Third Party Logistics Services Industry In India-Growth Drivers, Challenges And SWOT Analysis

Prof(Dr.) S.L.Gupta, Professor (Marketing) & Academic Coordinator, Mesra Ranchi, Patna Center, Birla Institute of Technology, India
Shikha Rastogi, Research Scholar, B.I.T. Mesra, Ranchi(Noida Center), India

ABSTRACT:

This paper aims to review the status of the Indian 3PL industry and discuss the growth driving factors and the challenges faced by the industry. A survey of secondary data has been done for the same. The sources reviewed include news articles, research journals, industrial reports, company annual reports, websites and other relevant resources. The paper has been organized into three sections which involve a review of logistics industry in India; it’s comparison with the global 3PL industry; a discussion on the available infrastructure and the modes which is an essential concern for this industry; a discussion growth drivers and challenges that 3PLs have in India. Based on these discussions, a SWOT analysis for Indian 3PL industry has been done and implications for industry participants have been discussed.

Index Terms- Logistics, 3PL, Supply Chain Management

I. INDIAN LOGISTICS INDUSTRY

India is one of the fastest-growing major economies. The country has witnessed rapid increase in per capita income, demand and productivity since the last few years. Increased productivity has raised the demand for better logistics support systems for efficient supply chain management. The production units are increasing their reliance on third parties by outsourcing the non-core activities like supply chain management to the third party logistics companies. However, India currently spends about 6 to 7 percent higher on the logistics as compared to other developed countries which impacts the price of product handling and thereby the producer, the 3PL companies and the consumer as well.

A. Size and Growth of Indian Logistics Industry

The Indian logistics industry comprises of - Sea / ocean freight, road freight, rail freight, air freight, warehousing, container depots, logistics parks, ports, and logistics services providers. The annual logistics cost in India is estimated to be around 13 percent of the GDP (Mc Kinsey, 2010); indicating that the size of the Industry is approximately USD 130 bn (assuming the GDP of India to be around USD 1 trillion). Logistics industry in India is in a nascent stage because out of this USD 130 bn, over 90 percent is accounted for by the unorganized sector which includes truck owners, affiliated to an agent or a transport company, small warehouse operators, consolidators, customs brokers, freight forwarders, etc. (NSDC, 2009). However, the industry is growing at a fast pace since the economy is also maintaining a GDP growth of over 6 percent since a last few years; which also implies, higher demand for SCM expertise and a rise in outsourcing. Bringing down the logistics spending can mean more competitive products in the global market. Also, a growth in the logistics sector would imply improved service delivery and customer satisfaction leading to growth of exports and thereby impacting the employments as well. The Indian logistics sector reported revenues of about USD 82.10 bn in 2010, witnessing a growth of about 9.2 percent over the year 2009. (Tungatkar, 2011). This was driven by strong growth of key manufacturing industry sectors.

B. How Indian Logistics Industry Compares Globally

Indian logistics and transportation industry is fragmented and largely unorganized. As compared to other nations the share of 3PL industry in India is low while the logistics costs are relatively high. (Table 1). The reasons for these high costs are dominance of unorganized sector (which is around 90
percent of the 3PL industry, provides limited services and inadequate skills, abilities and resources to manage the supply chain operations effectively) and the country’s infrastructural, irregular policy frame work(KPMG, 2007).

<table>
<thead>
<tr>
<th>Country</th>
<th>Logistics Costs/GDP</th>
<th>Share of 3PL in overall costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>14%</td>
<td>less that 10%</td>
</tr>
<tr>
<td>U.S.</td>
<td>9.90%</td>
<td>57%</td>
</tr>
<tr>
<td>Europe</td>
<td>10%</td>
<td>30-40%</td>
</tr>
<tr>
<td>Japan</td>
<td>11.40%</td>
<td>80%</td>
</tr>
</tbody>
</table>

(source: Cygnus, 2007)

As per a recent global survey on Logistics Performance Index, held by World Bank in 2010, India ranked 47th ( LPI =3.12(1=low to 5=high) ) amongst the 155 countries surveyed (The 2007 survey ranked India at 39 with LPI = 3.07).( World Bank, 2007 & Worls Bank 2010). Logistics Performance Index overall score reflects perceptions of a country's logistics based on efficiency of customs clearance process, quality of trade - and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time. The index ranges from 1 to 5, with a higher score representing better performance. However, India scored the top position amongst the neighboring South Asian countries.

Figure 1 - Relative Composition of Logistics Costs : Comparison with China and U.S.A. (Source: Cygnus, 2007)

In US and China, the transportation costs are higher ( figure 1) due to their large and immensely widespread geographies; while they are high in the Indian context due to lack of efficient alternatives to roads for long the hauls, poor road infrastructure resulting in low average speed, significant cess and tolls, higher rate of damage, etc. (Cygnus, 2007) With respect to secondary cost components such as packaging and administration and damage related losses, the transportation & logistics sector in India accounts for almost 3x and 1.7x the cost share compared to that of the US and Chinese market respectively ( figure 1).

