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Hit by a virus and lockdown, the wheels are coming off the Indian logistics industry

A highly fragmented and unorganised industry, India's logistics sector is in disarray because of disruptions cause by the nationwide lockdown. What will it take for the sector to find its feet after being battered by Covid-19?

Shariq Khan • ET Online • March 30, 2020, 10:37 IST



The 21-day lockdown will see logistics players' supply chain cost going up, and their global supply chain will be severely impacted since sourcing of inputs will become more challenging now.

As a population of 1.3 billion stays indoors to fight the Covid-19 virus, India is finding it difficult to get a move on and questions are being asked about what the 21-day lockdown can do to the crucial logistics sector of the country.

A significant economic fallout of the novel virus is the resulting inefficiencies across the country's already overburdened logistics landscape, which, according to IBEF employs 40 million plus people and contributes \$200 billion plus to the economy. The

vast segment, considered to be the lifeline of the country, holds critical importance as it connects various markets, suppliers and customers dotted across the country.

In the wake of the growing crisis, it was decided that this critical sector should be allowed to function, especially when carrying essential commodities. However, in the sixth day of the lockdown, the wheels are coming off.

Citing operational constraints, country's largest ecommerce marketplaces Flipkart and Amazon have suspended their logistics services for sellers on its platform. Also, according to the Retailers Association of India (RAI), the supply chain of about 25,000-30,000 supermarkets have so far been impacted due to the lockdown announced.

According to Pranshu Kacholia, VP Business, ClickPost, data between March 10 to 20th show that compared to the average for last month, the outbreak and the subsequent lockdown across states resulted in stuck shipments increasing by 9%, order delays were up by 21%, and delivery percentage has seen a clear decline of 9%. What is interesting is that this data pertains to the period before the nationwide lockdown started on March 25, which means these numbers would be way worse.

According to the representative of the logistics platform, in Pune, there are 31 pin codes that have been blocked by most of the logistics companies. "In Kerala and Maharashtra, we are witnessing fulfillment percentage to be reduced by around 5-10%," Kacholia highlights, adding with lots of rumours around, either ground staff is no longer active, or customers themselves are not accepting shipments, scared these might be contaminated.

Hand in hand

According to Arun Singh, chief economist at Dun and Bradstreet India (D&B), the performance of the manufacturing and logistics sectors are quite interdependent. "If manufacturing activity is halted, what is there to transport?" he reasons, adding the current lockdown has effectively put curbs on both the above mentioned segments - certainly not a good sign for an already slowing Indian economy.

"For long, the Indian logistics sector has had its own set of peculiar problems, which will get further amplified, thanks to Covid 19," Singh remarks.

Shedding light on these 'peculiar' problems, Harpreet Singh, Partner at KPMG, says that Indian logistics is largely an unorganised sector. Thus, the sector is severely hit as most of the industry players do not have any backup, recovery plan or intermittent operation plan, says Singh, adding logistics in India is majorly driven by a traditional approach of trucking, loading & unloading and material handling. "This sector still lacks technological development. Thus, lack of modernised tool and equipment to disinfecting the goods/supplies before delivery, may further add to the problems," he opines.



Economic fallout

According to experts, the lockdown has brought the entire domestic manufacturing supply chain to a grinding halt. "Ramifications of a massive lockdown are manifold. From the factory gate to the warehouse, or from the warehouse to the end users, the entire supply chain is severely jeopardised. With countries across the world locking down, there are minimum export-import movements, and this has aggravated the crisis in the logistics space," contends Singh of D&B.

Further, according to KR Sekar, partner, Deloitte India, the 21-day lockdown will see logistics players' supply chain cost going up, and their global supply chain will be severely impacted since sourcing of inputs will become more challenging now.

"Prices of diesel and petrol are going up under the government's plan to shore up revenues in these hard pressed times. Thanks to the lockdown, footfalls across cities will go down. The sales inventory cost will go up, so all companies will have to look at newer methodologies to dispose of their inventories," says Sekar. He, however, opines that digital sales will now get pushed up.

Across the country, the lockdown has resulted in labour shortages, which in turn has added to the limited availability of transportation facilities. "The delayed deliveries are likely to disrupt the businesses that operate on 'just in time or limited inventory' basis," adds Singh.

The complete lockdown of other businesses and supporting services, has also aggravated the situation. Due to complete shutdown of public transport facilities, workers required for handling and transportation of essential commodities and supplies, now need to commute to their workplace on barefoot. For those living in the margins in the informal sector, the same is very exhausting, leading to lower productivity.

Takeaways for the future

So, what will it take to turn the tide on this Coronavirus led gloom in the sector? Country's logistics players believe that this unprecedented crisis calls for unprecedented coordination among civic authorities, industry and the public.

"Ensuring nationwide access to essential commodities and medical supplies can only happen with a strong logistics and supply chain backbone. It is imperative that regulators and law enforcement authorities recognize logistics industry as essential services to keep critical supply chains up and running," says RS Subramanian, Senior Vice President and Managing Director, DHL Express.

Subramanian adds that in almost all countries where there is a lockdown, in the USA, Europe, New Zealand, Australia, South Africa, Middle East and Far East, Express and logistics companies like are given the status of an essential services sector, and are able to manage and sustain the supply chain of manufacturers, healthcare, and pharma sectors. This is the need of the hour. "Deployment of additional customs personnel, faster clearances at airport courier and cargo terminals to move out the on-hold shipments will help clean up the channel for critical shipments to flow faster," he says.

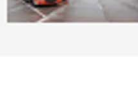
According to Singh, suspension of document scrutiny at check posts for vehicles carrying essential supplies, exemption from toll collection, passing on the benefits of the fall in crude price by not increasing the taxes are some of the measures that the government may consider for the logistics sector. His other suggestions to the government include, giving subsidy/ tax deduction on salaries paid to drivers and a higher deduction for capital expenditure on commercial vehicle etc.

In Singh's view, amid the outbreak, it is crucial that companies assess their supply chain risks and proactively develop mitigation approaches. These, according to him, include, looking at alternate channels of transportation, combination of transportation services - small trucks, tying up with three wheelers, two wheelers etc. for last mile essential goods delivery and consolidation of consignments.

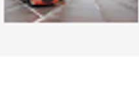
Stressing that India is a consumption-based economy, where India is manufacturing primarily for internal consumption, Sachin Haritash, founder & CEO of Mavyn, a digital trucking platform, says in India, we keep stock up to 90 days. In contrast, in developed countries, the inventory is of 30 days only. "It is one of the main reasons that our logistics cost is 14% as compared to 7-8% in developed countries," Haritash says, adding Coronavirus outbreak has given a new thought to firms to think out of the box.

It was easy in China for logistics companies to support SMEs as there are regional or provenance specialised companies that reach to interiors to provide logistics support at the lowest cost, adds Haritash. "In India, we should build capabilities of regional logistics companies to change with the change in demand at a short interval of time."

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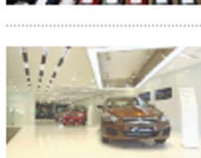
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