2.1 Automobile Manufacturing Industry:
   2.1.1 Automobile Manufacturing - India & global
   2.1.2 Growth drivers of Automobile Manufacturing industry
   2.1.3 Key Players in the Indian Automobile Retail Industry:
   2.1.4 Business Intelligence and Automobile Manufacturing Industry:

2.2 Fast Moving Consumer Goods (FMCG) industry:
   2.2.1 Global Fast Moving Consumer Goods Industry
   2.2.2 India Retail Industry
   2.2.3 Growth drivers of Fast Moving Consumer Goods industry
   2.2.4 Key Players in the Indian Fast Moving Consumer Goods Industry
   2.2.5 Business Intelligence and FMCG Industry

2.3 Logistics industry:
   2.3.1 Logistics industry- India & global
   2.3.2 Brief history of Logistics industry
   2.3.3 Development of Logistics including industry Sales, finance data
   2.3.4 Problem of the industry
   2.3.5 Prospects of the industry
   2.3.6 Business Intelligence and Logistics industry

2.4 Retail industry
   2.4.1 Global Retail Industry
   2.4.2 India Retail Industry
   2.4.3 Value Chain of Retail Market
   2.4.4 Growth across Various Segments
   2.4.5 Growth Drivers of Retail Industry
   2.4.6 Key Players in the Indian Retail Industry
   2.4.7 Challenges in Retail Industry
   2.4.8 Niche focus areas in Retail Industry
   2.4.9 Business Intelligence and Retail Industry
Introduction to Global Automotive Industry:
From a humble origin as a ‘horseless carriage’ manufacturing industry dating back to 1890s, the global automobile industry has come a long way emerging as market leader in manufacturing activity, providing employment to one in seven people, either directly or indirectly. Hailed as the ‘industry of industries’ by the Management Specialist, Peter Drucker, the automobile industry set standards in manufacturing activity by contributing mass production techniques during early 1910s. The Japanese soon followed by offering lean production techniques in the 1970s. Riding high on economical revival in many developing countries in Asia and Europe, the industry’s global output touched 64.6 million vehicles in 2005.

Japanese players were the leaders in the light vehicle market and hybrid market. China and India attracted the attention of global auto-makers, vying for setting up a cost-effective export base for meeting the demand from Asian markets. Despite government controls, Chinese market boasted of sales of more than 2.7 million commercial vehicles in 2004. With reports of highest growth in mobility in the world at 3% per annum, further surge in demand was anticipated from Chinese market. A booming economy and a low interest regime helped India to make its mark in the automobile sector in 2004, with sales figures exceeding more than 1 million in the passenger car segment for the first time. Foreign auto-makers such as Mercedes Benz, Volkswagen Group, General Motors, Honda, Toyota, Ford, Fiat and Mitsubishi were all making a bee-line to set up their manufacturing units in India to tap the growing demand.
II: Overview of Industries

2.1 Automobile Manufacturing Industry

The world’s automobile industry made over sixty six million cars, vans, trucks and buses. These vehicles are essential to the working of the global economy and to the wellbeing of the world’s citizens. This level of output is equivalent to a global turnover of €1.9 trillion. If vehicle manufacturing was a country it would be the sixth largest economy in the world. Building sixty-six million vehicles requires the employment of more than eight million people directly in making the vehicles and the parts that go into them. This is over five per cent of the world’s total manufacturing employment. In addition to these direct employees, about five times more are employed indirectly in related manufacturing and service provision, such that an estimated more than 50 million people earn their living from cars, trucks, buses and coaches.

The automobile industry is also a major innovator, investing almost €85 billion in research, development and production. The auto industry plays a key role in the technology level of other industries and of society and is one of the largest investors in Research and Development, with several manufacturers leading the Top 10. Vehicle manufacture and use are also major contributors to government revenues around the world, contributing over €430 billion in twenty six countries alone.

Introduction to Indian Automotive Industry:

India’s manufacture of 7.9 million vehicles, including 1.3 million passenger cars, amounted to 2.4 per cent and 7 per cent, respectively, of global production in number. The auto-components manufacturing sector is another key player in the Indian automotive industry. Exports from India in this sector rose from US$1.0 billion in 2003-04 to US$1.8 billion in 2005-06, contributing 1 per cent to the world trade in auto components in current USD.
II: Overview of Industries

2.1 Automobile Manufacturing Industry

In India, the automobile industry provides direct employment to about 5 lakh persons. It contributes 4.7 per cent to India’s GDP and 19 per cent to India’s indirect tax revenue. Till early 1980s, there were very few players in the Indian auto sector, which was suffering from low volumes of production, obsolete and substandard technologies. With de-licensing in the 1980s and opening up of this sector to FDI in 1993, the sector has grown rapidly due to the entry of global players.

