

THE SPECIALISTS

A strong investment scenario, growing demand, government's much needed thrust and the 3PLs' preparedness to capture greater market share; are the success ingredients that are marking a new era of growth for the logistics industry in India. If all unitedly reach towards goalpost, we shall soon be able to develop an unparalleled supply chain network that will be envied by all the competing nations which will be characterized by low cost and high efficiency.

A recent Technavio's research report has predicted that the third-party logistics market in India will witness an incremental growth of more than \$10 billion during the period 2018-2022. That speaks about the volume and the value of the segment that it is slated to garner in times to come.

Looking at the buoyant opportunities waiting to be tapped, 3PLs are ready to invest in Infra, Technology and Systems, rather than just on people, mentioned Ravikant Parvataneni, CEO, Crimson &

Co India. He further added that they are now equipping themselves to provide solutions rather than just transactions.

REFORMS

Since the inclusion of Logistics sector in the Infrastructure list, logistics companies have started getting access to the most economical loans under favorable terms, avail infrastructure lending at easier terms with enhanced limits, and other benefits. The implementation of GST has assisted in reducing the price differences between states and make tax liabilities uniform

across India. In April 2018, the e-way bill was introduced under the GST regime across India. Further steps are being taken to help in decreasing the logistics costs and increase the operating efficiencies by reducing cross-border checks.

On the changing diaspora brought about by the implementation of GST, **Sheshadri P V, CEO, Future Supply Chain (FSC)**, stated that GST has brought about three significant changes to existing supply chain strategies: The first change has been observed in transportation with introduction

Sheshadri P V, CEO, Future Supply Chain Solutions Ltd

With the GDP growth likely to remain in the 7% area and the transformation we are witnessing in the logistics sector, 3PL service providers are poised for a YoY growth in excess of 15% over the next 5 years. A look at pipeline of "Big boxes" and new fleet deployments at a large scale is an indicator of what the industry is building capacity for. We see an SCM outsourcing revolution similar to IT/BPO outsourcing revolution at the start of the millennia as a lot of organizations would want to focus on their respective cores of manufacturing, marketing or product development. The SCM can be outsourced to reliable experts.



R Shankar, CEO, TVS Logistics Services Ltd – India

"Over the last two decades, the Indian logistics sector has evolved from mere transportation services to fully integrated 3PL service providers. While the logistics industry is expected to grow at 7.7% CAGR to reach to market size of \$197 billion in 2020; the 3PL market in India is estimated to grow at a CAGR of 19-21% to reach \$8.4 billion in the same period. This trend is likely to continue in the next five years; and concurs with the spurt in outsourcing of logistics services to organised 3PLs, especially post GST implementation. Sectors such as automobiles, consumer goods, organized retail, e-commerce and engineering will offer high 3PL growth potential."

of E-Way bill and an improving infrastructure. Infrastructure here has multi-fold manifestations: roads, modern fleets, telecom as well as supporting IT systems. All these have been enablers in reducing lead times, improving predictability and eventually optimizing SCM costs.

Second is the onset of "Big Box" phenomenon on account of either a gradual dismantling of smaller depots in each state and setting up much bigger distribution centres (DCs), each of them catering to a zone (cluster of 4-5 states) or a dramatic revamping into a 1 or 2 national DCs set up catering to whole of India within aggressive timelines. The scale which comes with a Big Box DC necessitates adoption of technology and automation. This trend of course varies by industry. Apparel, consumer durables, automotive, industrial products and spare parts of some of the industries are among those sectors where enterprises have been bold enough to latch onto the consolidation bandwagon. There are enough case studies of such enterprises who have realized one or more of the below benefits:

- » Reduced fixed and operational costs owing to economies of scale and reduction of overheads
- » Improved order fulfilment and higher operations KPIs
- » Optimized inventory levels resulting in freeing up of excess working capital

Third is the emergence and acceptance of 3PL service providers

as change agents. They have not only been able to usher in digitization and technology in SCM, but also minimized the risk of failure of technology adoption, which the enterprises are still reluctant to take up. Concept of outsourcing SCM and willingness to use multi-user tech-enabled warehouses is getting traction as enterprises see the benefit of sharing fixed costs and letting experienced hands manage their inventory storage.

