

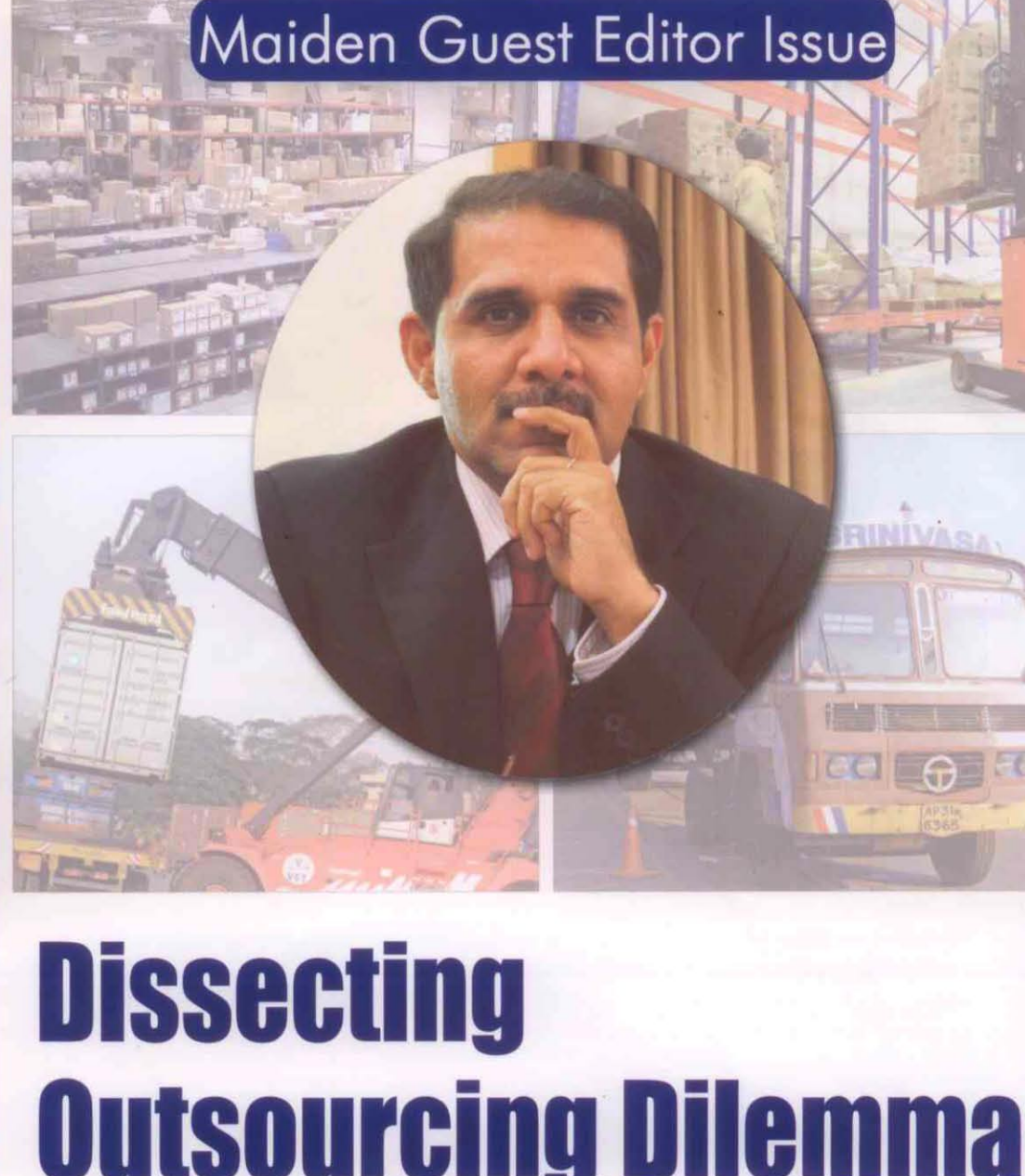
EXCLUSIVE INTERVIEW



'India is a big frontier for us'

