

Logistics Barriers for Multinational Corporations Doing Business in India

Mohd Shuaib¹, Mohd Imran Khan², Mohd Javaid³

^{1&2}M.Tech Scholar,

³Assistant Professor,

Department of Mechanical Engineering Jamia Millia Islamia New Delhi, 110025

¹Address: Room No. 110, FRK Hostel, Jamia Millia Islamia, New Delhi, 110025

²Address: F/C-2 Shaheen Bagh, Jamia Nagar, New Delhi, 11002

³Address: Room No. 14, Department of Mechanical Engineering,

Jamia Millia Islamia, New Delhi, 110025

ABSTRACT

The logistics scenario in the country has changed continuously over the year .There have been several key indicators to the future trends in the Indian logistics sector. The demand for logistic services has been largely driven by the rapid growth of the Indian economy due to India attracts many multinational corporations (MNCs) as a manufacturing center with both its cheap labor cost and a huge consumer market, while doing business in India, most MNCs have faced logistical problems in connection with transportation of their material and the flow of information. The research objective of this paper is to describe the current state of India logistics service and identify the logistics barriers that foreign firms have encountered in India.

Keywords: *Logistics Service, MNCs, Logistics Barriers.*

1. INTRODUCTION

The logistics sector in India has today become an area of priority. One prime reason for the same stems from the reason that years of high growth in the Indian economy have resulted in a significant rise in the volume of freight traffic moved. This large volume of traffic has provided for growth opportunities in all facets of logistics including transportation, warehousing, freight forwarding, express cargo delivery, container services, shipping services etc. The growth path has also meant that increase demand is being placed on the sector to provide the solutions required for supporting future growth. Going forward it will not be wrong to say that the strength of the logistics sector is likely to be one of the key determinants of the pace of future growth of the economy.

The Indian economy has been growing at an average rate of more than 8 per cent over the last four years [1] putting enormous demands on its productive infrastructure. Whether it is the physical

infrastructure of road, ports, water, power etc. or the digital infrastructure of broadband networks, telecommunication etc. or the service infrastructure of logistics – all are being stretched to perform beyond their capabilities. The demand for logistics service in India has been largely fueled by consistent growth of economy, and key industries such as automotive, engineering, pharmaceuticals and food processing. This growth is expected to gain greater momentum due to the exponential growth of the Indian economy. Indian logistics industry is growth at 15% to 20% per annum, reaching its revenues of \$ 385 billion by 2015, according to a Cushman and Wakefield [12] report. The infrastructure in the sector is expected to touch \$ 500 by the end of XI five year plans. Logistical spend in India is estimated 14% GDP, which is comparatively higher than other developed countries. India spends around 14 % of its GDP on logistics, higher than US (10%) and Europe (11%).

2. LITERATURE REVIEW

The logistic sector serves as the backbone for some of the major key sectors like retail, automobile, pharmaceuticals etc, and we need to ensure its smooth functioning. More and organizations from these sectors are outsourcing their logistics requirement to third party logistics players so they can concentrate on their core business activities.

[3] Define logistics as follows:

Logistics is the process of planning, implementing, and controlling the efficient, effective flow and storage of raw materials, in-process inventory, finished goods, services, and related information from point of origin to point of consumption (including inbound, outbound, internal, and external movements) for the purpose of conforming to customer requirements.

The market is fragmented with thousands of players offering partial services in logistics; it is estimated that there are about 400 firms capable of providing some level of integrated service [3]. The economy is expected to grow around ten per cent over the next ten years and sectors like chemicals, petrochemicals (especially distribution), pharmaceuticals, metals and metal processing, FMCG, textile, retail and automobile are projected to grow the fastest. New business models are emerging as new firms, both domestic and foreign, enter the market. As a result of the ensuing competition, linkages with global supply chains and domestic market growth promise to change the face of logistics industry beyond recognition.

The scale of operations in manufacturing is changing and so are their markets and sourcing geographies. Growth in manufacturing in India has happened across clusters that are located in different parts of the country, e.g., Ludhiana, NCR, Baddi and Dehradun in North, Rajkot,

Jamnagar, Pune and Mumbai in West (along with Ankleshwar, Vapi, Aurangabad, and Kolhapur and most recently Kutch), and Coimbatore, Vishakhapatnam, Bangalore, Hosur, Chennai, Pudduchery and Sriperumbudur in the South.

Assembly plants at these locations are being fed with raw materials and intermediate products from all over the country and abroad (as well as these locations). Moreover, distribution networks with emerging hubs in Indore and Nagpur (i.e., Central India) supply all over the country and abroad. This is going to increase the nature and extent of movement of goods and services across the country.