"Having said that, there are still several enterprises who have been reluctant to adapt one or more of the above changes, owing to factors such as current lock-ins with existing vendors and inability to assess gains of higher inventory control against marginal increase in OpEx. Risk-aversion and inertia to alter status quo also plays its part in discouraging change. For example, those averse to outsourcing and with no experience of managing Big Boxes themselves will surely avoid consolidation fearing drop in service levels, sunk costs in warehousing infrastructure and eventual loss of sale. But looking at the successes of their peers or competitors in adopting this change, they too will soon come on board," he added.

Agreeing on the same, **R Shankar, CEO, TVS Logistics Services Ltd – India**, informed, "During the initial phase of GST roll out, delays in systems and related issues slowed down the pace at which customers adopted newer solutions. End of 2017 was especially sluggish for the whole industry, but the market picked up in the last quarter of past FY. In the year post GST,

companies are prioritizing optimization of warehousing space, network capabilities, and fleet choices – instead of planning their logistics networks around tax structures and compliances. They are demanding more speed to market and efficiencies; and this has the potential to reduce logistics costs which at present are very high."

He added, "Traditional businesses that have never outsourced before are realizing the impact of GST on their supply chain management and costs. Beyond transportation and warehousing services, they are also demanding value added solutions including demand planning, application of technology, integrated solutions, scalability, better space utilization, optimum load planning, scheduling and visibility."

Remarkd Parvataneni, "3PLs are offering advanced systems such as WMS as a shared service to clients who themselves may not invest in such systems on their own."

The contractual value of the agreements is also increasing after GST. Customers are recognizing the benefits of outsourcing non-core functions to organized players who bring with them many years of experience; and the efficiencies of scale emanating from larger sized facilities. Large organised 3PL providers like TVS Logistics who have invested in technology and operate with a focus on quality and compliance are benefiting from this shift in mind-set.

Dr Arunachalam R, CEO, ProConnect Supply Chain Solutions, highlighted, "Earlier there was a trend of warehouse positioning as per the taxation



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requirements which were state wise. Now there is regional consolidation of warehouses. No geographical boundaries and it's like installing a base. Enhancement of hub and spoke model, wherein there is a base installed like a central mother warehouse. Lot of clients are reaching out to the supply chain service providers/3PLs to help them in channelizing towards revamping their networks."

GST is enhanced by the introduction of e-Way bill as it set timelines for transportation and reduces compliance hassles with queues. There is also substantial reduction in turnaround time for trucks post GST. The interstate check posts are removed and thus led to significant decrease in idle/waiting time for trucks & thereby improving TAT & efficiency.

STRATEGIES TO BEAT THE COMPETITION

FSC is known for its operational experience, pan India presence and as one of the pioneers of technology adoption in SCM in India. "We continue to differentiate ourselves based on these capabilities along with a measurable value addition and assurance of reliable service. Our delivery and capabilities have earned us a lot of interest from new customers and repeat business. We have convinced several customers on moving to a WMS enabled modern warehouse for getting higher throughput, better visibility and reduction in costs by as high as 20%. We have effected transformation of one of the most complex supply chains during India's modern retail revolution. So, our strategy is simple – address our

client's SCM pain areas and deliver value against those using technology and leveraging our experience in the Indian environment," asserted Sheshadri.

"As we speak, we are adding 30 lakh sqft to our warehousing area on the back of signed up orders. Continually adding to our distribution network every week and covering newer pin codes speedily from our current 11000+ and boosting our last mile capabilities to nearly 3000 by year end. We are a well-equipped and possibly the most experienced 3 PLs to cater to almost all consumer businesses like food, FMCG, apparel, general merchandise, consumer durables, home & furniture as well as auto, electrical and engineering sectors," he added,

Shankar said, "TVS Logistics is one of the few large organised 3PL players with pan India presence and end to end supply chain solutions' capability. We are leaders in automotive logistics in India and have extensive experience across other sectors as well including FMCG, consumer durables, telecom & infrastructure, hi-tech, components, engineering, retail, energy, chemicals, etc."

