

Logistics TODAY

Global Logistics

India Gears Up

by David Drickhamer

When it comes to managing logistics, India has long been a place where backup plans have backup plans. The need for such redundancy is diminishing as government red tape clears, regulatory burdens are dismantled and new roads and communication infrastructure come online.

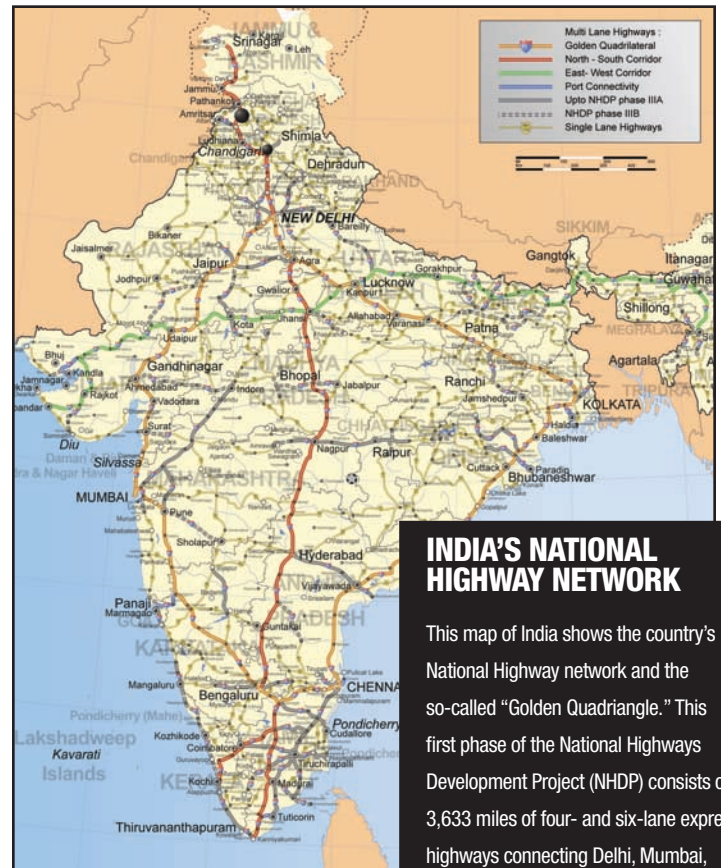
When Dan Ellens moved his wife and four children to India 10 years ago, everything was an ordeal. Infrastructure problems extended from the phone lines to the power grid. It normally took two years to get a not-very-reliable landline installed and activated, six weeks under a special, accelerated program for foreign businesses. Unplanned electricity outages totaled six hours or more each day, on top of planned power—outages that rotated around Bangalore in four-hour blocks of time.

“Imagine not being able to communicate with the other elements of your supply stream, not being able to find out what the status is,” says Ellens. Not knowing if or for how long they would have power, it was impossible for anyone to make any reliable delivery commitments.

Dan Ellens is currently vice president and managing director of **Webb Worldwide**, which includes all of **Jervis B. Webb Company**’s operations outside of the United States. The company’s world headquarters is in Farmington Hills, Mich. (www.jerviswebb.com).

When he moved to Bangalore to ramp up capacity and establish world-class quality standards there, the company had 12 employees. Today the privately held manufacturer of conveyor and other material handling equipment employs over 500 technical and production people in four factories, sales offices and customer sites across India. Ellens documented his family’s two-year Indian odyssey in a book, *A Time for India* (Vantage Press, 2006).

Today, Ellens travels to India four to five times per year. Electric power is much more dependable in Bangalore now, he reports. Phone service is also more reliable on the strength of a state-of-the-art fiber-optic network completed in 2000. Regular phones as well as cell phones



INDIA'S NATIONAL HIGHWAY NETWORK

This map of India shows the country's National Highway network and the so-called “Golden Quadrangle.” This first phase of the National Highways Development Project (NHDP) consists of 3,633 miles of four- and six-lane express highways connecting Delhi, Mumbai, Kolkata and Chennai. As of February 2007, 95% of the road work had been completed.

Indian Ports by State

WEST COAST	Number of Ports
Gujarat	40
Maharashtra	53
Goa	5
Daman & Diu Port	2
Karnataka	10
Kerala	13
Lakshadweep Islands	10
Total:.....	133
EAST COAST	Number of Ports
Tamilnadu	15
Pondichery	1
Andhra Pradesh	12
Orissa	2
West Bengal	1
Andaman & Nicobar Islands	23
Total:.....	54

Source: Indian Ports Association (www.ipa.nic.in)

can be activated in one day. Although the country's roads are still congested and chaotic, the situation is vastly improved.

