3PL: The new sunrise industry

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– **Capt Uday Palsule**
Managing Director,
Spear Logistics

Preeti

Whether it is the cup of morning tea you have just brewed or the mobile phone that you constantly use, most goods that you use in daily living is touched by logistics. Not surprising than that, over the last three years, third party logistics has seen over 25% growth and is expected to continue its upward movement over the coming years.

But what is third party logistics or 3PL and why is everyone so excited to be a part of the bandwagon? Simply put, 3PL is the outsourcing of the distribution function wherein planning, implementation, and control of a logistics system for a company is provided through a third party under a contract.

Contract logistics providers invest in assets, dedicate capacity and personnel, and customize information systems and communications in order to improve the productivity and customer satisfaction of their manufacturing and retailing clients.

"Outsourced logistics or contract logistics or third party logistics is more than transport and freight forwarding. It includes warehousing, distribution, tracking the goods movement, helping clients in better inventory control and even value added services," explains Capt Uday Palsule, Managing Director, Spear Logistics. This Pune-based contract logistics company was recently won the 3PL Excellence award at the Gateway media awards of Excellence: SCM and Logistics 2011.Though focused on warehouse logistics, the company has been a part of the rapidly growing sector that is starting to gain acceptance among Indian corporates as an important and effective element of conducting business. But Capt Palsule is quick to point out that India still has a long way to go in terms of adopting logistics outsourcing as a regular process in day-to-day business.

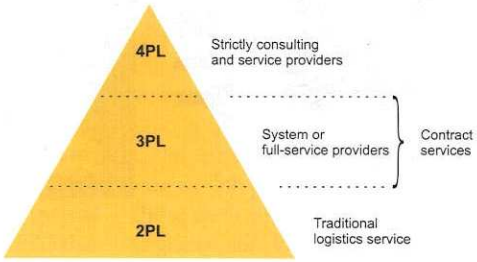
Even a report on Logistics from RNCOS backs this view. According to the RNCOS report the current status of 3PL services in India is not comparable with that of the matured markets, such as Japan and the US, where the usage of 3PL services dominates the overall logistic operations. 3PL market in India remains at a relatively developmental stage, with multinational companies in all industries being the prime users of these services. However, big domestic companies in leading industrial sectors have also started following the footsteps of their multinational counterparts and have begun outsourcing their basic logistics functions.

While sectors such as commodities, automotives and electronics have always used some aspects of outsourced logistics services of late, apparel and retail, healthcare and pharma, hitech, electrical hardware and consumer electronics are driving growth in the sector, asserts Vineet Kanaujia, General Manager – Marketing, Safexpress .

With the largest network coverage across India traversing over 350,000 km. every day and covering over 550 locations through more than 750 routes operating 24 hours a day 365 days a year, Safexpress could be the leading logistics company in the country. And such is the optimism on the growth that logistics is expected to register in India that Safexpress has actually committed close to Rs 600 crore to develop 32 world-class Logistics Parks at certain strategic locations across the country.

So what drives 3PL growth in India?

"We have always preferred outsourcing our logistics to third party vendors primarily because it saves us the headache of having to maintain a huge fleet of transport and worrying about logistics. Maintaining a steady stream of trucks and ensuring goods reach markets is a challenge. Outsourcing this helps us focus on our business," says MC Appaiah , COO, Duncans Tea. Whether it is the beverages sector or books, computer accessories or clothes,



"Companies will have to adopt new business models as well as supply chain models in order to save costs. Companies which have traditionally been operating with 30-35 depots may start operating with 4 DCs (Distribution Centers) and companies which have been operating with 4 DCs may start operating with one centralized DC. Warehousing will no more get driven by taxation, but by business needs."

– **Vineet Kanaujia**
General Manager, Marketing, Safexpress

the outsourced logistics services have become an important part of the SCM process. Tea logistics for instance would help exporters to bring down transaction cost and cost of operations as they will be able to take advantage of a logistic service provider's efficiency and intentional low cost freight and operations. On an average, logistic cost amounts to Rs 7 per kilo of tea. If a tea company outsources its logistics it can save up to 14% in operational costs, according to industry players.

So, besides the obvious benefit of costs, what are some of the other benefits that is enticing companies across various industrial verticals to make 3PL a part of their business decision?

1. Distribution Savings: Overall distribution costs are lowered due to process simplification while faster delivery reduces finished goods inventory bringing down the cost of handling and owning inventory. Inventory is lower as the company is aware of goods on the market, in stock and in transit at any given point of time as the process help track this chain diligently. "When a client engages us it is assured that their inventory is being monitored closely giving them the advantage of maintaining a healthy inventory. They get extreme visibility into their inventory along with accountability at every single point of movement," explains Capt Palsule. An additional benefit is the ability to manage production better and better resource allocation.

2. Greater Control of Business: Again, because the contract logistics provider is monitoring and tracking movement of goods throughout the stages of distribution a company can respond to new opportunities or problems with agility. This also increases financial flexibility as faster delivery translates to faster collection of receivables.