INDIA'S MOST VALUED LOGISTICS MAGAZINE

Maiden Guest Editor Issue

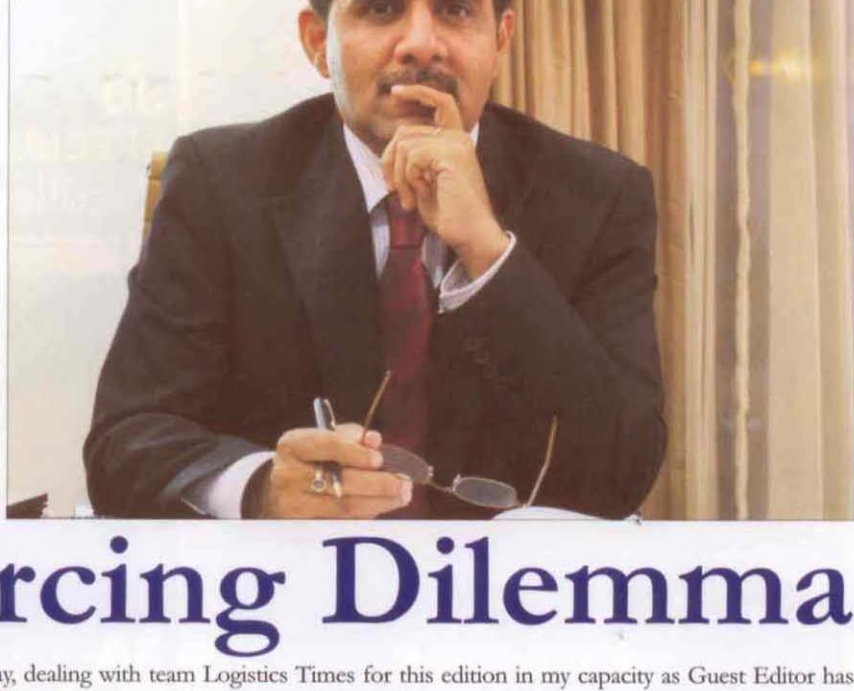


Dissecting Outsourcing Dilemma

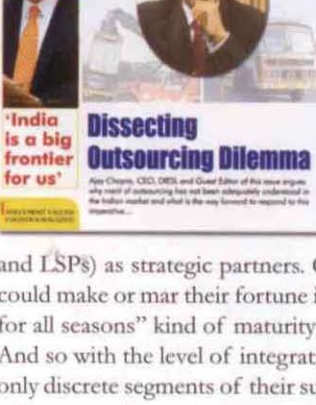
Ajay Chopra, CEO, DIESTL and Guest Editor of this issue argues why merit of outsourcing has not been adequately understood in the Indian market and what is the way forward to respond to this imperative...

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GUEST EDITOR'S NOTE



Outsourcing Dilemma



Must say, dealing with team Logistics Times for this edition in my capacity as Guest Editor has been quite an experience. We met around the middle of the last month for a thread-bare editorial discussion and in some way, it also turned out to be a learning experience for me in terms of understanding how an edition is planned and executed. Among other things, the key responsibility entrusted to me as the Guest Editor was to contribute the cover feature on a pertinent issue which concerns the structured growth of logistics industry in the country. And after much deliberation, we settled on the issue of outsourcing hiccups – an area which is littered with dilemma of unprecedented nature blocking the way for the emergence of a more meaningful and productive relationship between the end user industry and logistics service providers (LSPs). Needless to say, it is hurting everybody and for my company, it has been a key drive to send a strong and convincing message in last couple of years through our 'Captains of Logistics Industry' conferences (this year we are doing it in association with CII Institute of Logistics) in all major centers in the country that many of the existing perceptions are unfounded.

and LSPs) as strategic partners. The robust models in the matured markets is the failure to recognise each other (end user industry and LSPs), by and large, are gripped with the fear of losing control over a set of processes which could make or mar their fortune in the futuristic sense. And, therefore, the entire outsourcing approach is merely functional. "Friends for all seasons" kind of maturity is yet to evolve which obviously entails better integration with LSPs even at the planning stage. And so with the level of integration and engagement of LSPs with their clients at a rudimentary stage, companies tend to outsource only discrete segments of their supply chains to niche providers that specialize in activities like transportation and warehousing. There still seems to be a strict no/no to outsource functions which are core to customer relationship linkages like Product Development and Management, Retail Marketing Execution and In-store Inventory Management. Needless to say, this ultimately results in a colossal missed opportunity for us and it has much wider economic implications than one could imagine.