Table 2 provides a comparison Indian logistics industry with other countries. The comparisons indicate that the country can bring down the logistics costs remarkably by focussing on these parameters (logistics efficiency indicators) and better infrastructural support.
Table 2: Comparison – Indian Logistics Industry vs. Global Logistics Industry (Key Parameters)

<table>
<thead>
<tr>
<th>Logistics Efficiency Indicators</th>
<th>India</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Truck Speed (km per hour)</td>
<td>30-40</td>
<td>60-80 (China)</td>
</tr>
<tr>
<td>Four Lane Road Length (km)</td>
<td>14,000</td>
<td>34,000 (China)</td>
</tr>
<tr>
<td>Average Surface Freight (In cents / km)</td>
<td>~7</td>
<td>3.7</td>
</tr>
<tr>
<td>Average Distance travelled by trucks (km) per day</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>Airport Waiting time (hrs) - Exports</td>
<td>50</td>
<td>12</td>
</tr>
<tr>
<td>Airport Waiting time (hrs) - Imports</td>
<td>180</td>
<td>24</td>
</tr>
<tr>
<td>Aviation turbine fuel as %age of operating costs</td>
<td>35-40%</td>
<td>20-25%</td>
</tr>
<tr>
<td>Turnaround time at ports (hours)</td>
<td>84</td>
<td>7 (Hong Kong and Singapore)</td>
</tr>
<tr>
<td>Annual Container Handling Capacity</td>
<td>8.4 mn TEUs*</td>
<td>60 mn TEUs (China)</td>
</tr>
<tr>
<td>Containers Handled per shipment (maximum)</td>
<td>15</td>
<td>25-30</td>
</tr>
<tr>
<td>Average inventory days</td>
<td>33</td>
<td>24 (China)</td>
</tr>
</tbody>
</table>

*(Source: KPMG-CII, 2010)*

India’s slower than desired improvement on several key logistics efficiency indicators means that transportation and logistics in India continues to remain a highly complex industry which lacks operational sophistication and with poor inter-connectedness between its multiple components; and is hence an area of concern.

II. INFRASTRUCTURE AND MODAL SPLIT

A. Warehousing:
The commodities and retail industry is largely dependent on the number and quality of warehousing facilities available. Currently, India has a total warehousing space of around 1,800 mn sq. ft. The share of organised warehousing is only about 8 per cent in the country, much below the global standards of 50 to 60 percent. Further, due to the absence of quality and automated warehousing, outsourced warehousing in India still comprises of only 20 to 30 percent of total private warehousing. One of the prime issues in warehousing is the land acquisition, since land accounts for 25 - 30 percent of the total warehousing cost. (Cushman and Wakefield, 2008)

B. Inland Container Depots (ICD) / Container Freight Station (CFS):
In India, currently 178 ICDs and CFSs are functional, and 69 are under implementation. The Indian government has substantial plans to further facilitate the shipments handling. As per the central data released, till July 30, 2011, the Inter-ministerial Committee has approved 247 ICDs/CFSs (149 private and 98 government owned). Entry of 16 new private container operators has led to a significant increase in rail-borne domestic container traffic. This is expected to positively impact the growth of ICDs/CFSs in the country and hence an increase in use of rail and road transport.

C. Rail Freight:
In India, the rail freight is largely utilized for commodities like coal, cement, iron, grains, heavy metals, petroleum products etc. The Indian railways have a rail network of around 63,000 km. The rails carry 30 percent of total freight traffic in the country and transport over 2.17 mn tons of freight daily. Opportunities in the railway include development of dedicated freight corridor (DFC); improved

1 List of ICDs/ CFSs approved by the IMC which are under implementation or functioning as on 30th June, 2011. (online: www.commerce.nic.in/trade/ICD_list.pdf).
loading with lower rates; acquisition of new equipments; and improvement of services by enhanced role of IT. The DFC is a project for new railway lines exclusively for carrying freight isolated from normal Indian railways traffic and passenger trains. The DFC project planned (in 2007) included 2,700 kms of exclusive freight lines (new construction), and about 5,000 km of feeder lines that included new construction and many existing lines were planned to be upgraded. But challenges in rail freight relate to non availability of rakes, unavailability of real time information, and maintenance older operating equipments.

D. Road Freight:
The mode of road freight is generally used by manufacturers or suppliers for domestic or national shipment movements. India has a network of road which is 3.3 mn km long which is the second largest in the world. National highways and state highways connecting key cities and towns constitute a total length of 194,754 km. Indian highways cover 2 percent of the total road network of India and carry 40 percent of the total traffic. The entire highway network of India is developed and maintained by the National Highway Authority of India. Road transport in India contributes to 60 percent freight or cargo transport. Till the month of September 2011, the country had put into operation newly constructed highways given below:

- East-West and North-South Corridor highway (5,831 km) 4-lane
- Golden Quadrilateral highway (5,829 km) 4-lane
- Inter-capital highways (1,342 km) 4-lane
- Port connectivity highways (330 km) 4-lane
- Bypass and other national highways (945 km) 4-lane.

