

3 PL Market In India: Opportunities and Challenges

Subroto Ganguly, Ph.D

Associate Professor, Management Department

Galgotia University, Greater Noida

Uttar Pradesh 203201

+91-9871388136

Prof.subrotoganguly@gmail.com

Abstract

Third party logistic concept has originated in developed economies of Europe and America and proved immensely successful in the improvement of logistic efficiency. It gain a lot of popularity and is been accepted by many countries in the world. In the era of globalisation, organisations need to be more competitive. India too is experiencing a drastic change in the logistics management. Specifically Indian 3PL (Third Party Logistic) industry is experiencing a rapid growth after year 2000. The increasing number of MNC starting operations in the India is fuelling the growth of 3PL market which creates the opportunity for the researcher to focus on this area. Indian 3PL market is expected to grow tremendously in the next 5 to 7 years which is shown by the data revealed by Assocham. According to Assocham, Indian logistics market is currently valued at U.S \$115 billion and is expected to grow up to U.S \$125 billion by 2010, meanwhile the 3PL is valued currently at U.S \$ 58 million and is expected to reach U.S \$90 million by 2012. In this paper we analyze the current challenges and opportunities of the 3 PL industries in India. . We also provide an overview of few players in the 3PL industry in India and challenges ahead. This paper is completely secondary data based.

Keywords: Logistics, 3PL Market, opportunities, growth of 3PL, challenges in 3PL industry, 3PL Players, services provided.

INTRODUCTION

“Logistics Management is the process of planning, implementing and controlling the efficient cost-effective flow and storage of raw materials, in-process inventory, finished goods, and related information from point-of-origin to point-of-consumption for the purpose of conforming to customer requirement”. Where as a 3PL provider is a company which supplies /co-ordinates logistics functions across multiple links in the supply chain. The company acts as a ‘third party’ facilitator between seller/manufacturer (the ‘first party’) and buyer/user (the ‘second party’).”(1) 3PL logistic industry is seeing its full potential because of the growing demand of outsourcing and tax reforms made by govt. If we see the effect of recession on 3 PL industries, we will found that the recession has its minimal impact and the industry is pacing forward for a positive development in the up coming years. According to a study conducted by RNCOS , a leading market research company “ third party logistic market in India “,the share of 3PL services in India is far less when compared with other developed markets such as Japan, the US and Europe. However, in case of share of logistic cost as percentage of GDP, it is significantly high ranging between 13% and 15% due to the lack of infrastructure facilities and less focus on creating value through efficient handling of logistic services.(2)

But according to Jeremy Van Puffelen, Director of Business Development at 3PL Prism Team Services, “3PLs can be hurt during a downturn because so many things are based on a turnover ratio – that is a big part of what sets the rate base”.

In this era of globalization, India is witnessing an increasing demand for the 3PL (third party logistics) business with companies now concentrating on managing their supply chain mechanisms in a better way as well as to deepen their market penetration. Continued improvement in logistic infrastructure and increasing awareness about efficient logistic practices have led 3PL services to be perceived as a far better way of controlling both internal and external logistic processes. Unfortunately, Indian 3PL services market is nowhere in comparison with the developed markets of the US and Japan, where use of 3PL services account for over 50% of the total logistic cost. Despite this, the market in India is full of opportunities as compared to these developed markets, all because of the infrastructural development such as ports, highways, bridges as well as increasing connectivity and rising significance of logistic services in the country. In line with this, we expect improving infrastructure and focus on core business operations will lead the future growth of the Indian 3PL market. The market is projected to

witness a CAGR of around 30% during our forecast period (2010-2012), harvesting total revenue of nearly US\$ 4 Billion. (3)The ASSOCHAM has projected the Indian logistics market size is expected to zoom up a value of US\$ 125 billion by mid of 2010, which currently is estimated around US\$ 115 billion. This would mean that the logistics business would grow at a faster speed in next one year or so than anticipated earlier.“One of the contributing factors for this is Value Added Tax (VAT) which is expected to drive Indian industry towards using more 3PL services”, says Mr. D S Rawat, ASSOCHAM Secretary General

It is seen that the 3PL industry players tend to focus on a limited numbers of industry verticals rather than focusing every thing to every one which was clearly an unworkable strategy in the past. Now with the passing years the 3 PL industries has become increase global in several respect. The services offered today are far more global in nature. Many companies in this industry have developed operations in other countries also.