In terms of micro-analysis, the major problem related with outsourcing here vis-à-vis the company models in the matured markets is the failure to recognise each other (end user industry and LSPs), by and large, are gripped with the fear of losing control over a set of processes which could make or mar their fortune in the futuristic sense. And, therefore, the entire outsourcing approach is merely functional. "Friends for all seasons" kind of maturity is yet to evolve which obviously entails better integration with LSPs even at the planning stage. And so with the level of integration and engagement of LSPs with their clients at a rudimentary stage, companies tend to outsource only discrete segments of their supply chains to niche providers that specialize in activities like transportation and warehousing. There still seems to be a strict no/no to outsource functions which are core to customer relationship linkages like Product Development and Management, Retail Marketing Execution and In-store Inventory Management. Needless to say, this ultimately results in a colossal missed opportunity for us and it has much wider economic implications than one could imagine.

The sum total of the existing trends in companies- LSPs equation does not augur well especially in the context of a situation where economic growth by and large remains fast-paced and the players in different domains are fuelled with the ambition to grow big. Global examples clearly show that end-user industry and LSPs can have a more integrated relationship and work as partners in the true sense of the term. The situation now calls for all stakeholders to put in their efforts to pave the way for a more harmonious co-existence of the two parties in the domestic turf as well. That critical moment has certainly arrived to do away with erroneous perceptions permanently. Hope you will enjoy reading this edition, as much as I did by contributing to it.

Ajay Chopra

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COVER FEATURE

Dissecting Outsourcing Dilemma



Ajay Chopra, CEO, DIESTL and Guest Editor of this issue argues why merit of outsourcing has not been adequately understood in the Indian market and what is the way forward to respond to this imperative...

Outsourcing is a word and an activity that provokes extreme reactions. These reactions are pretty global in nature with only the trigger points changing and varying from one place to another.

As a supply chain professional I have come across many enterprise/sector companies whose supply chain personnel are averse to the idea of logistics outsourcing majorly due to lack of information about the subject or the dilemma of losing control over their company's supply chain operations. In an effort to understand why some companies outsource and others don't; worse still, some outsource and then retract to self managed logistics, to break these bottlenecks, and to maximize the value of 3PL customer relationships, DIESTL has partnered with CII to organize a series of multi city events - "The Captains of Logistics (COL)", which I have attempted in its second year. As a leading integrated 3PL service provider, DIESTL has gained

Prime Reasons for Logistics Outsourcing

- 1 • Avoid Capital Expenditure
- 2 • Reduce Operating Costs
- 3 • Increase Flexibility (Financial / Service)
- 4 • Focus on Core Business
- 5 • Improve Service
- 6 • Lack of economies of scale in house
- 7 • Acquire Talent
- 8 • Avoid Labor Issues

Contract Logistics Savings Potential	
Service Description	Savings Realized
Route Design & Optimization	10-15%
Closed Loop Dedicated Operations	15%
Mode Conversion	10-15%
Core Carrier Management	5-10%
Rate Negotiation & Audit	4-5%
Inbound Consolidation	20-25%
Reverse Logistics	10-15%
DC Location Realignments	10-12%
Reduced Inventory	7-10%

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COVER FEATURE

Extent of Logistics Outsourcing

The boundaries of Third Party Logistics Outsourcing are increasing..... albeit slowly

Customer relationship linkages	Customer fulfillment	Distribution	Manufacturing	Supply	
Product development	Network and asset configuration	Network and asset configuration	Manufacturing strategy	Strategic sourcing	Strategy/direction
Product management	Logistics oversight		Manufacturing oversight	Supplier relationship management	
Retail marketing execution	Demand planning and forecasting	Logistics planning	Manufacturing planning	Supplier planning	Planning and control
In store inventory management	Customer fulfillment	Primary transport	Inbound transport	Plant inventory management	
Customer account servicing		Distribution center operations	Make product/components	Manufacturing procurement	Execution
Product directory		Transport resources	Assemble/pack products		
Customer directory	Product movement data	Customer directory	Product directory	MES data	Data
Product overview	Performance measurement				