The abovementioned highways spanning 14,277 km join majority of the important production hubs, business hubs and cultural centers of the country. However, opportunities in road freight infrastructure support include public private partnerships (PPPs) to develop quality expressways and creation of convenient by-pass roads to avoid city entry restrictions; provision of special purpose vehicles like cold chains, project transportation etc. for emerging logistics needs; project development and faster acquisition of land for road development. Indian roads suffer from certain problems including poor quality of roads which requires continues repairs and breakdown of vehicles and limited four-lane highways. By 2013, the Indian government has planned to outlay about USD 70 bn to upgrade its main road network.

E. Air Freight:
The aviation logistics is mainly in use for high value, low volume and urgent deliveries which may otherwise not be served by other modes. India has 133 airports, of which 17 are international airports. Less than 1 per cent total freight traffic in India is through this mode. In order to augment express air freight in the country, dedicated courier terminals are being created in New Delhi. Maximum air freight trade for India is with Europe (around 34 percent) and Asia (around 30 percent), followed by North America (21 percent), the Middle East (8 percent) and Africa (4 percent).(Cygnus, 2007). The opportunities in this sector include modernization of infrastructure at the airports specifically for cargo, privatization of international airports, dedicated customs for cargo and licensing cargo fleet operators. High costs, poor electronic data interchange (EDI) for clearance, and lack of dedicated cargo fleet operators are some of the key concern areas for improvement in the sector.

F. Sea Freight:
The waterways are used by firms for delivery of goods across the international borders mostly conducted in varied sized containers. It is suitable for transportation of bulky and heavy products with

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3Indian Road Network. (updated on Jan 6, 2012). Available at www.mapsofindia.com/roads
high lead times. In India, there are 12 major ports and 200 non-major ports along a large coastline of 7,517 km. Inland waterways are spread over 14,500 km. The opportunities for improvement exist like development of new ports, procurement of modern handling equipment, construction of berths and terminals, and improved rail and road connectivity with ports for better turnaround. The challenges faced by waterways are limited capacities, labour union issues, lack of merchandise handling, poor rail and road connectivity, and low draught levels.

III. THIRD PARTY LOGISTICS (3PL) INDUSTRY IN INDIA

In order to manage its logistics activities effectively and efficiently, an organization may choose between an in house logistics activity, own a subsidiary for logistics subsidiaries through establishing or buying out a logistics firm, outsource the service to a third party. The current trend shows an increase in interest in the third option (Sahay and Mohan, 2006 a). Third Party Logistics (3PL) companies handle one or more of supply chain functions of the organizations including the management of information by the third party, relieving the organization from daily negotiation and interaction with the operators or carriers. Also, they have a capacity to undertake and supervise, manage the movement, delivery and storage of shipments of one or multiple customers. Due to cost economies, expertise in supply chain management and many other advantages as gained by these 3PLs, a huge number of small and medium enterprises as well as large sized organisations are resorting to the 3PLs for support. Also, as organizations world over are struggling hard to stay competitive for growth and survival, they require to build on their core activities and hence outsource the functions like supply chain management. The contribution of 3PL in the overall logistics market is likely to increase from ~ 1.5 - 2.0 percent in 2008-09 to ~ 3.5 – 4 percent by 2013-2014. (Tungatkar, 2011).

The Indian 3PL market can be characterized by the presence of: Multinational players with joint venture operation or presence of a local subsidiary (examples: FedEx, UPS) and National or Domestic Major 3PL companies with nationwide presence (ex. Gati, Airfreight Logistics Pvt. Ltd.). Within these two modes the 3PL services providers can be categorized into specialist service providers (providers who specialize in certain functions like warehousing, transportation, packaging etc.), the integrated solution providers (those who provide all services under one roof), companies with geographical coverage specialization and companies with customer specialization (TVS Logistics specializes in automotive logistics). But for the fact that organized sector is less than 10 percent, the industry has not actually graduated to a state where we can have a clear classification of operators within the industry.

A. Growth Drivers

India is in general a high growth potential country. In 2005-06, Indian economy showed a growth of 9 percent till the economic downturn of 2007. Hence, many transport and logistics companies considered establishment and initiated their operations India. Entry and existence of global giants like Ikea, Flextronics, Wal-Mart and BMW, are expected to further contribute to growth of 3PL usage. The opening up of Indian economy to foreign investments will attract more players joining the race and adding to the growth momentum. Some of the reasons why the 3PL industry can be upbeat about the sector growth are:

i) Growth in Indian Economy: Economic growth places huge demand on air and surface transport thereby providing a congenial environment for the growth of 3PL industry. The Indian economy has been consistently growing around and over 6 percent (figure 2) for the last 10 years. The expansion in India’s GDP translates directly into growth in the transportation & logistics sector, there being a ~ 2x relationship between growth rates of GDP and the transportation & logistics sector. (KPMG, 2010). Industries such as retail, auto and manufacturing is expected to drive the growth of 3PL industry.
ii) International Trade: As organizations expand their business and markets across the national borders, the need or more specialized and sophisticated services (ex. multi-modal transport and international trade rules compliance) increases. The main exports from India include textiles, leather and leather goods, gems and jewelry, chemicals and engineered goods. India’s international trade is expected to grow at a rate of over 15 percent per annum which will have a direct impact on air and port-oriented logistics; and hence an increased demand for all supply chain solutions.