TVS Logistics aims to achieve a high double-digit growth in FY19 and move up the customers' value chain by providing end to end supply chain solutions, which are technology enabled. "This will really significantly differentiate us from others; and provide a real value to customers in the form of reduction in logistics cost and high quality of service. Our asset light operations are enabling us to scale up quickly and add quality infrastructure as needed. Our strategy also focuses

equally on enhancing our customer-relationships, improving our capabilities and strengthening our geographical presence. We are reinforcing our business development and solutions teams; and are also cross deploying international best practices from our operations in developed markets into India to enable enhanced operations and better customer service," Shankar averred. Recognizing the growing skill demand in this sector, TVS Logistics is also keenly working on diversity and talent development initiatives to be future-ready.

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On their positioning, **Jasjit Sethi, CEO, TCI Supply Chain Solutions**, averred, "We are in sync with our customers' demand in moving from RCM to FCM. Small unorganized truckers are clueless about this changing demand of market & do not have any strategy to embrace this change. We will be educating unorganized truckers who are associated with us as vendors about benefits of

FCM & support them in going through this migration. As we go further, we are keeping our often-repeated strategy of going beyond the rule to enabling technology to move up the value chain and support our customers in their growth plans."

He added, "Being a listed entity, the compliances of GST benefit us directly and we stand to gain as an organized player. GST has provided a much-needed boost to the logistics sector due to tax compliances, especially to the organized ones. Here, we find ourselves in a very comforting position in terms of technology advancement coupled with our maturity of knowledge to adapt ourselves with the changing market conditions. Our ERP is home grown and very robust, we have

spanning Mobile Apps and own Web based applications & have used GST regulations as an additional opportunity to differentiate the TCI offerings from rest of the industry in terms of support to customers and suppliers. Not to mention, the revenue of the Group is growing as per expectations."

TOWARDS UNPRECEDENTED GROWTH

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Changes witnessed post GST implementation

Implementation of GST has been a game changing event for businesses in general & also for organized logistics players. We can categorize changes under 3 heads:

- **Accounting Perspective:** With the introduction of GST, OEMs are preferring to migrate from RCM to FCM mode of taxation, for purpose of claiming input credit. Looking at the demand of the market, organized 3PLs are also trying to migrate to FCM mode along with clients.
- **Network Plan:** Before GST implementation, it was anticipated that post GST, consolidation of warehouse will take place. On long routes, number of larger trucks will increase. Although after GST, the supply chain network has become much logistically right rather than taxation friendly but expected consolidation of warehouses is not happening. Driving force is closeness to customer & emphasis is put on avoiding the materials to go off the shelves. Also, not much changes is seen in terms of load consolidation with usage of bigger trucks as of now. We expect FY 18-19 to bring more changes in this aspect.
- **Consolidation in transporter:** Post GST, customers prefer choosing an organized 3PL who is more compliant to GST regulations. So, slowly consolidation of small transporters has started which might speed up in future.

Slated growth projection

Like most other industries, transportation & logistics is currently confronting immense change & like all changes, this brings both risks & opportunities for growth along with it. Logistics companies are facing an era of unprecedented change as digitization takes hold & customer expectations evolve. Indian economic growth is gaining momentum as the fastest growing economy in the world after the transitory disruption of demonetization as well as GST implementation. We are optimistic that India's logistics industry will grow in a vibrant pace to facilitate India's economic growth which is expected to emerge as \$7000 billion economy in coming years. The logistics sector has been quite unorganized with many small players in the market. The implementation of GST is expected to drive the logistics sector into an organized one.



