

Spurring Growth through Logistics

The furious pace of economic growth in India has so far necessitated unparalleled focus and significant investments in expanding infrastructure. Logistics constitute an important 'cog in the wheel' in the overall infrastructure development in the country. The current logistics industry is highly fragmented with presence of unorganised enterprises including transporters, express cargo movers, courier companies, freight forwarders, container companies and shipping agents, spread across the country. Competitive pressure on firms to focus on core operations and lower costs is resulting in a growing demand for specialized logistics services. As per Technology Survey for Indian Logistics Industry-2008, the Indian logistics industry is set to grow at a CAGR of 11 percent to reach levels of INR 4100Bn by 2013.

Growth Trends

Logistics industry is undergoing a sea change. Logistics service providers are looking forward to the growth of organised retail industry in addition to the continued growth of other sectors such as automotive, electronics, metals, textiles, chemicals and pharmaceuticals. Not surprisingly, several international majors and progressive Indian logistics service providers are committing huge investments in building infrastructure, expanding market presence and broad basing their offerings to the market. Complementing the growth of such large players is the fast emerging SME segment of the market. This segment is rapidly expanding scale and approaching a phase of accelerated growth. As the market evolves and grows, competition intensifies and business dynamics undergo transformation, companies are scaling new barriers and forging partnerships even as they commit major investments to tap the potential in this sector. Also, seen is an increasing trend of many Indian companies outsourcing supply chain management and logistics operations. The figures are striking outsourced businesses today accounts for 50% of all logistics business in India as against 15% ten years ago.

Industry Pressures and roadblocks

While the growth story of this industry has been considerable, there are issues that need to be addressed urgently. For one, challenges exist both within the organization as well across the industry. At the macro level, one of the key limiting factors is the poor infrastructure plaguing the country. This has a direct and serious implication on the industry's growth. The absence of a countrywide uniform tax structure is a big barrier for operators: they are unable to move goods freely and have to consider cost implications every time a state line is crossed. At the micro level, companies face challenges within their own organizations, whether strategic issues such as lack of real-time access to data or an inability to track tactical parameters such as resource utilisation and productivity. India spends around 13 per cent of its GDP on logistics, higher than US (10 per cent), Europe (11 per cent) and Japan (10 per cent). This translates to around INR 150,000 Crores in operating costs for the economy and therefore loss in capital formation. India risks missing 1 to 2 per cent GDP unless significant strides are made to bridge this gap and improve supply chain efficiencies.

Technology – the harbinger of growth

This is where IT can make a difference: practical adoption of IT across the industry can have a direct impact on operational efficiency, profitability as well as end customer satisfaction.

Technology is expected to be a key enabler to support the Logistics sector in its growth. A recent study conducted by Kale in partnership with Feedback Consultants reveals that the current market for IT solutions in this sector is estimated at INR 400 Crores and set to grow to a level of INR 1,000 Crores by 2012-13 (growing at CAGR of 20 – 22 %). As part of the strategy to streamline business operations,

Logistics companies are increasingly investing in IT infrastructure and applications across numerous operations to achieve economies of scale. Nearly all large and medium scale companies are expected to utilise technology for scalability and improving operational efficiencies. Newer IT models such as “Software as a Service” (SaaS) make global communication and information delivery easy to adopt for all businesses irrespective of their size.

Technology Trends

The fast expanding logistics sector is increasingly adopting a mix of ‘plug and play’ and ‘integrated’ IT solutions to streamline operations, build efficiencies and enable accelerated growth. In addition, increased customer expectations of ‘just in time’ deliveries and tracking systems has fueled need for e-Commerce/ web based and RFID solutions. Some of the most exciting technologies range from Radio Frequency Identification (RFID) – which enables tracking of goods and containers from doorstep to doorstep – and mobile technologies to Electronic Data Interchange (EDI) that can bridge the gap between customs, agents and carriers. Supply chain and workflow management has been easier with the deployment of enterprise-wide applications that not only make businesses more efficient in-house, but also are capable of hooking up with, and talking to, external systems such as those of airports, customs, and freight carriers. Personnel on the field can utilise handheld devices to track shipments, and use web-enabled interfaces for software to access information real-time.

How technology can help meet the bottom lines?

Logistics providers will be interested in what actual contribution IT can make to the bottom line. The news is heartening. Reports from the field describe IT deployments that have resulted in significant cost savings, elimination of redundancies and improved efficiencies with lesser human intervention in the delivery chain.

Also enhanced customer satisfaction results from improved supply chain visibility. Effective utilisation of MIS reports equips management with better decision-making tools resulting in strategic benefits and accurate forecasts. The collaboration between customs, carriers, partners and customers creates a smooth journey for the shipment. With this, the business managers can focus on overall profitability.

Providers contemplating IT deployments should note that IT is only a tool, and the tool has to be custom-built for its application. They must consider criteria such as user-friendliness, scalability of the application(s) for future needs, flexibility to handle fluctuating business demands and security before making their build/buy decision. Finally, deployments must show concrete Return on Investment (ROI); and decision makers must note that IT adoption involves adaptation and change within the organization at all levels, otherwise it is money down the drain.

The way ahead

The world is looking at India not only as a sourcing destination for skilled work force and raw material but also as a large consumer market. An interesting point to note is that the logistics industry currently employs over 45 million people in the country, as against the IT and ITeS sector, which currently employs about 4.3 million. It is easy to extrapolate: growth and prosperity for the industry will also mean growth and prosperity for the country.
