

Implication on Third Party Logistics Services in India – An Empirical Analysis

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ABSTRACT

Logistics is the backbone of the economy, providing the efficient, cost effective flow of goods on which other commercial sectors depend. The logistics dashboard brings together a range of over 50 indicators (LDIs) that give different perspectives on logistics and the performance of the wider economy. The stagnating Indian economy is reflected in the 2013 edition of the logistics report, which captures the impact of weak economic growth, and a deepening European recession, on logistics.

Goods vehicle operator licenses are down 15 per cent in 2011, compared to pre-recession levels (2007). New van registrations peaked in 2007 but since then have fallen, a reduction of 29 per cent by 2012. New HGV registrations dropped by 10 per cent over the same period, but recovered slightly in 2012, increasing by 6 per cent on 2011. Road transport operator profit margins fell to around 1 per cent in 2012 and the price of oil has hovered around \$100 per barrel for the past two years, resulting in little change to the high pump price for a liter of fuel.

1. Introduction

The economic crisis in the Euro Zone saw unaccompanied trailer movements falling in 2012 by 6 per cent compared to 2011 and levels are now well below those of 2007. The impact of the worsening European economic crisis also saw a reduction in port and airfreight traffic in 2012 compared to 2011. Domestic intermodal rail has continued to increase, reaching 6.4 billion tonne kilometers in 2012, as more operators explore different modes to transport goods. In terms of compliance, better targeting by enforcement agencies led to an increase in detection of incidences of overloading, drivers' hours and roadworthiness prohibitions. HGV first time test failure rates remain the same, while van failure rates increased slightly. Safety continues to improve with workplace accidents and road casualties linked to HGV's down in 2012 compared to 2011.

Logistics service providers (LSPs) is a collective term used for a whole group of firms which all supply logistics services but differ in terms of services supplied and assets owned. In this study we will use a broad definition of the term logistics service providers that is applicable for different types of service providers. A LSP will be defined as follows: A logistics services provider is a company that provides logistics service on request and payment of an external firm. In spite of the increased outsourcing activities towards logistics service providers, LSPs are facing hard times.

There are several causes for this problem:

1. Fierce competition in the global market,
2. High fixed cost,
3. Fragmentation of transport flows,
4. Congestion,

5. Shortage of staff and
6. Labor prices

The proliferation of products with shorter life cycles and the increasing expectation of customers in terms of both service and price (Crujssen et al, 2005; Groothedde et al, 2005; Verstrepen et al, 2005). As a result competition at price level increases and profit margins decrease. Service providers industry is characterized by low profit margins, strong fragmentation and price competition.

As they are service providers do not have the time and money to develop new skills or undertake new projects to create competitive advantage. Consequently, no innovation or initiatives are undertaken to structurally improve the level of service. Therefore, the logistics services will remain a commodity and competition will be focused on the lowest price. This results in even thinner profit margins and as a result of the situation presented above, LSPs focus on efficiency by achieving economies of scale and scope.

Therefore, during the last decade the LSP industry is characterized by mergers and acquisitions. Some examples of the last years are: acquisition of ACR logistics by Kuehne + Nagel in 2004, the acquisition of Exel by Deutsche Post in 2005, and the merger between Frans Maas and DFDS in 2006. Beside mergers and acquisitions, economies of scale and scope are also reached by collaboration. Therefore, collaboration concepts are important for the long term competitiveness of the LSPs. This means the service providers have the challenge to become the customer's partner instead of merely its supplier.

2. Objectives

- To understand the nature of 3PL service providers.
- To know the core operations of 3PL service providers.

- To understand the challenges faced by 3PL logistics in India.
- To know the future trend of 3PL in India.

3. Research Methodology

Research methodology is a collective term for the structured process of conducting research. There are many different methodologies used in various types of research and the term is usually considered to include research design, data gathering and data analysis.

Exploratory research: Exploratory Research is a type of research conducted for a problem that has not been clearly defined. Exploratory research often relies on secondary research such as reviewing available literature and / or data, or qualitative approaches such as informal discussions with consumers, employees, management or competitors, and more formal approaches through in-depth interviews, focus groups, projective methods, case studies or pilot studies. In this study exploratory research was used.