A rapidly growing middle class, rising per capita incomes and relatively easier availability of finance have been driving the vehicle demand in India, which in turn, has prompted the government to invest at unprecedented levels in roads infrastructure, including projects such as Golden Quadrilateral and North-East-South-West Corridor with feeder roads. The Reserve Bank of India’s (RBI) Annual Policy Statement documents an annual growth of 37.9 per cent in credit flow to vehicles industry in 2006. Given that passenger car penetration rate is just about 8.5 vehicles per thousand, which is among the lowest in the world, there is a huge potential demand for automobiles in country.

Figure: 2.1 India – the Global Manufacturing Hub
II: Overview of Industries

2.1 Automobile Manufacturing Industry

There are two distinct sets of players in the Indian auto industry: Automobile component manufacturers and the vehicle manufacturers, which are also referred to as Original Equipment Manufacturers (OEMs). While the former set is engaged in manufacturing parts, components, bodies and chassis involved in automobile manufacturing, the latter is engaged in assembling of all these components into an automobile.

The Indian automotive component manufacturing sector consists of 500 firms in the organized sector and around 31,000 enterprises in the unorganized sector. In the domestic market, the firms in this sector supply components to vehicle manufacturers, other component suppliers, state transport undertakings, defense establishments, railways and even replacement market. A variety of components are exported to OEMs abroad and after-markets worldwide.

The automobile manufacturing sector, which involves assembling the automobile components, comprises two-wheelers, three-wheelers, four-wheelers, passenger cars, light commercial vehicles (LCVs), heavy trucks and buses/coaches. In India, mopeds, scooters and motorcycles constitute the two-wheeler industry, in the increasing order of market share. In 2005-06, the Indian auto sector had produced over 7.6 million two wheelers and 1.3 million passenger cars and utility vehicles.

India is a global major in the two-wheeler industry producing motorcycles, scooters and mopeds principally of engine capacities below 200 cc. It is the second largest producer of two-wheelers and 13th largest producer of passenger cars in the world. Tata figures among the ten largest global manufacturers of LCVs, heavy trucks,
II: Overview of Industries

2.1 Automobile Manufacturing Industry

buses and coaches, while it is among the top 25 in passenger car manufacturing.

The two-wheeler industry in India has grown at a compounded annual growth rate of more than 10 per cent (in number) during the last five years and has also witnessed a shift in the demand mix, with sales of motorcycles showing an increasing trend. Indian two wheelers comply with some of the most stringent emission and fuel efficiency standards worldwide. The passenger car segment has been growing at a rapid pace -- from over 6,50,000 vehicles sold during 2001 to over a million vehicles sold during 2004-05, showing an annual growth rate of 17.36 per cent.

<table>
<thead>
<tr>
<th>Segment</th>
<th>CAGR (5 yrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two Wheelers</td>
<td>8.8%</td>
</tr>
<tr>
<td>Passenger Cars</td>
<td>16.7%</td>
</tr>
<tr>
<td>Three Wheelers</td>
<td>10.4%</td>
</tr>
<tr>
<td>Commercial Vehicles</td>
<td>12.6%</td>
</tr>
</tbody>
</table>

Figure: 2.2 India – Segment wise CAGR
II: Overview of Industries

2.1 Automobile Manufacturing Industry

Graph: 2.1 Domestic Automobile Markets

Two wheelers segment dominates the Indian automobile industry
- Passenger vehicles segment in India is dominated by cars
- Domestic passenger car sales increased by 32.28% in January 10 over same month last year

Two-wheeler exports grown at CAGR of 38.2% over last 7 years
- Cars exports from India have grown at a CAGR of 30% over last 7 year to reach 331,000 units in 2008-09
- 52% increase in car exports in 2008-09 over 2007-08
- Highest-ever, single-year jump in car export numbers in India

Chart: 2.1 Composition of Indian Automobile Industry
2.1.2 Growth drivers of Automobile Manufacturing Industry

Metros leading the way:

Six million Indian households are classified as ‘rich’ with annual income over US$ 4,700 and over half of them live in Delhi, Mumbai and Bangalore. 62 per cent of the market for premium products in India is also concentrated in these three cities. 85 per cent of India’s retail market is concentrated in the country’s eight largest cities.

One million households at the top of India’s income map constitute the ‘super-rich’ in the country. Growing by 20 per cent every year, this segments’ buying behavior is in line with its corresponding international counterparts. While this segment is a worthy target for high-end premium products, it is not the key driver of the organized retail sector.
II: Overview of Industries

2.1 Automobile Manufacturing Industry

Emerging retail hubs:
Bengaluru, Hyderabad, Chennai and Kolkata contribute to US$ 15,511 million worth retail revenues. Retail activity in Bengaluru, Hyderabad and Chennai is growing at an exceptional rate, with phenomenal increase in mall space by the day. Most of the retail sector giants have a footprint in these cities, with future plans of expanding base, owing to the rapid transition of households from lower income groups to higher income groups.

