

Secretive firms reluctant to outsource supply-chain management

Unwillingness on the part of Indian firms to share business information is slowing down outsourcing of the entire supply chain management.

But there is perceptible movement in that direction. Indian firms in automotive, IT, organised retail and telecom sectors have started outsourcing more of their logistics functions.

“Internationally, external logistics service providers take part in the meetings at highest level before a product launch to provide inputs on supply chain management (SCM). None of the Indian firms have outsourced their entire supply chain functions...The person sitting at warehouse can give inputs like which products are returning from stores, what are the complaints,” said Mr Nihar Parida, Vice-President-Marketing and Logistics, Uniworld Logistics. Customers of Uniworld include Lenovo, Acer, and DLF Brands.

TRIGGER

Till few years ago, Indian firms outsourced transportation, and the basic warehousing work – provision of land for a warehouse and labour. That has changed in the last few years, particularly after the economic slowdown.

“We saw a much higher interest from customers to outsource jobs to logistics service providers after the financial crisis,” Mr Vineet Agarwal, Executive Director, Transport Corporation of India (TCI), a Rs 1,450-crore firm, said.

“There has been a significant change in the customers' approach after the difficult times of 2009, when they realised they could reduce costs by outsourcing supply chain activities,” Mr Parida echoed.

VALUE ADDED SERVICES

The logistics service providers have now been entrusted with some incremental work. “In the last two-three years, some value-added services such as packing, bulk-breaking and kitting are getting outsourced to the logistics service provider,” Mr Agarwal said.

“Customers from retail, apparel, IT, telecom products sectors are outsourcing quality checks, packing, labelling, store-ready delivery, parts of inventory management and billing function,” Mr Vineet Kanaujia, General Manager-Marketing, Safexpress, said.

The ERP at Safexpress' warehouse is linked with that of the customers' with data on the minimum order quantity and minimum stock level to be maintained.

Indicating customers demand for additional services, Mr Kanaujia said, "The average annual growth of value-added services is 30 per cent while the logistics sector growth is 8-10 per cent".

EXAMPLES

Say, TCI had to collect some items from an FMCG company's factory and deliver them to retail outlets. One problem could be that the factory packs the product in certain lot sizes and the retailers demand the product in different lot sizes.

"We now get the packets from the FMCG company's factory, open it, re-size the lots as per the retailers demand, re-pack, put the stickers, prepare the barcode and invoice," Mr Agarwal explained.

Earlier, these jobs were not done by the logistics service provider.

Explaining the concept of kitting, Mr Agarwal said, "Suppose there are parts from 20 auto component suppliers, to be delivered to an automobile plant. We now unpack the parts, clean them, put them into a reusable pack and then supply it to the manufacturer's factory".

MNCs MORE COMFORTABLE

The multinational corporations (MNCs) are more comfortable outsourcing higher amount of their logistics functions compared to the domestic players.

"This is because MNCs have past experience of dealing with third party logistics firms and are comfortable with idea. They have the systems, processes and measurement systems available to measure quantifiable benefits from such a move. Also, the Indian logistics service providers are at a nascent stage," Mr Agarwal said.

CUSTOMERS

Mr Atul Chand, Chief Executive Officer, Wills Lifestyle, a part of ITC Retail, said, "Not all (logistics) work is outsourced. Vendor management for instance is handled by us.

Essentially, job of the third party logistics provider is to maintain the inventory and ensure timely movement of goods. Also we look at consumption at store levels, before we hire vendors."

Echoed Mr Dipak Agarwal, Chief Financial Officer, DLF Brands, "We have not reached that stage where we can trust the partner completely and share the entire business intelligence. The process and planning is still controlled by us. Most companies don't outsource vendor management. At present, most players in India are not outsourcing the entire supply chain work. Most of the labour intensive works like warehousing, labelling; and basic processes like receiving, despatching the goods, are outsourced."

DLF Brands outsources about 70 per cent of supply chain work and manages 30 per cent itself.

Pantaloon Retail, which terms supply chain management as a differentiator, has a subsidiary company to handle its supply chain.

Future Supply Chain Solutions Ltd is a specialised company providing logistics, reverse logistics, transportation, distribution and warehousing space and related services to Pantaloon Retail and its subsidiaries.