iii) Growth in Manufacturing Sector: India’s manufacturing output has been constantly rising since the last few years\(^4\). To focus on core competencies and to minimize logistics costs, Indian manufacturers and suppliers are now increasingly seeking services of 3PL service providers. The 3PL industry has also been responding to such new and emerging demands. For instance in the automotive sector, Nissan Logistics Corporation takes care of the logistics needs of Nissan’s North American operations, APL Logistics and Fujitrans, handle the distribution of finished products of Toyota; While Visteon division of Ford Motors completely outsources the product distribution service to Ryder Logistics. The need of cost efficient 3PL services by the multinational automobile giants such as Suzuki, Hyundai, Honda and Ford has initiated them to set up their manufacturing bases in the low-cost countries.(Hannon, 2006). Similarly for other goods, countries in Asia (especially India and China) are emerging as the production hubs and hence an increase in opportunity for 3PL companies.

iv) Rise in Outsourcing and Consolidation: On an average, companies in India currently outsource an estimated 52 percent of their overall transportation and logistics activities. (KPMG, 2009). However, many more companies are increasingly choosing to outsource to 3PLs as they seek to optimise costs and focus on their core businesses. Many manufacturing companies in India having in house set-up of logistics set-ups have realised that over a period of time the processes and machines become unwieldy and cost-inefficient. Also, as companies seek to focus on their core businesses because of competitive scenarios, improved customer satisfaction levels become a priority. Hence these organisations are realising that partnering with 3PL experts is the best or the only way to achieve these objectives. Though, companies quote a variety of reasons for outsourcing their transportation and logistics activities including capital preservation, operational flexibility, better inventory management and cost optimisation for outsourcing (figure 3).

v) 3PL as an Investment Opportunity: Existing 3PLs in India are increasing their stake in business to establish as integrated logistics service providers. Realising the unmet demands, new operators like Packolable systems pvt ltd. are committing to provision of cold chains and like innovative solutions to retail and manufacturing industry. Companies like Gati, Safexpress, Bombardier Inc have been bullish about their investment plans for further expansion. (Cygnus, 2007). Significant investment plans in modern warehousing, service orientation and improvements in transportation systems along with the widespread adoption of warehouse management systems, Global Positioning System (GPS) enabled fleet and other technologies are enabling more customers to look away from their ‘store-and-transport’ mindsets to true supply chain management, with a focus on overall cost and efficiency. As more multinational and local 3PL companies increase their scale of operations in India, there will be a rising demand for world-class logistics infrastructure and services even among domestic corporate.

vi) Growth in Consumer Markets and Retail Boom: With increased geographical distribution of incomes in India, the consumer markets are extending beyond the five metros of Mumbai, Delhi, Bangalore, Chennai and Hyderabad.

**Table 3**

<table>
<thead>
<tr>
<th>Projected Indian Organised Retail Market by 2015 (Rs. Cr.)</th>
<th>Actual (2004)</th>
<th>%</th>
<th>Projected by 2015</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Grocery and General Merchandise</td>
<td>2950</td>
<td>10</td>
<td>102546</td>
<td>42</td>
</tr>
<tr>
<td>Clothes, Textile and Fashion accessories</td>
<td>10900</td>
<td>39</td>
<td>40805</td>
<td>17</td>
</tr>
<tr>
<td>Durables and Mobiles</td>
<td>3340</td>
<td>12</td>
<td>28891</td>
<td>12</td>
</tr>
<tr>
<td>Food Service</td>
<td>2000</td>
<td>7</td>
<td>24351</td>
<td>10</td>
</tr>
<tr>
<td>Home Improvement</td>
<td>2500</td>
<td>9</td>
<td>16346</td>
<td>7</td>
</tr>
<tr>
<td>Jewellery and Watches</td>
<td>1960</td>
<td>7</td>
<td>8770</td>
<td>4</td>
</tr>
<tr>
<td>Footwear</td>
<td>2500</td>
<td>9</td>
<td>6508</td>
<td>3</td>
</tr>
<tr>
<td>Books, Music, Toys and Gifts</td>
<td>800</td>
<td>3</td>
<td>3722</td>
<td>2</td>
</tr>
<tr>
<td>Others</td>
<td>1350</td>
<td>5</td>
<td>14692</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>28300</td>
<td></td>
<td>246631</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Gupta, 2006)

Tata Strategic Management Group projected in 2006 (refer table 3) that the overall retail market in India is likely to grow at a CAGR of 5.5 percent (at constant prices) to 1,677,000 cr in 2015.(Gupta, 2006). The increase in demand as well as the increased competition across industry verticals is forcing the firms to focus on product distribution, and logistics outsourcing is gaining further momentum. The growth in food and grocery retail industry would require innovative and efficient transportation support.
like cold chains, temperature controlled and automated warehouses.