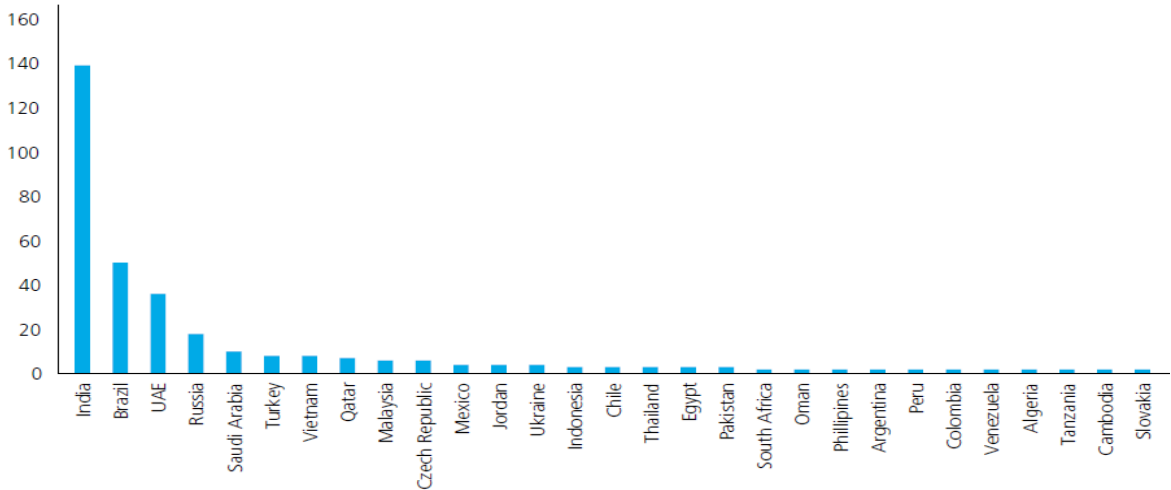
This has been accompanied by the expansion of domestic production capacity (e.g., ORPAT in Morbi has added capacity to produce 40,000 units of quartz clocks and time pieces at a single location) as well as a big MNC entry into the Indian manufacturing scene (e.g., NOKIA's new factory at Sriperumbudur produces 1 million mobile phones per month). As the volume of production grows so will the extent of movement of goods either to the ports for export or to the rest of the country.

Some of the large players to enter (or expand significantly) the Indian market recently have been Reliance Retail, Big Bazaar Hyper mart, Pantaloon and RPG in Retail; Nokia, LG, Samsung, Motorola, Sony, Blue Star in Consumer Electronics; Bajaj, Hero Honda, Maruti, Honda, Toyota, Audi, Volkswagen, Renault, Volvo in the Automotive sectors; Holcim in Cement; etc. It can be expected that their operations will drive the growth of logistics industry [10].

3. CURRENT STATE OF INDIAN LOGISTICS

Various estimates put the market size of the logistics sector in India to be between USD 90-125 billion. Given that the Indian economy has grown to over USD 1.73 trillion these estimates may already be well below the actual size of the industry. Sources also estimate that the industry employs over 45 million people and is growing at the rate of 15% with sub-sector growing at even 30-40% per annum. Due to its current growth and its future growth potential the Indian logistics sector is viewed as one of the most attractive in the world.

The Emerging Market Survey, 2011 [4] conducted by Transport Intelligence highlights India's attractiveness as a strong growth area for logistics in the future. The survey found that nearly half of its respondents agreed that India would emerge as a major logistics hub in the future. Also India's rapid growth and market size were the key factors for global players looking at opportunities in the region.



Source: Agility Emerging Markets Logistics Index, 2011
 Survey carried out on 338 industry professionals around the world

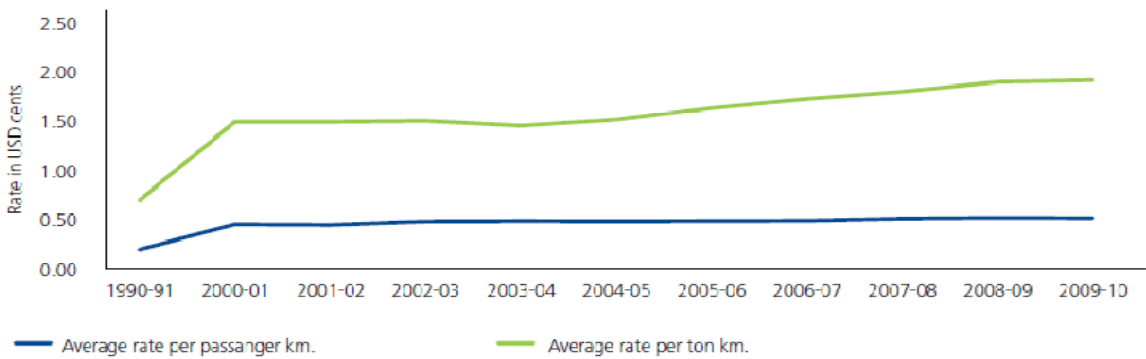
Identify the logistics barriers that foreign firms have encountered in India

