

A Study on Challenges Faced By Startups in Indian Logistics Sector

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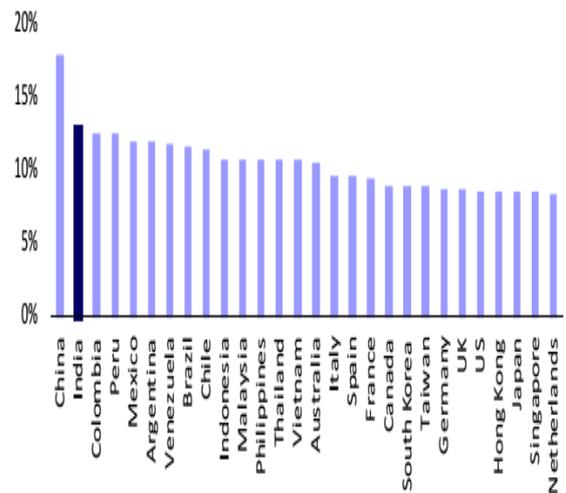
Abstract: LPI global ranking (Logistics Performance Index) of India has moved to 19th position that is declared by World Bank with the score of 3.42. This indicates that the government is more concerned about the infrastructure. Implementing of GST and Make in India will change the nations entire logistics structure to global standard. The value of Indian logistics industry is of about \$130 billion. India spends 8.2% of its GDP only for transportation. In recent days e-commerce is playing a vital role in Indian economy. E-commerce giants were investing more than ever in Indian history. Many start-ups like Maalgaadi, Delhivery were claiming the industry at the rapid rate. The challenges faced by logistics start-ups are capital investment, training the teams in core logistics, unorganized sector, strategic location of warehouse, research & developments, frequent technical upgradation, 3PL, taxation policy, COD (Cash On Delivery), documentation process, customer service, fleet management etc.

Keywords: Logistics Industry, Start-ups, e-commerce

1. Introduction

The newly proposed GST (Good & Service Tax) and e-commerce will change the supply chain management, warehousing and 3PL business. Comparing to other countries the Indian logistics industry is in substandard state. Infrastructural bottlenecks across modes have stifled the sector's growth. The road sector is in downtrend with very low highway availability, thereby reducing the trucks' size and impacting economies of operation. India has the least warehousing capacity with modern facilities, and given the industry state (large share with unorganised players), investment in IT infrastructure is mostly absent at required scale.

Logistics spend in India at ~13% - one of the highest in the world



*Figure share in China as manufacturing contributes to >30% of its GDP v/s ~15% in India

Source: Armstrong & Associates, MOSL

1.1 Fig: Contribution of GDP for Logistics

2. The challenges faced by startups

- Disintegrated and Concealed
- Scanty Warehousing
- Ineffective R&D
- Raising Funds
- Skimpy Infra Structure
- Dynamic work force
- Fluctuating tax rates in India
- Payment options

2.1 Disintegrated and Concealed

Though India spends 12 per cent of its GDP on logistics this industry has been disintegrated and concealed. Incapable railway system adds up the industry's dependence on road network leading to its 57 per cent of freight movement on road. Adding on to the trouble lack of effective planning, state-to-state issues, tedious documentation has increased strain in the network.

2.2 Scanty Warehousing

There is inadequacy for 'Special Types of Equipment,' like tech-driven refrigerated storage solutions, etc. Such poor facilities and management leads to high levels of damage, loss and deterioration of stock. Dealing with perishable goods is one of the major problems in warehousing. With the increase in transportation of perishable goods and effective warehousing solutions is a major concern to improve.

2.3 Ineffective R&D

The field of research in this sector is highly under penetrated. Prioritizing research and development can provide various tech driven solutions. Considering the fact that our country is in the attention of capital investors towards logistics startups optimizing the technology with genuine research can help us to achieve the global standards

2.4 Raising Funds

For an Industry to adapt Logistics Solution it is a capital intensive process which requires a huge amount of funds to implement sources such as:

- A new branch set up
- Required Work force deployment.
- Necessary equipment purchase- Loading & transport, tracking & immobilizers
- Bagging in customers and investors.
- Maintaining a healthy working capital.
- Hidden costs such as Toll tax , Traffic fines and Fuel charges
- Insurance & licensing

2.5 Skimpy Infra Structure:

With meager infra structure the emerging E commerce and supply chain operative firms would find it a lot difficult to cope up with the challenges in demand of service.

Infrastructure is the key component required for any such logistics start ups. India being a huge market the challenges are relevantly dynamic and has to be met with an integrated approach.

