence of SMEs as strong regional or sectoral players is imminent. SME service providers are rich in local experience and have the flexibility and speed to deliver according to the expectations of the principal. Most SMEs are also owner-driven, and this reassures customers that they will be



dealing with a person rather than an impersonal service.

As the Indian logistics sector becomes more competitive globally, multinational companies will look to outsource their entire logistics services to India. Most of the logistics companies in India now offer a complete range of services: warehousing systems, distribution, tracking of goods and separate storage facilities for wet and dry goods. This will serve as a major attraction for international companies, as they are looking for a one-stop-shop for most of their business verticals. In addition, having a technology-enabled warehousing system will help ensure better management of assets, allowing large firms and SMEs to reduce expenditure during the present economic slowdown. The SME logistics players in India are attempting to move up the value chain, placing greater emphasis on the planned approach to acquire new businesses.

The Evolving Solutions

While deciding the level and model of logistics outsourcing, SMEs have to consider some key aspects: the volumes, regional and rural-urban split, distribution

structure, desired penetration level, time to market and their customers' preferences. Since all these factors are dynamic, the business model chosen should be flexible enough to accommodate the changes.

There are hosts of IT solutions available for the logistics industry. From a 3PL perspective, these solutions can be broadly classified into the following categories:

- Warehouse Management System (WMS)
- Freight Management System (FMS)
- Track and Trace

The various solutions within each of the above categories undergo constant change depending on technological breakthroughs. In the late 1990s, a WMS would be installed on a computer at the warehouse, and it could only provide information related to that specific warehouse. The Web-based version that followed provided an aggregate view of all the warehouses. The time and effort taken to update data in a WMS has reduced significantly, thanks to the shift from manual entries to bar-code readers to radio frequency (RF) guns and tags. In India, justifying investments in WMS has been a major challenge as most of the customers feel that investing in an ERP is a strategic move.

The Indian 3PL business is one of the fastest growing sectors today. As reported by ASSOCHAM, it is estimated to grow to \$90 million by 2012. This indicates that the logistics industry will witness substantial growth in the next two years. Sectors like manufacturing, retail and real estate, which are currently feeling the effects of the slowdown, are expected to return to normal and further boost the logistics industry. This will surely bring in more business opportunities for the SME players. The concept of multi-user logistics centres, where customers pay only for the space and services utilised, is a revolutionary change in the Indian logistics scenario. These centres can be compared to a 'business hotel' where a customer pays only for the room (pallet space), and any additional services required by the customer (such as repacking or kitting) will incur extra charges.

The current slowdown is an ideal time to rework our practices, implement newer cost-effective models and introduce new standards. Investment in quality infrastructure will reduce overall costs and increase the system's efficiency.

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