vii) Technological Initiatives: 3PL offer an entire range of services ranging from warehousing to transportation including tracking, tracing, labeling and bar coding. Logistics essentially has to be supported by best of information technology (IT) for efficiency in to scheduling transportation, delivery and inventory management. The logistics activity involves the use of software at multiple points. Hence there has been an increase in attention of software providers like Wipro, Kale consultants and others for providing such solutions to 3PLs and their customers. Companies like Wal-Mart have made it essential for suppliers to deploy Radio Frequency Identification Devices (RFID) technology. All leading 3PL companies have airway bill tracking system as a value add on which can be used from any location. As the manufacturing and retail sectors are the major users of logistics technologies for real-time information availability, 3PLs are increasingly adopting to new technologies for improved service delivery and greater customer satisfaction. IT development and outsourcing is one of the core strengths of India and hence ease of availability of IT solutions. The Indian 3PL industry has started to recognize the importance of IT enabled services. Some of the companies are foraying and contributing remarkably in the area of IT development and implementation for the logistics industry. Companies like Kale Consultants have also been recognized for such contribution. Such companies work closely with several industry associations and thought leaders in creating leading edge technology solutions that help logistics companies in India to bridge the technology gap between them and their counterparts in the developed world. The IT solutions have helped the trade in India get more transparency and visibility in their shipment movement, improve efficiencies in the 3PL business processes and deliver quality service to their customers. (CII, 2009).

viii) Government Initiatives: By liberalizing the financing structure of various infrastructure projects, the Government of India (GOI) has taken the positive steps towards the infrastructure development. The structure encourages the public private partnership in the infrastructure development. According to the Asian Development Bank report5, 86 Public Private Partnership (PPP) projects have been awarded, totaling about Rs 340 bn, in twelve states and three central agencies. Roads and port sectors have dominated in the number and size of PPPs. PPP model in container rail segment, the road sector, open sky policy in aviation and privatization of airports have opened up new logistics segments for private participation.

- Phased VAT Implementation: Value Added Tax or Goods and Services Tax (GST) which is GOI's tax regime, is expected to motivate the Indian industries to outsource for logistics support. Partly introduced in 2005, a full implementation of this tax policy will lead to large centralized warehouses located in regional hubs, to attain efficiency. Organising such warehouses may require large investments, many companies may outsource the function of warehousing, thereby creating a potential market for the 3PL services. The time involved in interacting with authorities and complying with inter-state tax needs and the number of checkpoints has an impact on competitiveness of both 3PL providers as well as their customers. This also adds to the cost component. VAT replaces a number of state and central government taxes and in turn enhances the delivery efficiency (Lowering the time of transit and also minimizing the paperwork) of the 3PLs.

- Regulations of India allow 100 percent of foreign direct investment (FDI) in most sub-segments and foreign investors can enjoy benefits like tax breaks and incentives when investing in key sectors like cold storage, agro-warehouses and free trade warehousing zones. As the Indian logistics scenario looks promising, these multi-nationals are expected to play a bigger role, probably forming wholly-owned subsidiaries or taking the acquisition route. The acquisition may be the better route of investment since the acquired company is bought over with its asset base and distribution network. The benefits for the acquired company also include the customer base and patronage of the acquirer multi-national and access to its global network.

- Establishing logistics parks as Special Economic Zones, in India will be an incentive for

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international manufacturing units to enter and establish in the country. GOI is keen on promoting India as a global hub for manufacturing—creating hot pockets of manufacturing zones. Proliferation of special economic zones (SEZ) in India would boost international trade and trigger new demands for logistics with more value added and bundled services. Exports from SEZs during 2004-05 were close to USD 4 bn representing an annual growth of over 36 percent. The government has so far approved the setting over 200 SEZs, which includes the Free Trade Warehousing Zones. The SEZs would be spread across 15 states and two Union Territories in India. Most of the SEZs are at various stages of implementation, while many are fully functional.(KPMG, 2010).

- Government incentives to investors and operators- in the form of tax breaks and incentives are expected to further improve supply-side infrastructure and, in turn, efficiencies. Government incentives to food processing parks and cold warehouses are some recent examples
- Infrastructure Investments: The Indian government has earmarked about INR 50,000 bn according to the 12th Five Year Plan (2012-17) against INR 25,000 bn in the 11th Five year Plan (2007-12) for infrastructure investment. Around one-fourth of this investment is expected to be in roads, rail, and aviation and port projects representing a sharper focus on transportation infrastructure. Approximately INR 281 bn has been allocated for the 2700 km long Dedicated Rail Freight Corridor project.(KPMG, 2010). The various initiatives taken by GOI will enable the 3PL service providers to offer cost-effective and value for money services to the clients, thereby increasing the 3PL usage by all industries. This also would mean efficient use of multiple modes available for the logistics support.