The geographic expansion was driven by major customers that were themselves expanding overseas and needed logistics support for those operations. So the 3PLs followed—not only because of the promise of new business in other countries but also out of fear that if they didn't expand, they would lose the customer's business. (4) The number of participates in this industry had grown more than 400 by year 2005. As Indian industries strive to achieve efficient logistics and supply chains to cope with the competitive pressures and market demands, the 3PL service providers, who own the expertise and infrastructure to efficiently manage logistics are proving to offer a good solution for their needs, resulting in a huge growth of Indian 3PL market. However, certain challenges like infrastructure limitations and end-user concerns need to be addressed to maintain the momentum," observes Srinath Manda, Industry Analyst, Automotive & Transportation practice Frost & Sullivan.(5)

Also the growth of MNC's in India in the past few years have increased the demand for 3PL outsourcing. Since multinational companies like LG, Samsung, and Sony, intend to achieve faster and maximum market penetration, they are increasingly depending on 3PL service providers to fulfil their logistics needs. (6)

Definitions of 3PL

The simplest way to describe logistics is to say that “*it is all about ways and means of meeting the demand for materials*” i.e. satisfying the customer with what he wants, when he wants,

where he wants etc.

Definition includes outbound, inbound, internal and external movements and returns of material for environmental purposes. The logistics concentrate on dynamic processes, related to the flow of materials and the relationship between the materials and their use at different facilities.

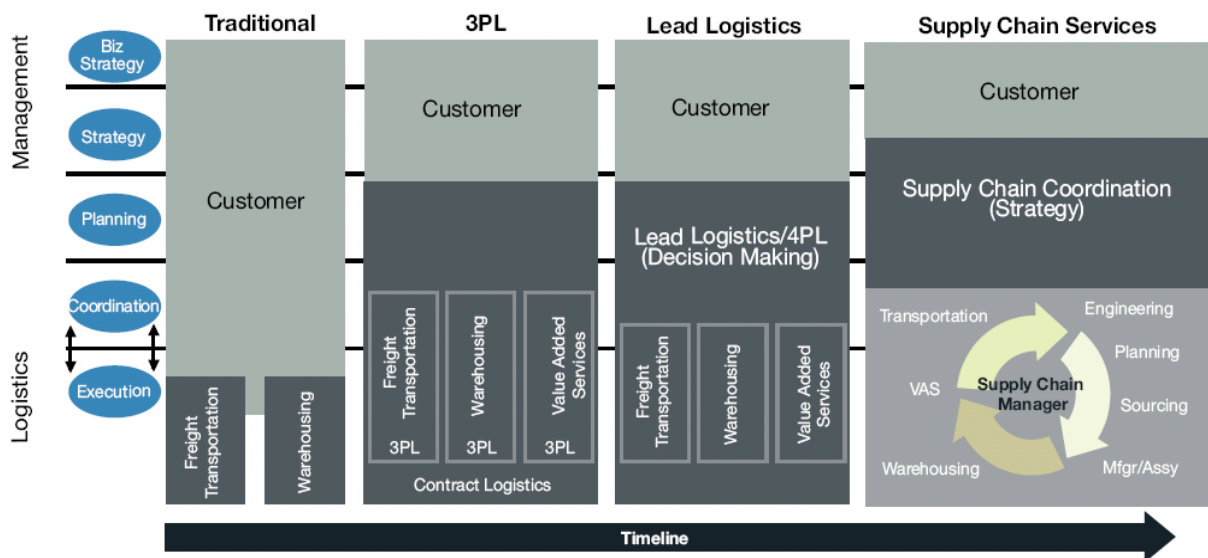
The most wide spread definition from council of Logistics Management says that “Logistics is the part of the supply chain process and plans, implements and controls the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption in order to meet customers requirements.”

In order to transport material from one place to another Logistics Managers are using Rail, Road, Air, and Water & Pipe Line as the modes of Transportation. A logistics expert need to understand these modes based on priorities, product type. Lead time etc. to decide the appropriate mode of Transportation.

Third party logistics (3PL), the concept of single professional logistics service provider managing the entire logistic functions of a company.

The term third party logistics (3PL) refers to outsourcing transportation ,warehousing and other logistics related activities to a 3PL services provider that were originally performed in house.

3PLs Are Evolving Into Supply Chain Orchestrators



Source: Capgemini U.S. LLC and, C. John Langley, Jr., Ph.D., "The State of Logistics Outsourcing: 2009 third-party logistics (14th Annual Study)".