Jasjit Sethi, CEO, TCI Supply Chain Solutions

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Companies are recognizing the impact of logistics and supply chain on their bottom lines; hence the exercise is likely to become less transactional and more strategic and collaborative in nature. In line with this, another major change will be the shift towards longer term contracts to realize better value for both customers and 3PLs while also capturing any available quick wins. 3PLs willing to invest in technology and skilling, offering control through compliances, and developing capabilities in multi-modal solutions can expect bigger gains.

Being in a sector that contributes the largest in GDP but the monetary spend is quite less in logistics. “With the upcoming boom in organized 3PL in market, we can see increase in business and profitability as clients are driving towards high tech enabled solution providers which is through organised 3PL. Market is constantly shifting towards organised sector for consolidation and Digitalization. We see substantial requirement for Logistics of Mission critical devices and we are equipped to handle those as we are handling now. We see future for those who are organized by the way of end to end ERP, automations, AI & ML applications in supply chain etc., in which ProConnect has already commenced its journey,” commented Arunachalam.

THE STATUS QUO

Variation in transportation capabilities and increased shipping demand have enabled service providers to enhance their supply chain activities. The third-party logistics market is expected to progress as service providers are moving towards the use of automated freight payment and audit services to reduce costs. These providers are gaining competitive advantages by reducing capital expenditure (CAPEX), mitigating risks, managing inventory, and focusing on the core competencies of their business operations.

The emergence of Big Data and availability of industry-specific logistics

Ravikant Parvataneni, CEO, Crimson & Co India

3PLs are evolving quickly to capture business. They now have the vision of investing in Infrastructure ahead of time. In short, they are ready to take risk of hiring/building facilities bigger than what is required for existing/signed-up clients.



services are expected to be the key driving factors boosting the industry growth. Lack of necessary internal control has resulted in the increase in outsourcing of these services by the middle market companies (including wholesalers and retailers) to overcome the logistic challenges. The manufacturers and end-use industries in the emerging countries lack the internal control required for addressing logistics challenges. This has provided an impetus to the 3PL industry growth. Additionally, the key vendors are adopting cloud-based Customer Relationship Management (CRM) solutions to enhance the shipper-vendor relationship and reduce the supply chain complexities by providing increased visibility in the process.

PEEK INTO THE FUTURE

India is the fastest growing economy in the world and as the reform impetus continues, the surging GDP is expected to grow even faster in the coming months. Sethi asserted, “As the countries’ logistics sector enters a new sectoral era, we believe that TCI is attractively placed to climb into a new orbit. As a group, TCI serves as a one stop solution for clients from basic freight movement to parcel delivery to complex supply chain network design & implementation. We further intend to invest in state-of-the-art technologies, setting up multi-user and multiproduct warehouses and widening through access to ships, trucks and trailers. With “Navigating Tomorrow” being the inherent philosophy that we carry forward, our vision for the future is to continue to strive hard to fulfil TCI’s destiny and contribute to the growth of

the world’s largest democratic nation, economically, socially and sustainably. TCI will continue to work with all stakeholders to contribute to growth in the 3PL sector along with India’s economic growth.”

Shankar applauded the government’s initiatives and avowed, “We have to commend the Government of India’s initiative of setting up a separate division on Logistics under the Department of Commerce which shows the growing recognition of the importance of this sector.”

In the long term the government and industry should partner to introduce initiatives to reduce the cost of logistics and bring it at par with international standards at 8-9 percent of GDP. For this purpose, we have to invest in better road networks, look at higher adoption of rail networks and waterways, and more mechanized operations. Logistics industry also needs to develop the ability to upskill and reskill the talent in this sector; increase the number of people employed and improve the return on capital in the livelihood business. We have to promote, partner with and facilitate significant small-scale entrepreneurs to flourish and develop. Some of these entrepreneurs will own assets (like trucks, small motor boats etc.) and others will develop unique models of last-mile delivery, services and support, which will help them scale their businesses over a period of time.



Integrated Supply Chain Solutions



TVS Logistics Services is an Indian MNC and the partner of choice for customers from across sectors for integrated supply chain solutions. With innovative solutions and robust technology, we overcome supply chain bottlenecks, deliver value for our customers and build enduring relationships the world over.