B. Challenges to the Industry
Having the logistics cost as high as 14 percent of GDP spends, the Indian logistics services calls for an immediate concern on the barriers faced by the industry which are the possible reasons for escalated costs. An understanding of these challenges would help the policy makers to work towards minimize the regulatory and operational inhibiting factors which fall under their control. The 3PL users would also benefit by an understanding of these issues by planning their shipments accordingly and working with the 3PLs constructively to maximize from their usage. Similarly it would help the organized 3PLs to plan their resources and enhance their capabilities.

i) Un-organized and Fragmented Industry Structure: The logistics industry in India is mainly characterized by the dominance of unorganized market with over 90 percent of unorganized players.(NSDC, 2009). The user organisations tend to outsource parts and individual logistics functions to one or many different service providers and often also try to retain the logistics control in-house. Hence a consolidation of 3PL industry is an immediate requirement for the growth of logistics services market in India.

ii) Geographical diversity: Due to the geographical diversity of India, the logistics operators need to either have specialisation in regions that they operate or a strong hold on the pan-India market. The diversity is coupled with a varied consumer habits to cater to in each of the 28 states. Also there is a need for development of requires a suitable logistics model that facilitates the effective transportation and storage of goods in a state. The 3PL service companies aiming to act nationwide should recognise the demand of regional customers and the solutions in order to establish and excel.

iii) Infrastructure Congestion: Slow movement of cargo due to bad road conditions, congestion at seaports due to inadequate infrastructure coupled with unreliable power supply and slow banking transactions, make it difficult for suppliers to meet the deadlines for their local and international customers. Apart from affecting the service quality of 3PLs, this also becomes the reason for high costs due to lowered average speed of commercial vehicles, spillages and delay in deliveries. To expedite international shipments, they have to book as airfreight, instead of sea-freight, which adds to the costs of shipments making them un-competent in international markets. Moreover, many large shipping liners avoid Indian ports because of long turnaround times due to delays in loading/unloading. Indian exporters have to resort to transshipments at ports such as Singapore, Dubai and Colombo, which also adds to the costs of shipments and also delays delivery. At the ports, 12 important ports of the country handle the volumes that are higher than their full capacity. This results in pre berthing delay and higher...
iv) Complex taxes, regulatory structures and Red tapeism: The Indian taxation for freight still lacks in transparency and uniformity in rate across the states. The freight operators generally have to confront as high as seven different agencies to get clearances. For the purpose of warehousing, the facilities have to be setup in a many states to avoid dual taxation, and therefore the benefit of the economies of scale is lost. The service tax of around 12 percent is also a factor for consideration in outsourcing decisions. Apart from the non-uniform tax structure, the 3PLs have to pay numerous other taxes, octrois, and face multiple check posts as well as the local police harassment. High costs of operation and delays involved in compliance with varying documentation requirements of different states make the business: non-lucrative, high cost and low margin. On an average, a vehicle on Indian roads loses 24-48 hours in complying with paperwork and formalities at different check posts en-route to a destination. Fuel worth USD 2.5 bn is spent on waiting at check posts annually. A vehicle that costs USD 30,000 pays USD 7,500 per annum in the form of various taxes, which include the excise duty on fuel.(KPMG, 2010). This adds to the carrying costs of products and commodities and hence the raised prices.

Not only taxation and the documentation involved is the challenge to 3PLs, the illegal practices like bribery have also crept into the system. Reports of large shipping companies bribing the customs and excise officers in ports across the country in order to get their shipments cleared in a timely manner have also highlighted a need for fair practices.(Kumar, 2007 b). Also, the government needs to establish policies and tax structures that facilitate smoother and fair procedures for movement of goods.

v) Pricing Pressures: Along with high emphasis on quality of services, with a huge chunk of market belonging to the unorganized service providers, a tough price competition is compelling the companies to control the costs to survive in the market. The users are demanding wider coverage and additional services at very competitive prices. (Mitra, 2006). The service providers have to maintain a bare minimum infrastructure like truck or trailer fleets, warehouse, and computers along with the manpower required to execute the jobs on hand and still need to work on the minimum service charges to counter the tough competition with disorganized sectors as well as the big players in the industry. The problem of organized players is multiplied by unfair competition with unorganized players, who may get away without paying taxes and following regulations stipulated in the stipulated requirements such as quality of drivers and vehicles, volume and weight restrictions, etc.

Customer Service Issues Managing Expectations: With globalization and increased competition, the 3PL service provider and user relationships are gaining importance. Over the years, there has been a rise in the awareness levels of the users and so is the expectation. The users demand the 3PLs to redesign their processes and supply chains and to make those chains as inexpensive and as efficient as possible. As customer organizations expand from local to regional and then to a global scale, they would expect their logistics partners to provide them with required skills and support. Not only regions, the user would want the subscribed 3PL operator to be a comprehensive solution provider for its entire supply chain activity. Some organizations like AFL and GATI are working extensively on relationship marketing and are also working on the image makeover exercises that will keep them ahead of competition as is quite evident from the websites and the other promotional media used. For a better connect with customers and to enhance the competitive position in the market, Gati underwent a rebranding exercise in 2009 as a part of which the current punch-line of ‘We Deliver Anything, Anywhere’ has been changed to ‘Ahead in Reach’. House colours have also been changed from green to turquoise blue and the same colour is reflected in the uniforms, vans and signage.(Reddy, 2007). Indian shippers expect 3PLs to own quality assets, provide more value-added services and act as an integrated service provider, and institute world-class information systems for more visibility and real-time tracking of shipments. However, they are unwilling to match the same with increased billings and follow timely payments that leave 3PLs short of adequate working capital. However, shippers also prefer service providers to offer more value-added services through technological adaptation. The inability of service providers to go beyond basic services and provide value-added services such as

