

Ecommerce & Logistics: A symbiosis or a challenge?

One of the many success stories of liberalization in India has been the advent of internet and the repositioning of various sectors around it. One such repositioning has been e-commerce, or online market space. While it creates easy avenues for shopping for consumers at relatively lower prices, it provides for some significant cost advantages in terms of storage for the e-retailers. Competing on the prices, however, requires an efficient leveraging of the logistics to translate into cost advantages. This has, in turn created space and need for efficient logistics provider for such e-retailers.

In conventional stores, customers were expected to travel to the store for purchases. This required the retailers to store sufficient in-store inventory to avoid customer loss. Goods were transported from suppliers to the retailers through Regional Distribution Centers. However, e-retailing has revolutionized this traditional model. Orders are placed at

Regional Distribution Centers and delivered through various logistics providers.

The growing prominence of e-commerce with rising internet penetration and consumer confidence in online shopping has come as a big boon for warehousing solutions service provider. This is because despite commerce moving online there is still a need to address issues like warehousing, packing, shipping and tracking. E-commerce merchants are increasingly relying on warehousing service providers.

The e-commerce market clocked a CAGR of more than 54% till 2011. However, it still accounted for 0.1% of total retail sales in 2011 in India. The industry is currently valued at \$2 billion. However, reduced margins puts a serious pressure on cost-side. This indicates a huge potential for growth, not just for e-retailers but also for allied sectors. Logistics, for example, is one of the key allied sectors.

The express industry caters to multiple industry segments



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by providing time bound logistics services. The customers use express delivery services for shipment of various products, having high value like life-saving pharma products, electronic products, spare parts, trade samples etc. As a premium segment, the express industry in India is small but significant in the logistics industry and is one of the fastest growing segments of the industry. It has evolved rapidly and has increasingly added a variety of services and user segments in the domain of express deliveries.

As per Crisil Report, the market size of express logistics

segment during 2011-12 was estimated at Rs. 10,870 crores (about USD 1.8 billion). The industry is expected to grow at 17% per annum compared to 11% growth estimated for overall logistics industry to Rs. 17,450 crores (about USD 2.9 billion) in the next three years.

The express segment in India forms an important part of logistics industry. By providing integrated time-bound door-to-door delivery, the industry is catering to requirements of businesses as well as retail customers to deliver shipments under tight timelines. Also, the industry makes significant contribution towards employment and exchequer. It is witnessing a demand boost due to above average growth of industry segments like organized retail, e-commerce, consumer durables, electronic products and healthcare. The segment is receiving a fillip from higher consumption demand for items like electronics, garments, etc, in turn creating additional demand for express industry.

Typically, logistics accounts

for about 10% of the total costs for e-retailers. However, the squeezed margins, makes bearing such costs almost economically unviable. Even this is only a partial picture of the criticality for logistics. Reverse logistics is also becoming more important. While the industry average is about 20%, some segments like apparel have an abnormally high return rate of 60%. In about 70% of cases of reverse logistics, the cost to pickup and return is greater than the value of the item. This has increased the challenges which the leading e-commerce players face in current operating scenario.

Transformation of e-commerce would also facilitate adoption of newer models for logistics. Large warehouses located outside metropolitan limits reverses the trend of aggregation around large retail outlets. Moreover, growth of e-commerce may help leveraging economies of scale. Further, given that home delivery forms integral component of e-commerce experience, cost of

moving goods to the shoppers' location has to be considered in the design of supply chain and relevant logistics.

However, this has created space for specialized logistics service providers like TCI, who can use technology and other efficient processes to bring down costs. On-time delivery is another key parameter, and an important differentiating factor for e-commerce. Given the sensitivity of the customers to the time-bound delivery and the price, this forms a lucrative opportunity for specialized logistics provider to operate in the sector.

E-commerce has, undoubtedly, made a strong presence felt. However, while demand side continues to be strong, lack of necessary infrastructure is proving to be a major impediment in continuing growth. Whether the sector takes off or ends up in a quagmire due to lack of necessary logistics backbone would depend on the ability of the existing players to respond to the changing needs of the sector.