4. Review of Literature

There has been a considerable and growing interest among the consultants, academics and researchers world-wide on logistics outsourcing. Classified studies on logistics outsourcing into three types:

1. The outsourcing decision from theoretical perspectives;
2. Broad conceptual views on the relationship between the logistics service users and their logistics service providers and
3. Empirical research on the user's perceptions of logistics service providers.

3PL Management: Bombay Company's fresh start for a new age - The global retailer re-launched in North America and built a new multi-channel supply chain from the ground up with the help of its existing 3PL partner.

Viewpoint: New culture of collaboration - We've certainly been reading and hearing more about the benefits of improved communication and collaboration in logistics management—be it with our carriers, third party-logistics (3PL) providers, suppliers, and even competitors.

RRTS acquires Rich Logistics - Non asset-based third-party logistics services provider Roadrunner Transportation Systems (RRTS) continues to remain highly active on the acquisition front, announcing yesterday it purchased Little Rock, Arkansas-based Rich Logistics, a provider of truckload and expedited services.

The literature on logistics has dealt mainly with managing logistics activities from the perspective of the logistics users. Studies that directly address logistics service providers are

very limited. Two notable exceptions are a study of the strategic posture of Singapore's 3PL providers (Sum and Teo, 1999), and one examining the strategic posture of FF providers in Hong Kong (Kee-Hung Lai and T.C.E.Cheng, 2004). Our study tries to conduct a survey on the logistics services providers in India, a booming and immense logistics market.

The economic growth and huge market potential of India has attracted not only business attention, but also a growing amount of academic interest, although research on India logistics is very rare. A reported no comprehensive studies of logistics in India up to 2009, and our comprehensive search of the literature revealed few additional studies on India logistics. Not surprisingly, authors have examined the challenges that India faces in developing logistics to meet the growing demand addressing specifically transportation, telecommunication, customs, and warehousing, and concerns of foreign firms in India. To the best of my knowledge, there have been no studies conducted that directly address the 3PL logistics service providers in India.

Trade has been the primary catalyst driving mankind's progress. Facilitating trade and the movement of cargo, is considered to be the oldest and most vital professions ever. Using the sea became the predominant route for the flow of cargo from one country to another. The presence of good harbors resulted in certain cities emerging as major trading centers. Rules were formulated and procedures set to regulate the inward and outward movement of cargo. The treasury department was in place at entry points to collect cargo tax.

As trading activities kept rising, the cargo handling task was gradually professionalized. These cargo professionals who facilitated the cargo movement became an integral part of the international trade to the extent of even collecting customs duty. By the latter half of 18th century, one generic expression 'Muccadam' had become synonymous with the professionals who guided the unskilled labor to handle the shipping and clearing of goods at harbor. In the early 1900's, custom clearance of cargo at Ports was handled by 3 kinds of people who were regulated by the Customs. Dalals was the oldest known category. They were responsible for preparing and processing the documents at the customs. Muccadams, as mentioned before, were responsible for physical handling of cargo. The 3rd kind were Clearing Agents, licensed by the Sea Customs Act 1878, who could work both as Dalals and Muccadams and further even had authority of signing customs documents on behalf of the merchants. The Sea Customs Act was followed by the Land Customs Act in 1924 and further by the Indian Aircraft Act. By 1930's, the clearing agents was bridging the gap between merchants, The Ports and the Customs. Post-Independence, the Custom House Agents had a period of struggle, with the Government clamping down imports with controls.