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small repair work, kitting/dekitting, packaging/labeling, order processing, distribution, customer support may become a detrimental factor in shippers’ outsourcing decisions.

- Managing Relationships: Despite of a rapid improvement in service offerings by 3PLs, The firms in India are uncomfortable with outsourcing their logistics activities due to lack of trust and awareness. (Mitra, 2006) As per a survey conducted on Indian 3PL Industry, (Sahay and Mohan, 2006b), the relationship of organizations with 3PLs is viewed as more of a ‘contractual’ agreement. In the scenario of fierce competition the 3PL operators may make false commitments on deliveries, not share the risks and alter the facts to win a contract. Hence resulting in short term relationships and not the ‘collaborative relationship’ that can only be achieved through enhance commitment and honoring the same in a consistent manner. The volume of logistics outsourcing by Indian shippers to 3PLs is presently very low (approx. 10 percent) compared to the same for the developed countries (> 50 percent, sometimes as high as 80 percent). In addition to the lack of trust and awareness, the unwillingness to outsource logistics on part of Indian shippers may be attributed to skepticism about the possible benefits, perceived risk, and losing control, of transparency, security, consistency and some vested interests in keeping logistics activities in-house.

- Innovation: The survey conducted by Sahay and Mohan(2006 b), revealed that the 3PL services that shippers used were mostly transportation, warehousing, customs clearing and forwarding. Outsourcing of other value added services such as inventory management, distribution and order processing are yet to gain importance in India while the Indian logistics firms offer limited services. While the value added services are the ones that differentiate the professional 3PL companies from the un-organised sector. Innovation, technology initiatives and better customer management would be a key to developing new services, markets and redesigning the processes.

- Manpower Issues: The services of logistics are generally carried out by insufficiently skilled, educated or trained and also technology use is lower in India, due to high cost involvement shortage of trained manpower. (KPMG, 2007). Management graduates do not consider logistics as a prime job. In such a scenario, initiatives by central authorities and higher education authorities to develop courses and programmes that focus on infrastructure and supply chain management that can largely cater to the 3PL industry and their clients.

vi) Technology Adoption: Multiple check points and processes involved in movement and storage of consignments like transportation, customs, taxation formalities and warehousing add to the logistics cost in India. This can be reduced by optimum use of the hardware and software technology usage. The challenge to the 3PL sector is the short term focus of small time players that offer a limited number of solutions and for whom technology is not yet a priority. Only a handful of large 3PL organizations offer services that are supported by technology like warehousing management systems, transportation tracking and tracing.

g) Stiff Competition: Emerging Indian 3PLs face strong competition from established and large multinational companies (MNC) for international freight movement. MNCs, because of their size and operations in many countries, are able to offer competitive freight rates and extend credit for long periods. Moreover, clients of MNCs often want to deal with a single service provider and especially for Free on Board (FOB) shipments specify the freight forwarders, which most of the time happen to be the multi-national freight forwarders. This is a kind of a non-tariff barrier imposed on Indian 3PLs.

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6 The Singapore government has set up The Logistics Institute, Asia Pacific, TLI-AP which is collaboration between the National University of Singapore (NUS) and the Georgia Institute of Technology (Georgia Tech) for research and education programs in global logistics. A full suite of supply chain training programmes produce 850 graduates per year from apprenticeship programmes, logistics diplomas and degrees, and post-graduate programmes in Singapore. The availability of talent has resulted in a growing interest by multinationals in setting up supply chain management nerve skill activities in Singapore to support their logistics activities in the region and globally. These companies build up strong SCM competent teams in Singapore to orchestrate and coordinate the flow of goods, information and funds for their global supply chains from here. Examples of such setups include Motorola, IBM, VeriFone, and Lenovo.
industry. Not only this, 3PLs currently also have to compete with the unorganized trucking and freight industry wherein the operators have less overheads and also adopt unfair practices, hence the pricing is lower.