Today in the cut throat competitive market scenario large number of corporate prefers to out source its logistic activities due to following reasons.

- 1) To focus on core business areas rather than logistic aspects.
- 2) Logistics outsourcing is used to complement the logistic activities the corporate do not have competency in and also to increase the geographical reach.
- 3) Logistics outsourcing may also reduce costs as the 3PL providers can get the advantages of the economies of the scale, which is other wise not available to the corporate.
- 4) Since 3PL providers are now offering a number of value added services such as customers clearance, freight forwarding, import/ export management, distribution, after sale support, reverse logistics and so on. All the above points resulted in the significant growth in 3PL industry. (7)

REASON FOR GROWTH 3PL INDUSTRY

There are several interesting reasons for choosing against outsourcing of logistics services to 3PLs, relating mainly to cost, and competence and control issues. Few reasons are:

- 1) Growing customers interest in outsourcing broader range of logistics services.
- 2) Continued down ward pressure on prices.
- 3) Increased customer desire for one- stop shopping.
- 4) Increase pressure to globalize company service offerings.
- 5) Strong roots of govt. tax reforms.
- 6) Minimal impact of recession on the industry

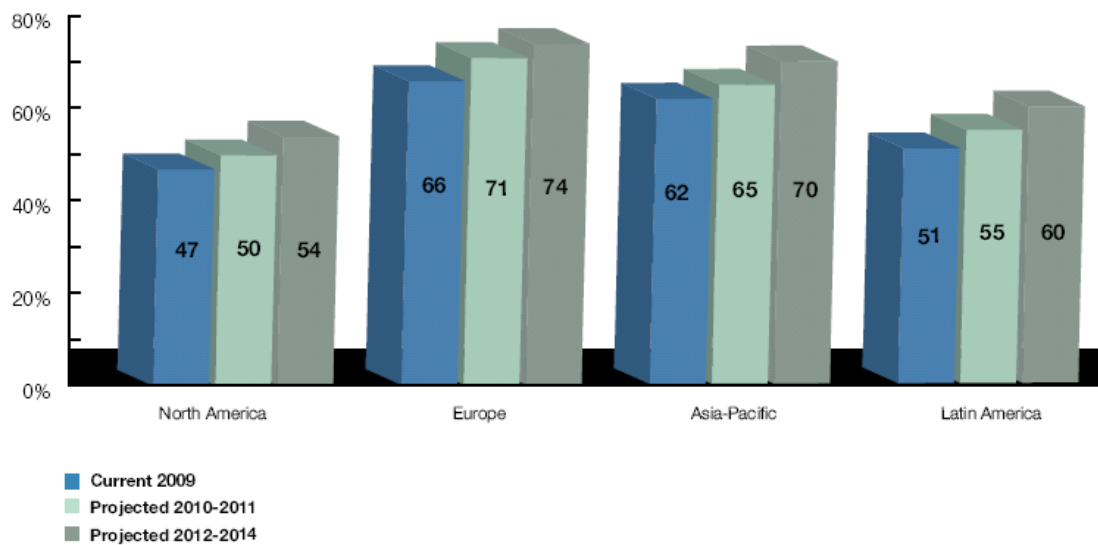


Figure 1: Expenditures on Outsourcing as Percentages of Total Logistics Expenditures are Projected to Increase

Source: Capgemini U.S. LLC and, C. John Langley, Jr., Ph.D., "The State of Logistics Outsourcing: 2009 third-party logistics (14th Annual Study)".

ROLE OF 3PL IN LOGISTICS SUCCESS

Today's 3PL providers offer a range of additional services that range from

1. Physical logistics operations, like shipping and receiving.
2. Provide warehousing.
3. Manage complex operational handling that may include repackaging, product maintenance, product consolidation 9Administration.
4. Information Management Systems that integrate into and from a client's backend ERP System, and automate the flow of transaction data, therefore minimizing human intervention and reducing data errors.
5. Providing customer broker services.

