



## SUPPLY CHAIN COLUMN

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# Emerging trends in supply chain



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**SUPPLY CHAIN IN** India has witnessed significant changes in the last decade due to changing consumer preference towards cost-effective solution in a time-bound manner. The supportive government policies aimed at reducing the overall logistics cost and promoting transparency was largely aligned in that direction.

The size of the Indian logistics industry is estimated at \$215 billion during FY20. It is expected to grow at a rate of 10-12 per cent compound annual growth rate (CAGR) over the next five years, despite the short-term disruptions due to the pandemic.

Third party logistics (3PL), express logistics, warehousing and cold chain are segments within the logistics space that are expected to remain as the primary focus area.

The pandemic has provided an opportunity for the supply chain industry to focus on its long-term goal of "shortening the supply chains and ensuring that goods are delivered in cost effective time-bound manner". To achieve these, greater investments are required in technology and automation and the bigger players with sound financials are well poised to take the advantage. The smaller players especially the transporters were worst affected by the pandemic and going forward the industry is expected to consolidate. The following are key trends that are emerging in the post-Covid scenario.

**Multilevel inventory management leading to increased demand for warehousing space**

Post-Covid, companies are trying to manage their inventory in a more practical way. To avoid supply disruption

**Due to its fragmented nature, road transportation in India suffers from poor price realisation, higher costs and poor service levels**

companies are holding higher inventory as buffer/safety stock (both for raw materials and finished goods) that too at multiple locations. This is leading to greater demand for warehousing space.

While this strategy has resulted in continuity of operations, it has also translated into higher working capital requirements for corporates.

**Diversification of sourcing arrangements and focus on greater localisation**

In post-Covid world the companies are diversifying their sourcing arrangements to avoid supply disruptions. The unavailability of suppliers during the pandemic has forced companies in several instances to look out for local suppliers in each region where they

operate.

Hence as compared to the pre-Covid strategy of deriving economies of scale benefits from sourcing greater quantities from fewer vendors, the risk mitigation strategy adopted over the past 15 months calls for multiple and localised sourcing arrangements.

On a pan-India basis, this has led to more opportunities for localised logistics and 3PL operators as well as for the large 3PL players to increase their market penetration.

**Increased outsourcing to 3PL players by manufacturing companies**

The Indian logistics industry has been experiencing a struc-

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tural change in the past five years after GST, e-way Bill, and grant of infrastructure status. Supply chain operations are shifting from small unorganised players to large pan-India players who are integrating with the global supply chains for imports and exports. 3PL has gained wide acceptance in developed world and is evolving in India. Post-Covid the market for 3PL is expected to grow at a faster clip at around 15-20 per cent in medium term, compared to a growth rate of 7-8 per cent for the overall logistics sector. The preference towards large 3PL players is due to the belief that their operations would exhibit greater resilience to localised disruptions in India and overseas that are still expected to occur periodically over the foreseeable future. Sectors such as e-commerce, consumer goods, organised retail, pharma, auto ancillaries and engineering are likely to drive this growth.

### Greater reliance on rail and sea transportation as alternative to road

The focus of the government was always to create seamless multimodal transfers to ensure efficient freight movement. The government always provided thrust to move long-haul cargo through more efficient modes such as railways and waterways, with first and last mile connectivity by road.

The pandemic has helped to change the mindset in that direction, given that interstate road transportation was halted at several locations due to the closure of state borders, while rail transport continued uninterrupted pan-India. The pandemic has shown the need and provided opportunity to leverage rail and waterways in a more efficient manner. This trend is expected to continue going forward.

### Cold supply chain demand received a boost

Cold supply chain (CSC) companies have traditionally catered to demand from industry segments such as dairy, ice creams, chocolates, poultry, fish, meat as well as pharma and to a lesser extent certain industrial products which need to be transported at controlled/low temperatures.

The small players in the unorganised segment continue to rely on traditional methods such as use of dry ice in conventional trucks to maintain low temperature, while the larger players in the organised segment use reefers and refrigerated godowns for transportation and storage of perishables.

The lockdown has resulted in several small players shutting operations and this has led to consolidation in the industry. The lockdown and work from home culture has also resulted in higher consumption of frozen foods by households which augurs well for the cold supply chain industry.

In fact, CARE Ratings' discussions with industry players suggest that the demand for cold supply chain from frozen food industry over the next three years could be thrice the

demand from quick service restaurants, the segment which traditionally was one of the largest users of services of the cold supply chain industry.

Interruptions in operations of quick service restaurants due to Covid along with change in consumer preference towards frozen foods (due to combination of growing percentage of nuclear families and avoidance of restaurants) are driving this change.

### Conclusion

Overall, the pandemic has accelerated the pace of change for the betterment of the industry. There was always a need to upgrade the systems and processes across the entire supply

chain in the form of optimisation of inventory holding and proper planning of transportation routes. While in the short to medium term operating costs could see an increase due to holding of excess inventory, this is expected to correct thereafter.

The pandemic had hastened the process of change with more usage of technology and automation. Additionally, smaller companies in the transportation and 3PL space are likely to make way for the larger players. **BW**



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