"In 1996 I don't think in Bangalore there was a single traffic signal. That's not a joke," he says. None of the roads had barriers down the center. Vehicles were supposed to keep to the right but everyone drove on a space-available basis. "People would be driving on both sides of the road in both directions all the time, everywhere."

Traveling the two-lane, potholed roads in the countryside between cities, Ellens describes the experience as a game of leapfrog and chicken, plagued by frequent breakdowns and accidents. Since Ellens first arrived in the country, the Indian government has constructed a network of four- and six-lane highways that connect Delhi, Mumbai, Kolkata, Chennai and other cities (see map on page 17). This has dramatically improved both speed and safety when driving within India, but the national highways only account for 2% of the country's road network.

While the new highways have made it easier for trucks and other vehicles to travel between regions, the last mile can be a challenge. To manage the congestion caused by passenger car traffic, many cities have designated certain times when trucks are allowed to enter.

"Last week when I was in India we were trying to get some containers to the customs

India's Logistics Challenges in a Nutshell

As a percentage of GDP, logistics spending in India is estimated at 13%. This compares to around 10% in the United States and Europe. Such inefficiency reflects a transportation infrastructure that hasn't been able to keep pace with economic growth.

The Indian economy grew at a compound annual growth rate of 6.4% from 2000 through 2006, and by 8% over the past two years, according to the **Center for Monitoring Indian Economy** (CMIE, www.cmie.com). The country's economy is expected to grow from 7% to 8% over the next three to five years.

From 2000 through 2006, Indian exports grew at an annual rate of 18.6%, driven by growth in the manufacturing, automotive and textile sectors. Total imports grew at a similar rate over the same period, with non-petroleum imports increasing by 17%.

The Indian logistics industry is highly fragmented. Carriers with fleets of less than five trucks account for over two-thirds of the total trucks owned and operated in India, according to market research firm **Datamonitor** (www.datamonitor.com) in a recent report, "India Logistics Outlook 2007."

Over 70% of the country's freight travels by road, and while the National Highways account for 2% of India's road network, they carry over 40% of the freight. As an indicator of road congestion, Datamonitor reports that commercial vehicles in India run at average speeds of 20 mph, compared to over 60 mph in Western Europe and the United States.

Rail transportation in the country is a monopoly managed by **Indian Railways** (www.indian-rail.gov.in), with container movement managed by its subsidiary, the **Container Corporation of India** (Concor, www.concorindia.com). Rail cargo accounts for approximately 30% of cargo transported in terms of volume, and 11% of cargo in terms of value, reports **SSKI**, an investment bank headquartered in Mumbai (www.sski.co.in).

Despite a cost advantage, rail transportation has been slowly losing market share to roads, which SSKI analysts attribute to capacity constraints on key routes and better point-to-point service and better turnaround times offered by trucking companies. In an effort to improve the sector's competitiveness, the Ministry of Railways has begun to allow private companies to move containers by rail.

One major development that promises to change the face of logistics in India is the introduction of a value-added tax (VAT) structure, replacing a Central State Tax (CST). The present tax structure forces companies to set up warehouses in each state where they sell goods in order to reduce their tax burden. The change in the tax law would allow companies to set up more efficient hub-and-spoke distribution networks with larger regional warehouses. As a first step toward a complete phase out targeted for April 2009, the CST was reduced to 2% in April 2007.

area," says Ellens. "We missed our five o'clock deadline and all the trucks were held up until the next day. It sat alongside the road in a queue with all the other trucks that were waiting for their chance to drive into the city."

If it's not a truck curfew, there are always other logistics hiccups that have to be managed. When we talked to Ellens, one of Webb's factories was waiting for some containers to arrive so it could ship out 85 boxes of equipment for a certain project. The containers should have been delivered on Saturday but hadn't arrived by late Monday because of a strike, a common occurrence in India.

To help it manage such unpredictable events, the company relies on several freight

forwarders. One of which is **SEKO Worldwide** (www.sekoworldwide.com). SEKO's office in Farmington Hills, Mich., serves as a single point of contact for coordinating some of Webb's global freight shipments out of India. For a recent project, it coordinated a shipment of conveyor and related equipment from Bangalore through the Port of Chennai and ultimately to a General Motors facility in San Luis Potosi in Central Mexico.