3. Customer satisfaction and better SLAs: As a positive fallout of better inventory management, a company will not have a situation of running out of stock giving them a better grasp of distribution and consequently making it easy to enter and supply new markets. An obvious advantage is providing better customer service and entering into healthy service level agreements. Moreover, a company can enter into a SLA with a logistic provider to strengthen their internal distribution process. Logistics providers build integrated economies that in-house transportation departments, no matter how large, can rarely match. Furthermore, the contract ensures that distribution process improvements and the resulting savings will be pursued continuously and single-mindedly automatically. "We are able to bring the best-in-industry practice to clients since we deal with diverse domains," explains Capt Palsule.

4. Financial Leverage: Imagine the amount of capex freed up if a company does not have to invest in expensive real estate (immaterial of the owned v/s leased option), transport and warehouse infrastructure instead outsourcing the entire logistics chain to a vendor. Companies like Safexpress have nearly 6 million square feet of warehousing capacity across India. The country has an estimated storage capacity of 107 million tonnes of which 20 million tonnes is held by the private sector.

5. Reducing Risk: Once a company outsource its transport logistics functions, it is taking a distribution insurance in the sense that logistics providers have the necessary resources to keep distribution network running in the face of unexpected calamities.

So what is stopping adoption?

The benefits listed are just some of the gains from outsourcing logistics function so why aren't more companies adopting this as part of their SCM and procurement process? For starters, IT equipment vendors we spoke to felt that the benefits of outsourcing logistics balanced gains of an inhouse facility even if it meant huge spend on warehousing. "It gives us control over delivery and the entire SCM process from procurement to ensuring timeliness in delivery," said a IT vendor of a leading hardware firm.

Logistics players also lament this mindset of Indian firms not wanting to relinquish control over the logistics process though multinational companies have preferred outsourcing to 3PL firms . RNCOS in its report states that the mindset of Indian firms is slowly but surely changing explaining the projected CAGR of around 26% over the coming years.

Though numbers differ on the market opportunity, the logistics sector concurs that there has never been a better time for growth in the Indian market. There is huge scope for the express industry in India as the current logistics spend in India is 13% of the GDP compared to a notably lesser percentage of the same in more developed economies. The need for the highest levels of efficiencies still exists.

The organized domestic air express market is pegged at around Rs 15-22 bn with a CAGR of 7-10% in the last five years, while the domestic organized ground express market is pegged at around Rs 1,700cr, which grew at a CAGR of 14-15% in the last 5 years.

However, if all of this projected growth is to materialize, a few immediate challenges need to be tackled:

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1. Infrastructure: According to Kanaujia, more than 2/3rd of goods movement in India is by road. Yet, road conditions in India are appalling. Consider this: average speed of goods movement in India is around 20 miles per hour compared with developed countries like US or Europe where it is 60 miles per hour. Added to this, the number of national highways needs to be increased. As of now, only 2% of the roads available are part of the National Highway but they carry an astounding 40% of freight traffic.

2. Inventory levels: In India, inventory operates at 30-40 days but in developed countries it is 5-15 days; a huge amount of capital tied up with inventory but across the sector logistics firms hope the coming of GST will alleviate this problem. Explains Kanaujia, "Companies will have to adopt new business models as well as supply chain models in order to save costs. Companies which have traditionally been operating with 30-35 depots may start operating with 4 DCs (Distribution Centers) and companies which have been operating with 4 DCs may start operating with one centralized DC. Warehousing will no more get driven by taxation, but by business needs."

3. Regulatory hurdles: While the industry has been happy with the support provided by the government, companies adopting new business models as well as supply chain models in order to save costs. Companies which have traditionally been operating with 30-35 depots may start operating with 4 DCs (Distribution Centers) and companies which have been operating with 4 DCs may start operating with one centralized DC. Warehousing will no more get driven by taxation, but by business needs.

4. Lack of skilled manpower is an industry wide challenge: There is a huge shortage of skilled manpower even in the logistics sector. A KPMG report states that the industry will face a resourcing crunch by 2015 including truck drivers and warehouse managers estimating that by this period the industry will need around 8, 000 new warehouse managers every year but the industry will be able to train 50% of the required resource. KPMG believes the skill shortage is arising from poor image / lack of attractiveness for new recruits arising from poor working conditions and relatively lesser attractive pay and progression incentives - in turn arising from the fragmented and unorganized nature of the industry; Rapid evolution in the logistics management processes and operations with technological change and changing customer requirements; Absence of an institutionalized skill development environment; Emergence of attractive alternate career options leading to attrition (especially in sectors where logistics skills come in handy like organized retail). Companies such as Spear Logistics are starting in-house Distributed Learning Programs to tackle this shortage. It is time the industry collaborated at least in this area if it really wants to be the sunrise industry, especially for a burgeoning workforce that is on the lookout for meangingful employment!! •