

Globalisation Sets The Stage For Tremendous Growth Of The Indian Logistics Industry

Wheels Of Fortune Spin In Favour Of Third-Party Logistics (3PL) Service Providers

([PRWEB](#)) August 20, 2004 -- The steady stream of MNCs entering the Indian marketplace has ushered in wholesale changes in operational strategies of businesses — particularly in terms of distribution, warehousing and transportation. Besides necessitating a revamp in the government policies, these welcome structural changes have set the tone for rapid growth of the Indian logistics industry that is poised to touch the \$19.54 billion revenue mark by 2009, according to a recent Frost & Sullivan research on the Indian Logistics sector.

In 2003 the revenues stood at \$13.46 bn (2002 - \$ 12.66 bn), with the industry growing at a Compound Annual Growth Rate (2003-2009) of 6.4%. The chemicals segment is the largest contributor of revenue to the logistics industry with 39.3 %. Other industry segments that have significant logistics costs are the metal industry (14.2 %), FMCG (12.7 %) cement and textiles.

Logistics functions are currently an in-house activity for companies that hire discrete services such as transportation and warehousing while internally performing order processing, distribution, and logistics planning for inbound and outbound logistics. Outsourcing of entire logistics to third-party logistics (3PL) service providers is highly limited with the practice of complete logistics outsourcing is recent in India with multinational companies being the major users of this service.

The Indian market for 3PL solutions in 2002 was estimated at \$260.9 mn but the revenue of this market is expected to grow at a CAGR of 20.6 % to reach \$970.3 million by 2009. This segment is expected to grow at a faster pace compared to the total industry as companies are expected to largely outsource their logistics functions to professionally managed third-party solution providers, according to the Frost & Sullivan report.

The logistics industry in India is highly fragmented which is mainly due to the nature of the transportation industry. In India, over 50 % of goods are transported by road. The road transport sector is highly fragmented with vehicle ownership firmly in the hands of individual trucks owners with 67 percent of the owners with a fleet of less than five vehicles.

A fragmented market increases the paperwork costs & efforts required to channelize resources. The poor condition of roads directly translates to higher travel affecting vehicle turnover adding to inefficiency. The inefficiencies of the transportation sector are passed on to the logistics industry with transportation costs accounting for nearly 40 % of logistics costs.

As the average fleet size is low, individual truck owners are unable to directly contract their vehicles to companies and hence, freight consolidators & brokers provide truck owners with consignments taking away a commission in the process. Truck owners lack the bargaining power necessary for negotiating prices and provide transportation services with minimum profit. Increasing cost of inputs and lower profits affect the ability of truck owners to upgrade and expand their fleet. This phenomenon has resulted in the unorganized and fragmented nature of the road transport sector directly impacting logistics cost.

Inventory carrying costs account for approximately 24 % of the logistics cost while actually superior warehouse management systems can shorten the time a product is stored in the warehouse and reduce damages.

Order processing and administrative costs account for a significant 10 percent of the logistics costs. Stock filing and warehouse management in many cases is done manually increasing the administrative costs at the same time adding an element of inefficiency in warehouse management.

Companies in India are slowly moving towards total outsourcing of logistics that provides access to logistics services to their production facility, warehouses, and IT systems. Companies are moving forward towards higher outsourcing but facing considerable challenges that need to be addressed before outsourcing of logistics functions become the norm. Many of these challenges are market driven or external to the company while other factors are internal issues that need to be sorted at a strategic level within the company itself.

Logistics service providers face the same set of external challenges companies face. However, logistics service providers are better and have in-built flexibility to overcome external factors such as managing multi-modal transportation and compliance with regulatory requirements and agencies. Internal factors that companies need to address are those that are likely to have a high impact on the level and scope for outsourcing such as the cost of outsourcing, the benefits that the company derives by it, and the issue of control that needs to be exercised on the logistics service provider. "Logistics efficiency would be key for Indian companies in the global market place. With Indian companies increasing focus on exports multi location sourcing and market delivery will be norm. Superior logistics planning is a must to remain competitive in the market place," says, Mr. Ganesh Relekar, Industry Manager, Automotive Practice, Frost & Sullivan.

Strategic Conclusions

The key strategic conclusions for the companies in the logistics industry to create a successful business strategy are:

- Focus on MNCs needed
- Targeting leading exporters necessary
- Value additions needed to achieve higher penetration
- Build competencies and specialized products to meet the demand for industry sectors that are future growth areas such as retailing and textiles
- Market awareness exercise necessary
- Government initiatives to provide clear regulatory environment required
- Internal efficiency improvements needed



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