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Logistics Cos Ride the Ecomm Wave



Delivery Challenges

First-mile pickup problems
Transporting a product from seller to warehouse

Last-mile touchpoint
Final journey to customer

Lack of organised physical addresses

INDUSTRY SIZE
₹830 crore in 2012-13

Flipkart's Experiment

- Automating process of assigning packages to delivery men by geocoding customer addresses
- It is cutting process time by half

Shares of delivery cos spurt with rising demand from e-tailers

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Bengaluru: If you bought shares of Gati in late 2013, they'd be worth at least 10 times now. The 25-year-old logistics company's stock hasn't seen so much action in a long time, buoyed by online retailers. Likewise, shares of Blue Dart Express and Transport Corporation of India have more than doubled in the past two years.

For investors, that's something to cheer. But logistics in India is still far from being able to keep pace with the rapid strides of ecommerce giants and online firms that arrange delivery of goods from neighbourhood merchants.

"In India, it's horizontal players (or online marketplaces) that are driving the growth and volume of ecommerce, and no logistics are currently capable of providing the entire supply chain," said Bhavesh Manglani, cofounder and chief operating officer of third-party logistics provider Delhivery. From first-mile pickup — transporting a product from a seller to a warehouse — to the last-mile touchpoint — the final journey to a customer in a major metropolis or a tier-4 village — logistics in India has challenges that ecommerce companies are trying to solve. The problem begins with the lack of organised physical addresses, particularly when it comes to small towns and villages.

"If you don't know the consumer address in latitude and longitude, it's not going to help you," said Sriram Kannan, cofounder and chief executive of Ve-rayu, an eight-year-old company specialising in location intelligence.

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Balancing Cost & Time Efficiency

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The startup has patented technology that pulls up optimised routes for delivery boys in real-time without relying on GPS.

With customer demand booming by the day, online retailers in India are under pressure to deliver orders within short timelines to battle out competition. But unlike in China, where the Alibaba-led ecommerce boom was largely facilitated by the growth of state-funded infrastructure, Indian ecommerce companies have to pave their way to customers' doors, and within tight wallets. It's a delicate balancing act between cost and time-efficiency, said G Raghuram, dean of Indian Institute of Management, Ahmedabad.

"They have to solve the whole issue of logistics, which would include where they should locate their warehouse, what should be the IT support for quick retrieval, and what would be the optimal parcel size for shipment," he said. "The smaller the vehicle, the cost of delivery goes up, but then you are more efficient."

Flipkart, India's most valuable ecommerce firm, is working on several experiments to lower delivery cost as it aims to increase shipments to at least one billion packages a month in 2017-18, from about 8 million now. One such experiment — automating the process of assigning packages to delivery men by geocoding customer addresses — is already paying dividends, cutting the process time by half to about 90 minutes.

"The key challenges are to solve for speed at scale — optimise for cost and experience and speed of delivery," said Binny Bansal, cofounder and head of supply chain at Flipkart.

Companies are also making substantial investments to distribute their warehouses and holding facilities for maximizing cost- and time-efficiency. "We have multiple intermediate points instead of a centralized hub, which allows us to reduce cost and the number of times packages change hands. This works very well for 24-48 hour deliveries," said Mangla of Delhivery, which makes over 1 lakh deliveries a month. The three-year-old company is also piloting system-directed routing in a few cities.

India's logistics industry was valued at around \$130 billion (about ₹830 crore) in 2012-13, according to the latest figures available with India Brand Equity Foundation, a trust established under the ministry of commerce.

To optimize economies of scale, many online retailers prefer to work with third-party logistics providers such as Delhivery, which, however, struggle to keep pace with demand. Delhivery added 6,000 employees in six months since October, but still has to decline business.

"Third-party logistics providers will always be more capital-efficient, but they simply do not have the capacity to do it for us," said Brijesh Aggarwal, cofounder and CEO of online wholesale goods platform IndiaMART. "Nobody thought they would have so many shipments coming in."

Gati's ecommerce business revenue, for instance, rose 164% year-on-year to ₹ 127 crore in 2014-15. Over the last 3 years, the company has built up a last-mile fleet of 1,350 vehicles covering more than 20,000 pin codes.