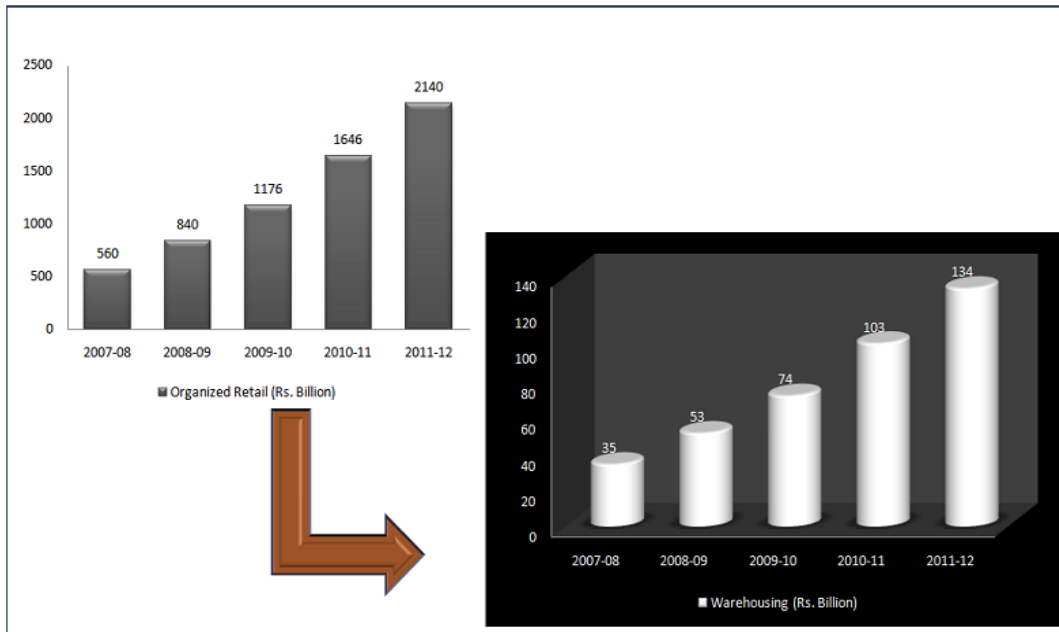
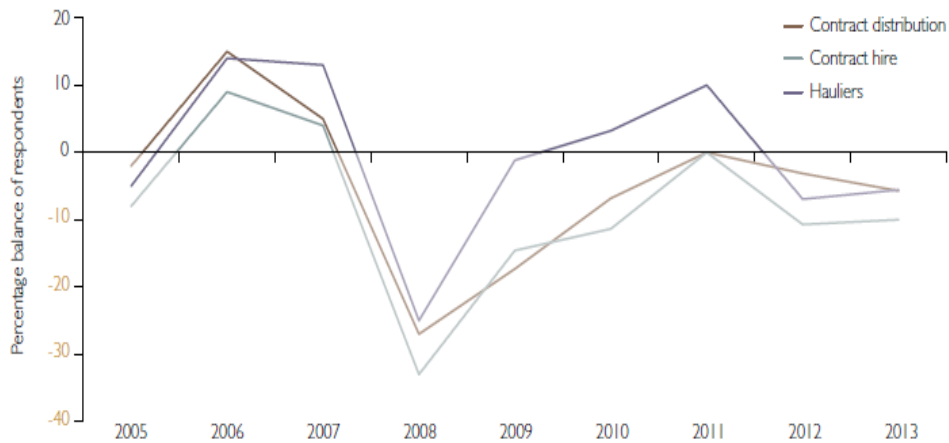
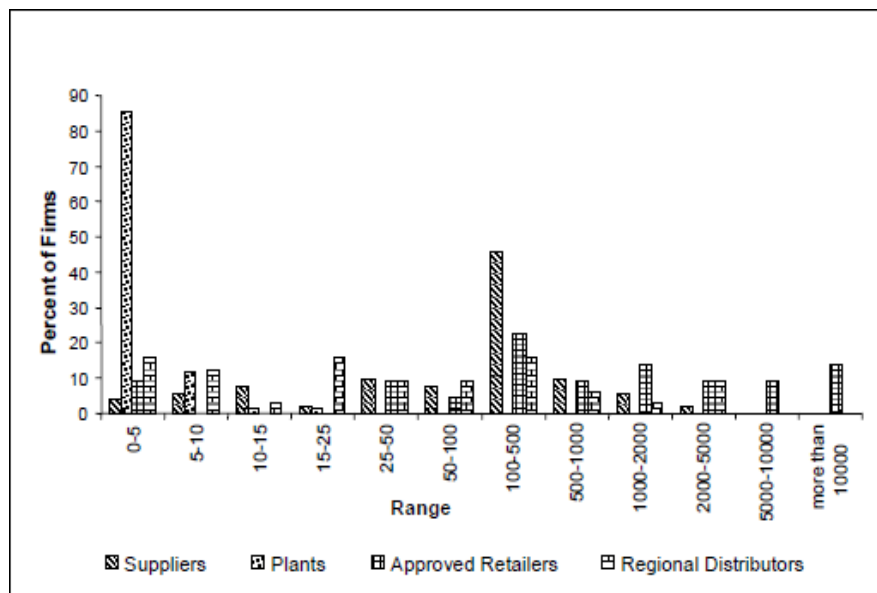