1. Inefficiencies in Transportation [5][7][13][18]

In India road has become the predominant mode of transportation of freight cargo. Estimate of the modal movement of cargo highlights that In India nearly 61% of the cargo is moved by road, 30% by rail and rest by airway, pipelines and inland waterways. This is as compared to a 37% share of road in the USA and 22% in China. There has been little investment in track infrastructure since independence. While route kilometer has grown only at a CAGR of 3%, track kilometer, incorporating additional lines on existing routes, has not fared much better growing at a low CAGR of 6.6%. During the same period freight and passenger traffic has grown at a CAGR of nearly 54%. This has led to most high density corridors becoming over saturated. Special wagons are not easily available for carrying specialized products. For example special types of steel required for automobile production have to be carried by trucks as the existing wagons do not offer the kind of protection that these high value products require. Freight movement in India is dependent on National Highways. While National Highways constitute only about 2% of the road network of India they carry nearly 40% of the total traffic. As a result most of these highways are severely congested- resulting in freight travelling only a third of the distance compared .to developed countries The trucking industry in India is largely fragmented and in the hands of small truck operators. Estimates suggest that nearly 70% of the truck owners in India own between 1-5 trucks .Trucks in India have to pass through multiple check points in their journey. Indian Railways follows a policy of subsidizing passenger tariff by freight tariff. This has resulted in a sharply rising trend in railway freight rate over the years compared to an almost stagnant passenger tariff rate.

The result of this has been that Indian rail freight rates have already become one of the highest in the world, with freight rates in India being nearly 4 times that in United States. If truck overloading is also taken into account then rail freight rates work out to be higher than road freight.

Freight rate increase



Source: Indian Railways

2. Poor condition of storage infrastructure [11] [12][15][16]

State of warehousing is poor: Various estimates put warehousing costs to be between 20-25% of the total logistics cost. Despite this the state of warehousing in India is largely dismal. On the warehousing front 80-85% of warehouses are traditional with sizes of less than 10,000 square feet. Most of these warehouses are not leak proof, equipped with security systems, racking facilities and other facilities. Majority of the operators of these warehouses are also small to mid-sized entrepreneurs with limited investment capacity. The only really large warehousing owners are government agencies including Central Warehousing Corporation and State Warehousing Corporations, but the focus of a significant majority of the government warehouses is food grain storage. Significant requirement of cold storages from the retail sector, pharmaceutical and chemical sector and the farm sector, where it is estimated that upto 40% of the fruits and vegetables grown in India gets wasted, the sector needs to grow much faster to meet the needs. Estimates on cold chain facilities in India put the number of cold storages at around 5400 with a capacity of 24 million metric tons. However nearly 60% of these facilities are meant for storage of potato crop. Also with the poor electricity condition in the country the cost of operating such facilities is very high. With government intervention and various sops the situation is slowly improving but many challenges remain.

3 .complex tax structure [19]

A complicated tax regime is in place which places several challenges on the logistics industry. Payment of multiple state and central taxes results in:

- Considerable loss of time in transit for road freight in order to pay such taxes
- Fragmentation of warehousing space especially for low margin products thereby providing a disincentive to create large integrated warehousing spaces

A uniform tax structure to be introduced through the GST is being highlighted as a panacea for the existing situation. If implemented in spirit GST will enable logistics services to be provided without consideration for tax boundaries. However while the introduction of GST looks fairly certain several companies have already started raising doubts about the final shape the bill will take, given the deep divisions between several state governments and the central government on the issue.

4. LOW RATE OF TECHNOLOGY ADOPTION [6]

The logistics industry is also hampered by low rates of technology adoption and poor skill levels. On the technology front the industry now seems to be paying serious attention with use of RFID, vehicle tracking technologies, warehouse management systems etc. However while acceptance is perhaps not an issue any more, the marriage between IT and domain requirement needs to be resolved. Automation in processes is still only in its infancy. Further progress is dependent on a certain level of standardization which is made more difficult by the high level of fragmentation in the industry. This is a drawback that needs to be tackled early.

5. POOR SKILLS OF THE LOGISTICS PROFESSIONALS [17][20]

In addition to technology-related issues the skill levels of in the logistics industry also require to be upgraded urgently. As of now courses focusing on logistics industry remain few and far between. Also logistics industry is still not looked at as the industry of choice for young graduates thereby making hiring of quality professional manpower challenging. On the ground level too there are challenges. A recent study has found that a variety of skills are required in the sector. These include technology skills, driving skills including safety procedures, industry understanding and multi operations skills. The present state of affairs is illustrated by example of truck driver in India, who is a critical point of contact for the logistics company with its customers where the truck drivers today find it difficult to accurately record delivery records, understand delivery documents, negotiate for return business, handle queries etc.

6. CONCLUSION

In recent year Indian economic development and expansion of Multinational Corporation in the country have been impressive. The government has encouraged foreign investment and open industry to foreign participation. MNCs have been able to complete at this market increasing flexibly. India has been regarded as a place with cheap labour, improving technology and a fast

growing consumer base. but in the business environment in India is still complicated and logistic service is far away from perfect .there is no secret formula for success in India .MNCs should be clear about strength and weakness.They also need to carefully analyze the market regarding the customer. Competitor and partner.

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