2.6 Dynamic work force:

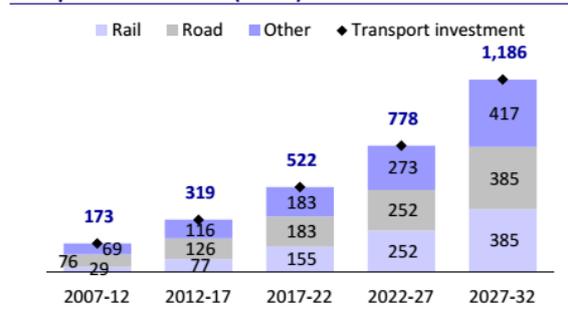
Employees who get involved in delivery are volatile. They generally deliver anything more than 50 and more orders per day at a meager salary of 10 to 15 thousand per month. In such situations even a small hike of rupees 500 on their pay is a huge lure for employees at delivery. They easily run into another job offering a little higher package or incentive. The most difficult challenge for the logistics firm is to retaining the workforce.

2.7 Fluctuating tax rates in India

Taxes thus vary at different levels of operations for this industry. Though GST could

create a platform of ease for the logistics firms, many players still choose counted and selected regions for delivering the consignments. Flickering tax rates from region to region can slow down the operation levels.

Expect transport mode imbalance situation to improve with GST implementation and expected capex on transport infrastructure (USD b)



Source: NTDP, MOSL

2.1 Fig: Transport Imbalance on GST

2.8 Payment options:

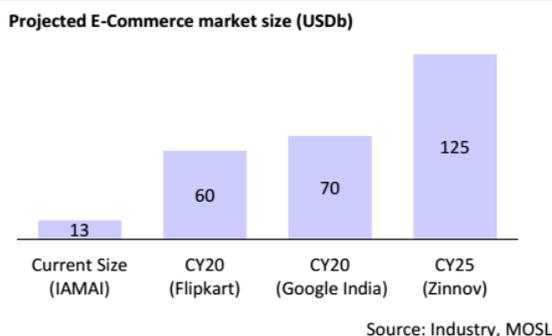
The major problems faced by the sector are the cancellations and returns. The risk comes too high especially through cash on delivery (COD) mode of payment, which has been one of the prominent and raising pillars for E commerce in India. This indeed creates a pressure on the sales team and the logistics firm on whole.

3. E-commerce in India

India as a growing economy has created hubs for various startups and E commerce as one of those have penetrated in the Indian market with a huge worth. This has in return attracted many Global companies such as Amazon and Flipkart to invest \$2 million in this current year, creating new hope for E commerce startups in India.

By the 2020 this country is expected to generate \$100 billion online and E- retail revenue out of which \$32 billion is expected of online fashion apparel industry alone. The explosive invention and growth of smart phones and 3G & 4G network has increased the broadband users. This has indeed has created a huge online purchasing customers leading to a massive growth of the E commerce industry.

E-commerce market growth pegged at 25-30% CAGR over the next few years



3.1 Fig: E-commerce growth

In the upcoming years India's E commerce is likely to face challenges such as:

- Finding Slot
- Reliable Logistics and Supply Chain
- Customer Acquisition
- Customer Service

3.1 Finding Slot

Considering the Indian market and the already existing marketers and leading firms. For startups in E commerce finding a niche would be a great challenge. To fit in the already intact market and to find solutions to various failed strategies must be the forecasting part of the plan for the new steppers.

3.2 Customer Acquisition

To attract heavy purchasing customer is not an easy task. Getting a person to make an average purchase of 500 to 1000 is vital. It can vary from customer to customer, but the medium and the start ups have to stick on to the margin.

Table 1. Growth Ranking

Country	Percentage(%)
India	68
China	23
US	12
Global Average	16



Source: Economic Times

3.2 Fig: Market share of Indian commerce

3.3 Reliable Logistics and Supply Chain

This is an initial and the most important problem to be solved. Getting a trusted logistics and supply chain is vital. The failure in terms of delivering a product can cause a huge damage to the fame and goodwill of the firm. Indian customers show low trust towards e commerce deliveries and considering the startups they have to create a good will. In case of any bad or damaged products the health of the entire brand if affected.

3.4 Customer Service

Customer service which is generally least considered in some Indian industries. However considering the E – commerce markets customer support is a big differentiator. Reassuring the customers from and pulling them out of panic situation are the main motto. Getting customer support is one of the challenges in India.

4. Conclusion

India being in the developing stage in terms of infrastructure the logistics here is still in the infant stage despite of its huge worth of \$130 billion. With the government proposing for GST this industry is expected to undergo a process of metamorphosis for a better and more efficient cause attracting investors from throughout the globe. Its journey towards Globalization, this country would indeed create immense opportunities for the start-ups. As I mentioned in the above article through optimizing the research with technology we can work towards a greater change. Logistics being the backbone of all such business operations, we have to face the above mentioned challenges and extend the effort of the government over its schemes to provide adequate

measure of support for an excellent growth and a better future.

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