

Challenges faced by the recent Logistics Industry in India – A Paradigm shift

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Abstract: The recent Indian logistics sector comprises of inbound and outbound segments of the manufacturing and service supply chains. Of late, the logistics infrastructure has gained a lot of attention both from business industry as well as policy makers. The role of managing this infrastructure, to effectively compete has been slightly under-emphasized. Inadequate logistics infrastructure has an effect of creating bottlenecks in the growth of an economy. The logistics management regimen has the capability of overcoming the disadvantages of the infrastructure in the short run while providing cutting edge competitiveness in the long term. There exist several challenges and opportunities for logistics sector in the Indian economy.

The most essential challenge faced by the industry today is insufficient integration of transport networks, information technology and warehousing & distribution facilities. Regulations exist at a number of different tiers, is imposed by national, regional and local authorities. However, the regulations differ from city to city, hindering the creation of national networks.

Trained Manpower is essential both for the third party logistics sector as well as the manufacturing and retailing sectors, which is very weak at a practical level, i.e., IT, driving and warehouse as well as at a higher strategic level. The disorganized nature of the logistics sector in India, its perception as a manpower-heavy industry and lack of adequate training institutions has led to a shortfall in skilled management and client service personnel. There is a lack of IT standard, equipment and poor systems integration.

Keywords: Integration of Transportation Networks, Inbound Logistics, OutboundLogistics.

Introduction:

With increasing competition and cost, focus on outsourcing, entry of foreign players is having a positive impact on the industry. The road transport in India as emerging as a dominant part of the transport system in India, it has come to occupy a pivotal position in the overall transport system in India. The sector is growing at the rate of 10% per annum. Several factors are helping the growth of logistics industry in India over the decade that includes changing the tax system, rapid growth in industries such as automobile, pharmaceuticals, FMCG and retail. However, major sectors that are investing huge amounts in logistics industry are aviation, metal & mining and consumer durables. With increasing competition and cost, focus on outsourcing, entry of foreign players is having a positive impact on the industry. Three major contributors for the growth of the logistic industry are: emergence of organized retail, increase in foreign trade and India becoming soon the manufacturing hub.

The Economic liberalization and the relaxed FDI norms have been a tremendous help in the growth of the sector. Other factors that have helped are augmentation of retail, agriculture, pharmaceutical, automobile and FMCG sector. The introduction of Value Added Tax (VAT) and the proposed introduction of a singular Goods and Services Tax (GST) are expected to significantly reduce the number of warehouses manufacturers are required to maintain in different states, thereby resulting in a substantial increase in demand for integrated logistics solutions.

Infrastructure is one of the biggest challenges faced by the Indian logistics sector and has been a major deterrent to its growth. Infrastructural problems like bad road conditions, poor connectivity, inadequate air and sea port capacities and lack of development of modes of transports like railways and alternates like inland water transport and domestic aviation have been constant irritants. Due to the infrastructural bottlenecks costs per transaction in Indian logistics sector is very much high compared to those in the developed markets. Less economy of scale due to high fragmentation of industry, lack of skilled labor and manpower are also one of the major challenges for the logistic sector.

Indian subcontinent faces different challenges vis-a-vis developed nations. In foreign countries the problem is demand; in India, demand management has been a great challenge. India still has a long way to go in terms of best practices. Maturity level of most of the companies on demand driven value network is low. DDVN is essentially about being customer centric.

The other challenge which exists in a vast country like India is that the customer base is diverse and widely distributed. The real growth which will occur in India is from rural areas and remote locations. For

companies to win over the Indian market which is huge, they need to have right end-to-end supply chain strategies in place, covering network strategy, proper human resources, and infrastructure. The other key challenge is volatile demand, needs and preferences consumers, and customers are changing rapidly, hence creating uncertainty in the demand patterns.

The transportation market in India is expected to continue offering significant opportunities to all concerned stakeholders. However, for the sector to reach its full potential, the timing and economics would depend on how the various drivers and inhibitors evolve in future. While the quality of road infrastructure is certainly likely to improve, the pace of infrastructure development is critical to minimize losses, both economic and environmental.

In particular, delays in meeting project timelines should be minimized, given that only around 52 percent (10.39 km as against the target 20 km in 2011–12) of the daily target of average road length to be constructed has been met. However, not only has the demand for road connectivity been rising, focus on improving basic road infrastructure as well as technology adoption has also increased in recent years. The number of expressways and highways has increased; many roads have been widened; electronic toll collection is becoming increasingly common; the ‘green channel’ concept is gaining ground, and inter-state check posts are becoming automated, with Gujarat serving as an example.

In terms of overall business outlook, India has an opportunity; it's just that after the downturn, in line with the global markets, the emerging markets like India and China are also getting stabilized at a new normal which will be slightly at the lower level vis-à-vis what the country used to grow at. Comparing India with other emerging markets, the per capita GDP is low but there is a lot of potential.

Logistics is regarded as the backbone of the economy, providing efficient and cost effective flow of goods on which other commercial sectors depend. Logistic industry in India is evolving rapidly, it is the interplay of infrastructure, technology and new types of service providers, which defines whether the logistic industry is able to help its customers reduce their costs in logistic sector and provide effective services.

