



THE FACE OF WAREHOUSES

**WAREHOUSE
LOGISTICS**

3PL: CHANGING



“THE WAREHOUSING SECTOR ALSO NEEDS SUBSIDISED LAND FROM THE GOVERNMENT IN ORDER TO IMPROVE THE CURRENT SCENARIO AND SET UP MORE LOGISTICS PARKS. THE GOVERNMENT CAN ALSO INTRODUCE GST, NATIONAL POLICY ON HANDLING, STORAGE & TRANSPORTATION, AND INCREASE THE PUBLIC-PRIVATE PARTNERSHIPS (PPP). THESE STEPS IF TAKEN BY THE GOVERNMENT WILL MAKE THE SECTOR MORE ORGANISED.”

—
AAKANKSHA BHARGAVA,
CEO & PRESIDENT, PMR
(PM RELOCATIONS)



A majority of the Indian warehousing players today have inefficient methods of storing, handling and monitoring of goods. They also suffer from stock visibility issues, stock traceability, higher pilferages and damages.

The warehousing sector in India, valued at ₹745 billion in FY 2013, has been growing at 15 per cent for the last three years. It is estimated to grow at 18 per cent to about ₹1,440 billion by 2017. According to global real estate consultancy, Knight Frank, India’s warehousing requirement is expected to grow at an annual average rate of 9 per cent to 1,439 million sq ft in 2019 from 919 million sq ft in 2014. The additional demand for warehousing space, estimated at around 104 million sq ft till 2015 will entail investments of ₹15,000-16,000 crore per year. The return on investment in the sector is around 12- 20 per cent.

The foray of 3PL

The warehouse sector is witnessing a boom in India’s logistics industry. “They are increasing their capacity, expanding their network and adapting new concepts to match up with international standards. The steady growth in India’s economy and globalisation, increase in foreign direct investment (FDI), government initiatives in terms of economic reforms and infrastructure, growth in different sectors like retail, manufacturing and automotive, and the changing business dynamics are some of the reasons as how the 3PL (third-party logistics) in the warehouse sector has changed the face of the four-walled, small, dingy warehouses,” says Aakanksha Bhargava, CEO & president, PMR (PM Relocations).

Akash Bansal, business head at Delhi-based Om Logistics, explains, “As end-users are increasingly outsourcing their warehousing services, warehousing players are recognising the need to be a part of the customer’s logistics chain, as against being a landholder leasing out space. The warehousing sector in India has been evolving rapidly from being traditional “godowns”, a four-wall and shed with sub-optimal size, inadequate ventilation and lighting, lack of racking systems, poor hygiene conditions and lack of inventory management to warehouses with modern set-ups such as storage and handling points where raw materials, intermediate and manufactured goods are collected, assorted, stored and distributed to the point of consumption/sale.”

The warehouse sector is witnessing a revolution with the entry of 3PL (third-party logistics) that are transforming the definition of warehousing in India. MANISHA ALMADI MIDHA tracks down logistics companies which have state-of-the-art warehouses, providing complete logistics solutions to various verticals including textile, apparel and fashion. However, the private players do have a few concerns which they want to be addressed, for further growth of the organised warehousing sector



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BALAJI V,
COO-CONTRACT LOGISTICS,
ALLCARGO LOGISTICS.

Until about 2003-04, warehouses lacked the necessary infrastructure, safety norms, truck-height loading docks, etc. The closed-down manufacturing units were used as “godowns” to dump goods. “However, these have given way to transformed, modern warehouses, constructed according to international standards which provide heavy-duty floor, vertical racking, proper insulation, temperature control, high roofs, fire & electrical safety, and most importantly, a quality structure for employees to work,” remarks Balaji V, COO-Contract Logistics at Allcargo Logistics.

Providing warehouse services to the retail industry

There are a number of big players in the market. Global logistics provider DHL caters to large retail groups as well as fashion boutiques while DHL Express is the official logistics partner for IMG Fashion Weeks across the world, including Lakme Fashion Week in India. DHL offers complete logistics services from pre-retail to in-store and reverse logistics to its retail/fashion clients.

Safexpress provides ‘Stock2Shelf’ service to apparel outlets mostly at malls where footfalls are high and retailers are unable to store high inventories in their back rooms. This ensures lower storage cost for retailers; the distribution company does not have to manage and own warehouses near the point of consumption, and the customers get frequent stock replenishments. Safexpress also facilitates safe returns where the

damaged or unsold products find their way back to the company’s redistribution/disposition warehouses. Other value-added services include cleaning & wiping, barcode labelling, racking, bin tagging, repacking, quality check, order management, supplier-wise inventory management and documentation (permits, Modvat, Pods, etc).