■ Retained core: Not for outsourcing
 ■ Traditionally core: Candidates for outsourcing
 ■ Non-core: Probably already outsourced

Source: IBM Business Consulting Services analysis.

segment, PPP - are driving private participation and efficiency improvements. Companies primarily outsource logistics to:

1. Avoid capital expenditure – warehouses, transportation
2. Reduce operating costs – excess inventories, labour costs
3. Increase Flexibility (Finance / Service)
4. Focus on core business
5. Improve service - ability to react quickly to changes in business environments
6. Overcome economies of scale in-house
7. Take advantage of expertise and talent – access to resources not available in one's organization
8. Avoid labour issues

In India, the level of integration and engagement of LSPs with their clients is very rudimentary. While 3PLs may provide a whole gamut of services, companies tend to outsource only discrete segments of their supply chains to niche providers that specialize in activities like transportation or warehousing.

in-depth insight into the psyche of the enterprise sector and on their concerns regarding logistics outsourcing through the COL, which I have attempted to share with the readers here.

survival and future growth. One way of extending the logistics organization beyond the boundaries of the company is through the use of a third party supplier, or contract logistics services. This is a catalyst for consolidation and growth opportunities for organized LSPs. As more multi-national companies and LSPs are increasing their scale of operations in India, there is a rising demand for world class logistics infrastructure and

Prime reasons for Logistics Outsourcing

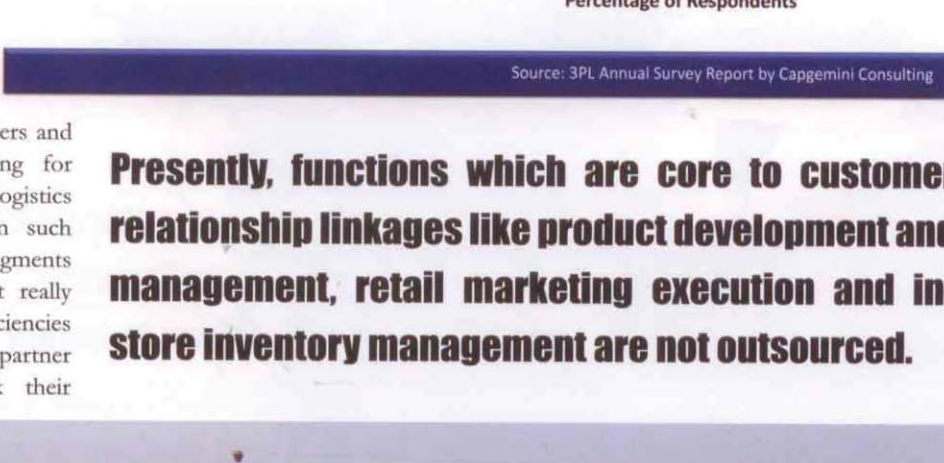
Indian companies on an average outsource approximately 52% of their overall transportation and logistics activities.

management, stock keeping, documentation, etc. Presently, functions which are core to customer relationship linkages like product development and management, retail marketing execution and in-store inventory management are not outsourced. Very few companies may choose to outsource some traditionally core 'strategic' functions like inventory management, network and asset configuration, strategic sourcing and procurement, line scheduling, and demand planning and forecasting. In the face of increasingly intensified competition in the emerging global economy, companies look for global suppliers and shift to off-shore manufacturing for cheaper labour pool, making logistics management more complex. In such situations, outsourcing single segments to different providers does not really improve their operational efficiencies and companies may want to partner with providers who can link their

Why Do Customers Hesitate To Outsource ?

"To outsource or not to outsource...."

3PL Annual Survey conducted in FY09-10 showed most frequently occurring reasons to avoid outsourcing



Source: 3PL Annual Survey Report by Caggenini Consulting

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