IV. SWOT Analysis of the 3PL Industry
The 3PL industry in India has a long way to go to match the benchmarks set by the international firms and the global 3PL industry. The market is characterized by dominance of unorganized players and is largely fragmented with slower than expected technology adaptability and penetration. Such features largely affect the package that 3PLs have to offer. But nevertheless, the trend is positive in terms of growth of Indian logistics Industry. The Indian logistics industry is growing at a higher pace of 20 percent vis-à-vis the average world logistics industry growth of 10 percent. (Mc Kinsey, 2010) The 3PL industry (though a smaller share of total logistics industry) cannot be neglected by the users as the globalization and competitive pressures are making it imperative that the manufacturers focus on their core competency and ensure that an efficient supply chain support adds to the customer delight. The 3PL companies themselves are striving to become globally competitive by way of adapting the efficient, technology driven supply chain expertise. As seen in the section 3.1, companies are also willing to expand their infrastructure since they envisage brighter prospects. Another major strength that India can offer to the development of the industry is the availability of manpower which can be better utilized by appropriate training and development. The major opportunities waiting to be exploited are include a consistent growth in Indian economy (more output and hence the rise in demand) which implies a need for development of specialized supply chain solution providers (like cold chains, auto supply chain management specialists, petrochemical logistics etc.); and providers with an ability to offer one stop solution. Many large Indian companies such as Reliance and Future group Industries have established their logistics divisions and have significant plans to invest further. Their logistics divisions not only will support their group companies but have opened up to the external customers for market expansion. Infrastructural development focus of GOI involving golden quadrilateral project, east-west and north-south corridors (connecting four major metros), Free Trade and Warehousing Zones (FTWZ) with 100 percent Foreign Direct Investment (FDI) limit and public-private partnerships (PPP) would tremendously boost investments in the logistics sector. However, the industry currently suffers from non uniform policies, taxation and regulatory norms, increasing operational expenses, stiff pricing competitions. These may pose hurdles in way of further development of the 3PL industry in India. A SWOT analysis of the Indian 3PL industry has been presented in figure 4.
V. Implications for Industry Participants

The Indian 3PL industry is highly diverse with service providers ranging from truckers to the sophisticated 3PLs. Certain action items at the strategic levels may aid the evolution of a competitive and efficient 3PL network support to the user industry in India. The strategic levels that may influence the development of this industry are:

A. 3PL Organisations

To get the industry the status of an organized sector, the upcoming 3PL firms require long term visionaries to set up an establish service oriented 3PL companies that may collaborate with existing multi-nationals or Indian giants to provide integrated or specialized solutions. The vision should be percolated down the line till the operational level to have the customer loyalty as a primary area of concern. The major market share holders in the area should support research and innovation in the field to look for and cater to new markets. For 3PL operators that are established, research may help in continuous improvement of the current practices (in terms of operations and marketing) in the industry. Adaptation to new technology cannot be overlooked by the 3PL operators for an effective execution of services and making the real time information available.

Being a manpower intensive industry, the companies should focus on attraction, development and retention of managerial talent. The operators also need to differentiate themselves to develop a niche in the market and set standards of services.

Small and large operators need to make cohesive efforts to network and share the industry experience by forming associations that may contribute to service improvements, collaborate and put forth the issues to the regulatory authorities that are beyond a single operator’s control.

Considering the industry growth, the logistics industry and educational institutes and authorities can come together to establish learning centers and develop new curriculums/programmes to cater to the upcoming demand of professionals at all levels.

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**Figure 4 - SWOT Analysis of 3PL Industry (2012)**

- **Strengths**
  - Critical Component in operational efficiency
  - Contributor to customers’ customer delight
  - Expertise and resources for efficient SCM
  - Customer service

- **Weaknesses**
  - High Costs and Low Margins Business
  - Low IT Penetration
  - High Capex
  - Attraction and Retention of talent

- **Opportunities**
  - Growing Economy
  - Rising trend of outsourcing
  - Rising interests in investments, global mergers and acquisitions
  - Opportunity to specialise and cater to niche markets, and provide one stop solutions
  - Infrastructural Development Focus

- **Threats**
  - Price competitions from large operators and unorganised operators
  - Regulation, Taxation and Policy issues
  - High dependency on infrastructure development and networking capability
B. Customers / Shippers
Users need to strategically analyze the advantages that can possibly be derived from outsourcing. The clear understanding and communication of objectives and timelines of supply chain may help the shipper-3PL relations to prosper. Transparency, risk sharing and documentation support from the user’s end can encourage the service providers to deliver the desired level of services. Clear expectations, laid down performance measurement parameters and clarity in terms and conditions will also lead to fair outsourcing practices and establishment of long term partnership with the 3PL companies.

C. Support Services
The industry cannot exist in isolation. Various allied industries like infrastructure, banking and finance, insurance, education, Information Technology, media, etc. need to rightly identify their role in the supply chain networks and work on the areas of their expertise and service, in coordination with 3PLs, thereby contributing in reducing costs and improving value.

D. Government and Regulatory authorities
In view of the desired logistics cost reduction it is essential to develop public private partnership models for better infrastructure provisions. A continued liberalization of FDI in the allied sectors would encourage enhancement of quality of services. The regulations (laws and taxes) and policy framework should act as an enabler of fair practices, competition and improved services. The implementation and operationalisation of new taxes and regime, for ex. GST in India also need a careful monitoring so that the intended benefits are sought. More bodies like CII Institute of logistics need to be set up for research, continued logistics education and organization of events for bringing the participants together.

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