Yet another perspective on e-Commerce in India - Part 3, Logistics providers and opportunities

Parts 1 & 2 of these briefs provided a broad overview of the Indian e-Commerce market and online retailers. The focus of this brief is on Logistics/last mile delivery.

Note: There are several comprehensive studies on the Indian Logistics industry, this is not one of them. This brief is based on visits, conversations and observations during my trips to India over the past year and my prior experience of 28+ years working for the world's largest package delivery company.

The growth of online retail in India has resulted in rapid changes and growth to the Indian Logistics Industry. Innovation is not just limited to the online market; as I mention in a previous brief there has been renewed attention on the fulfillment and delivery aspects of the end consumer experience. A host of new ideas and companies have entered the market to address those needs. The billion-dollar question is, Will the Indian logistics industry keep pace with the rapid changes and growth in online commerce? The short answer is, yes; but only with significant assistance from the Government through infrastructure investments and uniformity in laws.

The Indian courier industry has long been dominated by legacy B2B players – BlueDart, TNT, GATI, DTDC and First Flight. While they have adapted to the special needs of the Online segment and B2C volume, leveraging the warehouse and delivery infrastructure built over the years, their dominance is being challenged by several B2C focused providers. These new providers – Delhivery, Gojavas, Ecom Express, Connect India, LogiNext – to name a few, are giving the established players a run for their money. While these new providers are focused on the intra and inter state volume, a new class of providers focused on local delivery ("hyperlocals") has emerged backed by abundant VC funding. However, amidst all the old and new last mile providers, a sleeper who has the most to gain with online retail growth is the Indian Post Office. The Post Office has a network that is unparalleled, but still suffers from a stodgy reputation that may take several years to overcome.

Besides the providers mentioned above, the online retailers have both formed logistics subsidiaries to address their warehouse and delivery needs or invested in providers to gain leverage. Though the market is crowded with last mile logistics provider's, the rate of online growth has made it difficult to provide a consistent, timely and quality delivery experience.
A consistent theme across the entire country is the lack of a cost effective transport infrastructure, - roads, rails, water or air. The new B2C providers have limited leverage and are, with VC money, scaling up to meet the demands of the Indian consumer and online. It does not help that their margins are squeezed by online retailers who spend most of their money on technology and marketing to gain brand recognition and market share at, what I reckon, unsustainable losses. The logistics companies with good consistent service should have the leverage on pricing.

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India generates approximately 50% of its GDP from less than 50 cities. Less than 10 (Tier 1) of those cities are high volume urban locations which adapted first to the online revolution and created demand for a last mile delivery infrastructure. The courier companies are serving a market with a unique need created by the online retailers. Delivering to flats/apartments in the midst of chaotic traffic and infrastructure challenges, collecting Cash on Delivery (COD), waiting for the Indian consumer to accept or reject the product by opening the box, and hauling the returns if necessary within a certain timeframe will frustrate the most patient operators. There are several models developed to serve this market including; city center's, drop boxes, using local mom & pop stores and hiring an army of foot/bike/motorcycle/van couriers. Addressing the needs of consumers in Tier 2, 3 cities which constitute the remaining 40 of the Top 50 cities contributing 20% of GDP while maintaining operating leverage with cost control is an even harder challenge.

As mentioned in a previous brief, FDI rules compelled online retailers to gravitate to a marketplace model where they connected suppliers with consumers using technology and logistics as key differentiators. Each of the online retailers have tens of thousands of suppliers (not exclusively that I am aware of) selling their wares. The suppliers, located all over India, move goods from their warehouse to that of the logistics company. The online retailer makes the time in transit commitment (hopefully based on logistics provider's capabilities), though my experience did not include an option to upgrade to a faster service for a price, and the logistics companies deliver to those needs.

The logistics provider starts the arduous task of navigating the Indian roads in not so modern trucks on the first leg, preferably, to a consolidation point to minimize the cost per package. Depending on the product or time in transit commitment, they may move it via air freight; rail use is not widespread though it has increased significantly over the past year in certain geographies. None of the new providers have an air network, they are dependent on belly space of the scheduled common carriage flights. With enough volume between two cities (across states) a dedicated truck would be the preferred low cost option which enables the transport company to bypass state borders to pay taxes with the required paperwork. However, this may not meet the time commitments made by the retailers, compelling them to use multiple modes of transport at a higher cost. It is not unheard of for a 200-mile trip taking anywhere up to 12 hours depending on the geography.

From supplier to consumer, the number of handles of every package is significantly higher (in some cases by a factor of 10) than the US. Once the product reaches the destination city, most companies have a dedicated network of couriers to deliver the packages. The demand for experienced/professional couriers has increased turnover and driven retention costs up significantly, posing a challenge in terms of consistency of service with the largest bidder being the winner.

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Use of technology and professionalism in terms of service providers is inconsistent. All the providers I talked/met with have developed a network which barely meets the needs of online retailers today and the retailers have to rely on multiple providers across the nation to meet their commitments to the consumer.

As I write this note, I am reading about the challenges that both retailers and logistics providers are facing this holiday season. However, I will wait to read the post-mortem at the end of the peak season from the resident experts in India. I believe, eventually, the leader in the logistics space will be a provider who will be able to:

1 Differentiate their value to the online retailer from the competition
2 Offer new services and demonstrate the use of value added technology for both retailer and consumer
3 Expand beyond being a transportation provider, going upstream with operations in all States.
4 Standardize the operations process and provide consistent training to all their service providers.
5 Manage their costs and incentives effectively and last but not least
6 Develop an employee strategy including compensation

As of today, I have not come across any company who met the criteria above. These are early days and I am certain there are a few who have the potential to exceed expectations. Excited and looking forward to see that happen soon.

Raghu Ramachandran
Partner, 13 Colony Global, Supply Chain Strategy and e-commerce Consultants.
raghu@13colonyglobal.com