SEKO's local office in India cleared the containers through customs, arranged for their delivery to the port, created all documentation and bills of lading, which were sent to the final customer for review to make sure they were in compliance with Mexican import laws. All

Cargo Traffic at India's Major Ports

2005-2006 fiscal year*

Port	Imports	Exports	Trans-shipment	Total	Annual % Change
Kolkata	4,131	2,190	4,485	10,806	8.7%
Haldia	25,005	14,173	2	42,216	16.4%
Paradip	11,424	21,685	-	33,109	-40.7%
Vishakhapatnam	25,495	25,150	5,156	55,801	11.3%
Chennai	27,199	20,049	-	47,248	7.9%
Tuticorin	13,374	3,765	-	17,139	8.4%
Cochin	10,844	3,094	-	13,938	-1.1%
New Mangalore	16,519	17,932	-	34s,451	1.7%
Mormugao	6,074	25,614	-	31,688	3.4%
Mumbai	22,684	11,956	9,773	44,190	25.6%
J.N.P.T.	18,444	15,251	1,957	37,746	15.1%
Ennore	8,631	537	-	9,168	-3.3%
Kandla	34,780	10,176	951	45,907	10.5%
Total	227,640	173,443	22,324	423,407	10.3%

*April 2005 to March 2006, thousands of metric tons.

Source: Indian Ports Association (www.ipa.nic.in)

goods require approval from the Indian government before they can be shipped out of the country.

"Normally such goods would be subject to an export duty. However, because Webb is a major importer as well as exporter, they have credits that they can utilize to offset those costs," reports Cynthia Lewandowski, manager of special projects at SEKO's Farmington Hills office. The key when coordinating logistics in India, says Lewandowski, is to always be prepared for anything that might happen.

"For instance, there was a truckers strike a few weeks ago that impacted any movement out of Bangalore. That delayed containers through the export process because the containers couldn't be delivered to the customs warehouse for processing," she recalls. "We were able to reroute the transshipment point so that it did not lead to any delays in the overall transit time." SEKO had identified an alternative feeder vessel in advance that allowed the containers to arrive in time for transshipment in Shanghai.

Both Lewandowski and Ellens report that anyone managing logistics in India must be prepared to work through cultural differences. For example, doing something "right away" might

mean within 15 minutes in the United States, compared to an hour or more in India.

"If you talked to people 10 years ago, the biggest challenge was all of the government red tape," Ellens says. But everyone was aware of such challenges, and simply accepted that nothing would go out on time or to plan. "A schedule was a plan but nobody could hold a schedule."

"Today is different. The people who have learned to deal with the uncertainties of their supply chains, and who have conquered [the issue of] repeatability of quality in India, are the people who are winning there," he says "I think we're one of those, but it's a challenge every day."

When asked to compare Webb's logistics challenges in India to China, where the company also has facilities, Ellens says the transportation infrastructure in China is much more advanced, which leads to a higher level of dependability, especially on the eastern coast. While that may mean that it's easier to export goods on time, it doesn't necessarily translate into better reliability for projects within the country.

"To execute a project in China, [it's] not

quite as difficult as in India, but again there's a certain amount of tolerance and expectation for schedule variance," says Ellens.

With the improvements in communication and transportation infrastructure in India, such expectations are slowly changing. Prabhu Kumar divides the logistics challenges in India into three categories: procedural, infrastructure and professional. Kumar is manager of logistics for **Rangsons Electronics** in Mysore, India (www.rangsons.com). Rangsons is a contract electronics manufacturer that is both ISO 9001- and ISO 14001-certified.

"The procedural aspect was a major issue for a long, long time," he writes in an e-mail interview. "Following the [government's] liberalization policy, the procedural aspect has become much more simple with the application of IT-based solutions at all major ports and custom stations."

Kumar reports that while much progress has been made, the transportation infrastructure is still a huge issue that has a direct impact on the cost and speed of Indian supply chains. He writes that road and rail connectivity remains poor, but expresses hope that recent rule changes allowing direct foreign investment in such infrastructure development may speed up construction for some projects. Still, politics and public opinion will hold up progress in many instances, he predicts.

On the issue of professionalism, he says expectations and performance have improved with the presence of many multinational logistics service providers, which are undergoing the same consolidation in India as elsewhere around the globe.

"In India logistics service operators show a great deal of flexibility in term of meeting customers' demands compared to the rigid, system-oriented approach in western world," he says, adding that making the impossible possible has almost become a specialty of these providers. In India today, just as it was a decade or more ago, that's a good skill to have. **LT**