Figure: Growth in organized retail driving market size for warehousing

5. Data Analysis



Sources: FTA Logistics Industry Surveys 2010/2011–2012/2013
FTA Quarterly Transport Activity Survey



6. Findings & Suggestions

Findings

- India has a poor infrastructure development.
- Large shipping companies avoid Indian ports because of delay in hub ports.
- There is lack of trust and awareness among the Indian firms.
- Still competition from the multinational 3rd Party Logistics organizations.
- Multinational firms offer cheap cost compared to Indian firms as they are advanced in their operations.
- India has realized the benefits of 3rd Party Logistics lately and it's a better idea to outsource and helps in cost reduction and also gets additional benefits.

Suggestions

- Good customer relationship must be maintained.
- Development of IT sector will help the logistical firms to operate faster.
- India must develop the hub port operations to reduce the delay.
- India must develop proper multimodal transport facility.
- Indian logistical firms can have tie up with multinational firms for better logistical operation.
- Indian firms must ensure that their service is provided with trust and guarantee for their customers.

7. Conclusion

The opportunity and challenges of Third party logistics in India is at a growing stage because it's a large process in whole and it would require the help of other sectors and as it interlinks with other organization. This is because one of the advantages of using 3PL results from economies of scale (merits from large truck fleets, warehouses, etc.) and economies of scope, which encourage companies to increase net value by reducing costs. The effects of these economies are obtained depending on the type of 3PL Provider. Competent 3PL providers possess high coordination ability, enabling them to search for reliable partners or sub-contractors, and to manage efficiently the inter-firm flow of goods. Such ability can be developed through experiences as a 3PL. Likewise, by outsourcing logistics activities, companies can save on capital investments, and thus reduce financial

risks. Investment in logistics assets, such as distribution centers or information networks, usually needs large and lump sum costs, which involves financial risks.

Generalizing the Indian firm that outsources logistics a few key points can be pointed out:

- 1) Indian Companies primarily outsource custom clearance because of the Bureaucracy, Red Tapism and Corruption. Since they cannot indulge themselves, they appoint a CHA who can "manage" the agencies.
- 2) In spite of computerization of custom clearance, there are many loop holes in the system that can be used by authorities to delay clearance. A dedicated CHA can "speed up" things.
- 3) They use services of a CHA to obtain cheap or free credit by making him pay all dues and settling payments later.
- 4) Transport laws are different in different states (e.g. weight restriction in Gujarat). Companies find it convenient use a dedicated transporter to handle inland haulage.
- 5) Physical Movement of cargo inside ports or airports still needs to be 'administered' without which delays can happen, which is why a 3PL is appointed to speed up movement.
- 6) Warehousing of different material needs expert knowledge. Companies dealing with different categories of material find it convenient to outsource warehousing to experts.
- 7) Pre and post shipment documentation takes a lot of time and companies find it convenient not to waste a personnel doing follow up work.
- 8) Intelligent Freight routings are handled best by a Freight Forwarder leading to economies and saving in transport costs.

Although there are several advantages of using 3PL, some drawbacks also exist. It is not easy to establish a reliable and cost-effective partnership between the firm and the 3PL provider.

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