Despite of the weak economic sentiments, the logistics industry continues to witness growth due to the growth in retail, e-commerce and manufacturing sectors. The Global Logistics sector was expected to grow 10-15% in the period 2013-14. Logistics industry is expected to reach over USD 2 billion by 2019. Rise of e-commerce logistics and increased domestic consumption will lead the way for the industry in the coming years. With a promise of growth and improvements, the service oriented logistics industry is ready to expand beyond the horizons in the latter half of this decade.

Transportation, that crucial link which acts as the nervous system of an economy, is at a crucial juncture in India. With the rise of e-Commerce and online platforms, creating the need for bulk delivery of products, the market for logistics is growing at an exponential pace. There are, however, a slew of problems which are inhibiting the logistics industry from achieving its full potential.

Inadequate Infrastructure

Although massive developmental work has been undertaken on the main routes of transportation, such as the Golden Quadrilateral, doorstep delivery becomes a big problem due to deteriorating conditions of roads in the interiors of the country. This enhances the cost of wear and tear of the vehicle which in turn increases the operating costs for logistics players.

Conventional Ways Of Operations

One of the most important bottlenecks troubling the Indian logistics scenario is the obsolete way in which things are run. For instance, if there existed a nation-wide broadband logistics IT network, then a trucker initiating his journey in Kerala could find all the papers there, get all inspections done, and move on without any interruptions to his destination.

This would also help vehicle owners and clients engage with each other, leading to the elimination of the middlemen from the equation. Middlemen also charge brokerage and hence lead to an increase in overall operational costs.

Economies Of Scale

The Indian transport industry is a \$385 Billion industry, yet it suffers from business trade-off loss due to its distance from technology. For instance, there is an immense scope in equipping vehicles with GPS trackers as lack of a transparent network between vehicle owners and those in need of transportation services often leads to transporters making empty journeys. The existence of a route tracker will help customers to engage transporters plying on the same route for delivery.

Constant Costs And Government Barriers

Even during lean business seasons, the costs associated with travel, for instance, inter-state permits, check posts, licensing etc. remain constant. Furthermore, the logistics industry is fraught with cartel-government nexus, which enhances the costs in terms of bribes. Bringing in transparency and regulations in this industry will help the cause of streamlining the logistics industry.

Due to lack of connectivity, almost 5-7 Lakh vehicles are unable to function at an optimum.

Bringing in technology will help to lower the logistics costs, which have been estimated at 13-14% of India's GDP. Through digital streamlining of communications between stakeholders and initiating an infrastructural as well as policy change, the logistics industry of India can emerge as a pivotal piece in the growth story of the Indian economy.

Following are the key challenges faced by logistics industry:

Poor Infrastructure

One of the major critical challenges faced by companies today is insufficient integration of transport networks, information technology (IT), warehousing and distribution facilities.

Trade Regulations

Regulations exist at a number of different tiers, imposed by national, regional and local authorities. Regulations often differ from city to city, hindering the creation of national networks.

Lack of Training Institutions

The disorganized nature of the logistics sector in India, its perception as a manpower-heavy industry and lack of adequate training institutions has led to a shortfall in skilled management and client service personnel.

Trained Manpower in both the third party logistics sector and the manufacturing and retailing sectors is very weak at a practical level, i.e., IT, driving and warehouse as well as at a higher strategic level.

Information and Communications Technology

There are a lack of IT standards and poor systems integration and equipment.

Poor Warehousing and Storage

Poor facilities and management are to blame for high levels of loss, damage and deterioration of stock, especially in the perishables sector. Part of the problem is insufficient specialist equipment, i.e. proper refrigerated storage and containers, but it is also partly down to lack of training.

Lack of research and development (R & D) of the industry

Although both the practitioners and the academicians are increasingly aware of the importance of logistics and supply chain, however the field is still under penetrated as far as research is concerned. It is important to prioritize research and development so that various weaknesses in the industry could be identified and improved.

Solutions to some of the challenges

Infrastructure is major notion of every country's growth and prosperity and for the logistics industry to flourish special emphasis has to be on building world-class road networks, integrated rail corridors, modern cargo facilities at airports and creation of logistics parks which need to be given a status equivalent to Special Economic Zones.

It is necessary to realize that the benefits which can be practiced in logistics industry can be brought about by the companies by establishing training intuitions, so that there is improvement in the overall service quality of the sector. Good storage and Warehousing facilities are important for the growth of the logistics industry. With the increase in the transportation of perishable products, the logistics agencies need to give a lot of importance to enhancing the Warehousing facilities.

Warehousing is required to go to the next level taking into account the changing dynamics of JIT manufacturing, global procurement and new models of sales and distribution. Emphasis on research and development is potent mainly because it encourages the use of indigenous technology which can make the industry cost competitive and can also bring about improvement in services thereby using better, effective and efficient services.

Conclusion:

The particular focus has to be on research in process excellence which can help to eliminate inefficiencies and bring Indian logistics on par with global practices. Technology is vehicle to enhance supply chain competitiveness and performance by enhancing the overall effectiveness and efficiency of logistics system. Hence choosing the right technology for various logistics activities or sub-processes is very crucial to any business to gain competitive advantage in today's competitive market.

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