International freight forwarding, which may include the creation of all required customs forms and complying with all customs regulations (import & export) as well as providing so-called "Free-Trade-Zones". (7)

The retail industry is fast emerging as one of the most promising growth destination for 3PL players. 3PL revenue from the retail industry is anticipated to grow at a CAGR of over 40% during 2009-2012 and cross the mark of US\$ 400 Million by the end of 2012. Apart from retail, the automobile and IT hardware industries are other prominent end-users of 3PL services, with multinational companies being the predominant users of these services. It is strongly believed that rising export levels and growth in domestic market will drive the demand for 3PL services in these sectors. (8)

The growing adoption of the 3PL outsourcing model among Indian consumer electronics and durables manufacturers is expected to drive the growth of the 3PL market in this sector, which is Estimated to reach \$89.8 million in 2012. (9)

Logistics represents strategic and competitive advantage to the user.

A Number of Factors Contribute to Successful Experience with 3PLs

1. openness, transparency and good communication
2. personal relationship on an operational level
3. flexibility of 3PL to accommodate customers need
4. effective partnering and collaboration between customer and 3PL
5. ACHIEVING TARGET cost reductions
6. achieving improvement in service levels
7. peer-to-peer relationship on executive level
8. willing of 3PL / customer to share risk
9. capability of 3PL/customer to provide valuable ideas for supply chain improvement and innovation
10. financial arrangement for compensating the 3PL/ being compensated by customers

Source: Capgemini U.S. LLC and, C. John Langley, Jr., Ph.D., "The State of Logistics Outsourcing: 2009 third-party logistics (14th Annual Study)".

Measurable Benefits from Use of 3PL Services

Results		All Regions
Logistics Cost Reduction (%)		12.3%
Logistics Fixed Asset Reduction (%)		23.4
Inventory Cost Reduction (%)		8.6
Order Cycle Time	Changed From	10.2 days
	Changed To	9.8 days
Order Fill Rate (%)	Changed From	86.0
	Changed To	92.7
Order Accuracy (%)	Changed From	90.4
	Changed To	95.3

Source: The State of Logistics Outsourcing: 2009 third-party logistics (14th Annual Study) by C. John Langley, Jr., Ph.D., and Capgemini U.S. LLC.

3 PL IN INDIA

India spends about 13.0 percent of its total gross domestic production (GDP) on logistics, as per 2009 estimates. Currently the 3 PL industries in India is still in its infancy. The predominant user of these services are the multinationals however the domestic companies, in order to become more competitive in the market, have started using this technique of outsourcing their basic logistics function. The total revenue generated by 3PL players surpassed US\$ 1.5 Billion in 2008 from mere US\$ 890 Million in 2005(10)

The two set of companies have emerged in the field – new set of the companies involves shippers, warehouse services providers, and freight forwarders, who want to offer value-added services and would like to see if they can developed competencies and become a 3PL company.

The second set of services providers comprises international 3PL companies that have come to India along with their global MNC customer. Example – Toyota wanted to set up a manufacturing plant in India, it asked its logistics service provider Mitsui and Co. to come to India to take care of its logistics requirements. (11)

3PL market in India is poised to grow at over 20 percent compared to the average world growth rate of 10 percent. Some of the larger Indian corporate such as Reliance, Tata, Mahindra and Mahindra, TVS Group and Essar shipping has already forayed into the logistics business.

Initially these corporate formed division to handle internal logistics but sensing potential of the market, they have to start offering logistics solutions to other Indian corporate and have already turned these logistics divisions into profit centres. (12) Some large express cargo and courier companies such as Transport Corporation of India Ltd. (TCIL), Gati, Safe Express, and Blue Dart have also started offering 3PL services.

The Indian 3PL market, estimated at about US\$890.3 billion in 2005, is expected to grow at a compound annual growth rate of 21.9 percent to reach US\$3,556.7 million in 2012. (13)

CHALLENGES FACED BY 3PL INDUSTRY IN INDIA

The Indian logistics industry is characterised by a large number of players – right from small – time transporters with fleets of small trucks to multinationals freight and cargo companies .there are many logistics challenges companies can expected as they enter India , some of the challenges are high lighted below.

1) **Limited Physical Infrastructure:** India supply chains are built on a slow transit network and lack vertical integration. The biggest bottleneck in the network is infrastructure. Before India open its economy to the world infrastructure investment were ineligible. In the last 10 years the trade volume have increased , however supporting infrastructure has yet to catch up with the required pace of trade. The government of India is making efforts by means of public private partnership (PPP) model, allowing 100% FDI in logistics infrastructure, promoting free trade zones, warehousing zones, logistics parks etc but the gap are huge and yet to filled. A few prominent challenges in the infrastructure in the different modes are:

A) Sea Ports: India has 12 major ports and 180 minor ports spread across the vast Indian coast line but the port system is not well utilized. Two ports in India handle 70% of the sea borne container trade. As a result, turn around time far lag in comparison to the global ports with vessels taking up on average 3 days to debark. Apart from serious obstacles posed by inadequate capacity, the major ports are under utilization.