Om Logistics provides one-stop regional warehousing and fulfilment solution customised for retailers (Hennes & Mauritz (H&M), Woodland, Shahi Export, Nahar Spinning Mills, Arvind Mills, Orient Craft, Vardhman Group and Richa Global to name a few), and e-merchants to manage their logistics needs. “Our warehouse facilities come with a complete range of services from inventory management, order processing, pick & pack to after-sales support including returns management. In today’s time where the need of the hour is to minimise inventories and lower costs (fixed & variable), Om Logistics has become the lean logistics partner (LLP) for its customers,” says Bansal.

Allcargo Logistics provides services such as pick & pack, barcode scanning, kitting (assembly), temperature control, inventory management, repacking, reverse logistics, bonded & non-bonded facilities, and scalable & customised warehousing to apparel, footwear and fashion accessories retailers. PMR’s facilities include short- and long-term storage, pest control, vigilant security and fire drills, well-trained manpower, and record management services for corporate clients.

The conditions in a warehouse differ (for heavy goods like machinery vis-a-vis fashion items such as threads, fabric or apparel) in terms of racking and bins, SKU and shipping rates.

Space dynamics in cities & towns

Om Logistics has more than 15 million sq ft of warehousing space pan India. "We have approximately 50-60 warehouses of more than 30,000-40,000 sq ft which are used for logistics centres and transport corporations. The USP of Om Logistics is that we are an asset-heavy organisation, i.e. majority of these warehouses are owned by us," informs Bansal. Their major warehouses are at Binola, Narsapura, Bangalore, Faridabad, Chennai, Delhi, Kolkata, Ahmedabad, Halol, Pune, Noida, Goa, Patna, Ambala, Bhuj, Gurgaon, Haridwar, Indore, Kundali, Mumbai, Rudrapur (Pantnagar), Sanand and Vadodara.

Delhi logistics company Safexpress has 8 million sq ft of warehousing space across the country and plans to add more space in the next two years. It has logistics parks in Agra, Ahmedabad, Ambala, Bangalore, Chennai, Gurgaon, Indore, Jamshedpur, Kolkata, Mumbai, Nagpur, Puducherry, Pune and Salem, and plans to invest ₹600 crore in 32 more logistics parks.

Mumbai's Allcargo has 1.5 million sq ft area of warehousing space which they plan to expand to 10 million sq ft in the next 4-5 years. "About 70-80 per cent of our warehouses are located in cities – Mumbai, Bangalore, Chennai, Delhi, Indore, Mysore, Goa, Hyderabad and Nagpur, and about 20 per cent are in towns like Hosur. We are coming up with logistics parks in the textile hubs of Chennai and Delhi/NCR,"

says Balaji. Gurgaon-based PMR has 55,000 sq ft of warehousing area spread across 14 locations across India. "We are currently looking at funding, post which we are first planning to invest in digitising our process and then in a logistics park," informs Bhargava.

Private players v/s the unorganised sector

Bansal remarks, "The entry of international 3PL has brought about new technology interventions, automated material handling devices and standards. This has intensified competition for domestic players. In addition, growing demand for better services at lower costs has led to the emergence of organised warehousing in the country. Warehousing players are now stressing on efficient inventory management systems, with greater emphasis on value-added services such as consolidation, labelling, packaging & repackaging, bar-coding, distribution services, custom clearance service, customer service and reverse logistics.

"The use of modern storage solutions, automation in warehouses for the effective utilisation of space and Management Information System (MIS) implementation are resulting in higher accuracy and cost. Whereas in the unorganised warehouses such things are manual and costs on the same are very negligible or not there."

The main areas of cost differentials between the two sectors are "Direct and indirect cost – labour, digital technology; inventory carrying cost – effective use of raw material, less paperwork and efficient working; maintenance – in terms of upkeep; energy – less energy utilised; and product damage – less," maintains Bhargava.