B) Rail Infrastructure: with the total length over 3.3 millions kilometre, India roads network is one of the most extensive in the world. Relatively to population size India' road network is almost twice as extensive as that of china. However in India only about 6% of all the roads are relatively well developed national highwaya, 2% of state highways 4%, leading to about 85% of all cargo being transport on only 2% of the road system.

C) Air infrastructure: Inefficient processes, lack of infrastructure and automation are their primary reasons crippling air cargo in India. The government of India has yet to developed dedicated air cargo policy. The average cargo clearance time in India is in excess of 36 hours. To reduce the inefficiency in cargo handling, actions need to be taken to build adequate infrastructure like promoting multimodal transport, building cargo terminals, cold storages and automatic storages etc.

2) **Warehousing and Distribution Standards:** In India warehousing industry is highly disorganised; most often warehouses are owned by individual owners and leased to companies or 3P players for a short term period only. Land owners prefer, either leasing for period of time or building a warehouse in partnership on a revenue sharing basis. There are few organised players with pan India presence. There is no virtually no complex distribution centre set up, no standards for suppliers etc. this leads to high operational costs for the companies.

3) **Geographic Diversification:** The huge diversity in the geographical conditions, consumer habit and infrastructure pose major challenges for industries to efficiencies manage their supply chain. The geographic diversification of the India needs varied logistic solutions for each reason. Logistics operations in each region require a unique model of that facilitates and suits to the effective storage and transportation of goods in that region. Not a single logistics operational model can serve the transportation problem of entire India. It must be regional focused based.

4) **Government Policies and Bureaucratic hurdles:** the current national tax regime also encourages companies to have warehouse and distribution centres in each states/ location. Fortunately, by 2010 this may change. There would be a sea change in the domestic distribution landscape resulting from a neutralization of inter - state taxes. There will be a need for larger

'real' distribution canterers, as compared to the current small size and larger number of warehouse facilities spread thought out

5) **The Country:** The delays in procuring Multimodal Transport Operators (MTO) licences impute the ability of true international players to operate and provide Indian importers and exporters with cutting-edge and competitive logistic services.

6) **Skill gap in Indian logistics:** With the evolvement of the logistics industry the requirements and expectations are also evolving. There is change in the logistics processes, in the operations, and in the technology being used. As the industry itself is fragmented and disorganised it lacks an institutionalized skill development environment small players neither have capacity nor the motivation to invest in human skill development, the salaries offered also meagre. Poor image, bad working conditions are also a few other factors hampering development of the right skill level. Supervisors, warehouse managers, and truck drivers are the most sought after skills in the market. Companies entering India need to take initiatives and train employees to support their logistics chain efficiently.

7) **Lack of standard and integrated logistic policies:** The transportation segment is completely dominated by small trucking companies and individual truckers. The freight forwarding service provider segment is also represented by thousands of small custom brokers and clearing and forwarding agents which are highly unreliable. There are no truck standards in India as each manufacturer has different specifications for trucks, willingly customizing trucks to individual customer specifications. There is vital need for integration of logistics so that companies can achieve economies of sale as well as efficiencies. Only then they will maximize the value of money spent in getting their goods to market. This requires better use of existing assets and industry cooperation, and greater competition. There is at the moment serious lack of integrated policy from the government of India. . (14)

Problems with 3PL Services

1. Lack Of Continuous, Ongoing Improvements And Achievements In Offerings
2. Service Level Commitments Not Realized
3. Information Technology Capabilities Not Sufficient
4. Cost Reduction Not Realized

5. Lack Of Project Management Skills
6. Unsatisfactory Transition During Implementation Stage
7. Lack Of Global Capabilities
8. Benefits Not Achieved In Timely Manner
9. Promising Premium Services That They Do Not Have
10. Lack Of Business Process Integration Across Regions And Supply Chain Services
11. Lack Of Industry Specific Knowledge
12. Inability To Form Meaningful And Trusting Relationships

Source: Capgemini U.S. LLC and, C. John Langley, Jr., Ph.D., "The State of Logistics Outsourcing: 2009 third-party logistics (14th Annual Study)".

OVER VIEW OF PLAYERS IN THE 3PL INDUSTRY IN INDIA

Some of the larger Indian corporate namely Reliance, Tata, Mahindra and Mahindra, TVS Group and Essar shipping has already forayed into the logistics business and they have reduce there operational cost too a great extent as well as these industries enjoying diversifying coverage of different regions with the support of 3PL service providers.

3PL companies in India can be divided into three distinct tiers—

- 1) Major 3PL companies (with national pressure).
- 2) Regional 3PL companies with strong pressure in one or two region.
- 3) Local 3Pl companies with small and remote pressure.

Important Aspects – While Selecting 3PL Services (From user point of view)

- 1) Core competencies of 3PL providers.
- 2) Cost of 3PL services.
- 3) Information handling capability /compatibility.
- 4) Breadth of service provider.
- 5) Technological competencies of service provider.
- 6) Past experience of 3PL service provider.
- 7) System flexibility and capacity.
- 8) Safety and insurance coverage.
- 9) Geographical location and spread.

- 10) Company reputation.
- 11) Responsiveness and service quality.
- 12) Management structure and quality of work force. (14)

3PL services

Currently Outsourced Wide Variety of Logistics Services

Outsourced Logistics Service	Percentages				
	All Regions	North America	Europe	Asia Pacific	Latin America
Domestic Transportation	86%	75%	92%	95%	80%
International Transportation	84	70	91	91	88
Customs Brokerage	71	73	61	78	74
Warehousing	68	71	72	65	52
Forwarding	65	61	57	82	66
Cross-Docking	39	40	42	42	20
Product Labeling, Packaging, Assembly, Kitting	38	33	42	40	34
Reverse Logistics (defective, repair, return)	38	31	43	47	26
Freight Bill Auditing and Payment	33	53	24	26	28
Transportation Planning and Management	32	32	33	34	20
Information Technology (IT) Services	30	28	34	30	26
Fleet Management	22	14	26	28	15
Supply Chain Consultancy Services Provided by 3PLs	21	21	19	25	20
Customer Service	13	10	13	15	14
Order Entry, Processing and Fulfillment	13	12	8	20	15
LLP/4PL Services	12	10	12	17	6

Source: Capgemini U.S. LLC and, C. John Langley, Jr., Ph.D., "The State of Logistics Outsourcing: 2009 third-party logistics (14th Annual Study)".

3PL industry in India focus is to provide value added and of supply chain services such as-

- 1) kitting
- 2) Installation of equipment and repair services.
- 3) Non traditional function such as-
 - a) Financial services.
 - b) Contract manufacturing.
 - c) Procurement support to their service menu.
 - d) Transportation
 - e) Warehousing.

- f) Support system to facilitate international movements,
 - g) Fright Forwarding.
 - h) Custom Brokerage.
- 4) Physical logistics operations –shipping and receiving, product maintenance, product consolidation administration.(5)

According to news in Business Line, September 15, 2009, Future Logistics Solutions, an arm of Kishore Biyani's Future Group, has forayed into third-party logistics (3 PL) operations by signing leading electronic and fast moving consumer goods (FMCG) players such as Hitachi and Nestle. Future Logistics was hitherto catering to the logistics needs of more than 1,100 outlets of the group in the country. However, over three years, the company is expected to earn half its revenues from outside the group, as it is in talks with over 15 companies, said sources. The entire Indian logistics market is now expected to be around Rs 5 lakh crore, with the share of organised players around 6 per cent. This organised segment is expected to grow at 25-30 per cent yearly in the next couple of years.

CONCLUSION

The Indian 3PL market is set to grow tremendously in the next 5-7 years, spearheading the growth of logistics market. Several factors including government's support are instrumental in this growth. Certain problems and future challenges will be there but with the best adopted practices and better relationship between the 3PL provider and the user company will enhance the performance of 3PL in India as well as will boost up the growth of logistics market in India. Since the scenario is becoming favourable for them, now the responsibility is on 3PL service provider to offer quality services at affordable pricing and delivery of consistent result. In the Indian Logistics Market, 3PL is the way to success.

Prospects for growth in third party logistics (3 PL) market in India looks promising in view of the improving infrastructure such as highways, ports, bridges and increasing connectivity. Growth prospects are visible from the fact that total revenue generated by 3 PL players has surpassed US \$1.5 bn in 2008 as against US \$890 mn in 2005.

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