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BUSINESS HEAD AT DELHI,
OM LOGISTICS

Key challenges remain

Bansal feels there are two types of challenges in the warehouse sector, one is strategic and the other is operational. These are discussed as under:

- ▶ Infrastructure: An efficient warehousing operation hinges critically on high-quality supporting infrastructure that includes a good national highway network, interstate roads and congestion-free city roads. Less than 8 per cent of the warehousing sector is organised. The industry is fragmented and largely unorganised (92 per cent) and is dominated by small players with small capacities, not well-linked with the national highway network and interstate roads.
- ▶ Land availability: Procurement of land in a strategic location with clear title and proper approvals is still a key challenge for any new entrant to set up a warehouse.
- ▶ High cost of credit: Access to adequate and timely credit at a reasonable cost is one of the most critical problems faced by this sector. The main reason for this has been the high-risk perception among banks about the unorganised nature of this sector and the high transaction costs for loan appraisal.
- ▶ Lack of integration with complete supply chain: Though warehousing is an integral component of the supply chain, currently warehouses are structured on a standalone basis. Warehousing service providers often struggle with other supply chain stakeholders for integration of information and visibility. This disintegration in the upstream, downstream or both ends of warehousing leads to unpredictability of usage of space and facilities.
- ▶ Problem of trained manpower: The lack of training institutes adds to the woes of the warehousing sector. Evolving warehouse management processes and operations with more demanding customers, lack of attraction for new recruits arising from poor working conditions, relatively less attractive incentives and benefits, and the emergence of attractive alternative career options are reasons that contribute to the skill shortage in the Indian warehousing sector.
- ▶ Lack of IT penetration: The warehousing sector in India, with some exceptions, is characterised by low technology levels that act as a handicap in the emerging Indian and global market.
- ▶ Lack of expertise in warehousing technologies: A majority of the Indian warehousing players today have inefficient methods of storing, handling and monitoring of goods. They also suffer from stock visibility issues, stock traceability, higher pilferages and damages.

▶ **Process inefficiencies:** There is an absence of standardised operating processes and procedures at warehouses. The material unloading, handling, storing and loading are more often carried out in an ad hoc manner. This not only builds in inefficiency but also leads to many mishandling problems including damages and subsequent increases in cost. According to Bhargava, “The warehouse in the Indian logistics market faces challenges at every level. The increase in damaged goods due to slow penetration of new technology plays a crucial role. In an ever-growing country like ours, the warehouse capacity with up-to-date modern facilities, the fragmented nature of the industry and the lack of significant investments pose as great challenges which need to be addressed with utmost urgency.

“Suppliers get delayed, equipment fails, employees get sick, and orders are shipped to the wrong customer. Not having the right information with you leads to problems in warehouses and could have a direct impact on your bottomline and future success. Warehouse management software plays a crucial role in the warehouse management process.”

Balaji adds, “Frequent power outage affects the efficiency of warehouses. We don’t have power supply for 6-7 hours on an average daily in our Bhiwandi warehouse near Mumbai. A recent fire accident in a China warehouse suggests it wasn’t in compliance with safety standards. These issues need to be addressed.”

Ways to address issues

Bhargava suggests three measures:

- ▶ **Space utilisation/warehouse layout:** It’s not about how much space you have; it’s about optimising that space to avoid unnecessary labour. Keep fast-moving and high-selling inventory near the front of the facility so lift truck drivers aren’t constantly travelling to the farthest reaches of the warehouse.
- ▶ **Picking optimisation:** For warehouses that still have manual processes in place, there tends to be no common route taken to pick items for shipment, which adds unnecessary time to the process. With system-directed pick, the



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- ▶ **Inventory accuracy:** When manufacturers don't have full visibility to their inventory, they face the problems of either running out of stock at the wrong time or carrying too much stock, and thus decreasing cash flow while increasing expenses to warehouse extra materials.

In addition to these, Bansal feels "Warehousing has to have high IT penetration, more training Institutes/colleges on logistics sectors, better infrastructure and taxation systems to help and boost warehouses across India."

More government reforms required

The absence of the appropriate scale, reduced quality of warehousing infrastructure, low capital and operating inefficiencies are some of the reasons why government reforms are needed in this sector. "The warehousing sector also needs subsidised land from the government in order

to improve the current scenario and set up more logistics parks. The government can also introduce GST, National Policy on Handling, Storage & Transportation, and increase the public-private partnerships (PPP). These steps if taken by the government will make the sector more organised," remarks Bhargava.

"The government is required to support warehousing players in their initiatives and provide for a more conducive environment by providing tax havens, funding facilities, upgrading infrastructure and accelerating the consolidation of the industry. The PPP model can also be developed for building dedicated training institutes for the logistics industry. Increase in IT adoption and knowledge infrastructure can provide a boost to the growth and maturity of warehousing players in India," adds Bansal.

"The approval procedures need to be made simpler. There is no single window support. More logistics parks have to be developed. The GST and Land Bills must be rolled out, and the process of purchasing land has to be made simpler. Transport taxes levied at checkpoints/ tolls have to be reduced, especially when trucks in India are allowed to cover a distance of 250 km/day as against a distance of 600-700 km/day by international trucks. A reduction in our operative costs will enable us to serve customers better which will help improve the country's economy," rounds off Balaji. 