Evolving consumer behavior:
Retailers are rapidly integrating and diversifying their store formats to cater to emerging trends in consumer behaviour. Food Bazaar stocks staples in bulk; weighing and packing them for customers in their presence keeping in mind the ‘touch and feel’ mindset of buying staples while Reliance Fresh stocks fresh flowers and vegetables. Retailers are expanding into the emerging cities with modest store formats as opposed to the glitzy mall formats adopted for metros.

Figure: 2.3 Modern Retail Formats

Higher disposable incomes:
Disposable incomes are on the rise with the economy providing new avenues of employment in IT/ITeS and other sunrise sectors like biotech, hospitality etc. Employers are offering attractive compensation
II: Overview of Industries

2.1 Automobile Manufacturing Industry

packages and perquisites to skilled Indian professionals. Indians have an ability to spend over US$ 30,000 a year (PPP terms) on conspicuous consumption. Disposable incomes are expected to rise at an average of 8.5 per cent per annum till 2015.

Increasing urbanization:
India’s urban population is estimated at 286 million, constituting 27.8 per cent of the total population, as of 2001. The urban population is projected to increase to 468 million, constituting 33.4 per cent of the total projected population of 1,200 million by 2010-11. Increase in the number of young employed executives and the thinning gender divide is stimulating growth of modern retailing in urban areas.

Easy credit:
Banks and financial institutions have increased their range and amount of retail credit and service offerings. Average exposure of banks to retail loans was at 25.5 per cent of total loans in 2005-06. Growing acceptance of plastic money across small and medium.

International players eyeing the Indian market:
Wal-Mart has entered into a 50:50 Joint Venture and Franchisee agreement with Bharti Retail Ltd. and plans to set up its first cash-n-carry outlet by 2007-08. The Starbucks – Pepsi Co. joint venture is expected to provide Indian market access to the world’s largest coffee chain. French retail major, Carrefour, is set to finalize its entry route to India.
II: Overview of Industries

2.1 Automobile Manufacturing Industry

2.1.3 Key Players in the Indian Automobile Retail Industry

Modern retailing has entered India in form of sprawling malls and huge complexes offering shopping, entertainment, leisure to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to specialty chains.

Figure: 2.4 Automobile - Large Global Players Presence in India
### II: Overview of Industries

#### 2.1 Automobile Manufacturing Industry

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashok Leyland</td>
<td>LCVs, M&amp;HCVs, buses</td>
</tr>
<tr>
<td>Asian Motor Works</td>
<td>M&amp;HCVs</td>
</tr>
<tr>
<td>Atul Auto</td>
<td>Three-wheelers</td>
</tr>
<tr>
<td>Bajaj Auto</td>
<td>Two- and three-wheelers</td>
</tr>
<tr>
<td>BMW India</td>
<td>Cars and MUVs, high-end bikes</td>
</tr>
<tr>
<td>Daimler Chrysler India</td>
<td>Cars, commercial vehicles</td>
</tr>
<tr>
<td>Eicher Motors</td>
<td>LCVs, M&amp;HCVs, buses, bikes</td>
</tr>
<tr>
<td>Electrotherm India</td>
<td>Electric two-wheelers</td>
</tr>
<tr>
<td>Fiat India</td>
<td>Cars</td>
</tr>
<tr>
<td>Force Motors</td>
<td>Three-wheelers, MUVs and LCVs</td>
</tr>
<tr>
<td>Ford India</td>
<td>Cars and MUVs</td>
</tr>
<tr>
<td>General Motors India</td>
<td>Cars and MUVs</td>
</tr>
<tr>
<td>Hero Honda Motors</td>
<td>Two-wheelers</td>
</tr>
<tr>
<td>Hindustan Motors</td>
<td>Cars, MUVs and LCVs</td>
</tr>
<tr>
<td>Honda</td>
<td>Two-wheelers, cars and MUVs</td>
</tr>
<tr>
<td>Hyundai Motors</td>
<td>Cars and MUVs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mahindra &amp; Mahindra</td>
<td>Three-wheelers, two-wheelers, cars, MUVs, LCVs</td>
</tr>
<tr>
<td>Majestic Auto</td>
<td>Three-wheelers</td>
</tr>
<tr>
<td>Maruti Suzuki</td>
<td>Cars, MUVs, MPVs</td>
</tr>
<tr>
<td>Piaggio</td>
<td>Three-wheelers, LCVs</td>
</tr>
<tr>
<td>Reva Electric Car Co.</td>
<td>Electric cars</td>
</tr>
<tr>
<td>Scooters India</td>
<td>Three-wheelers</td>
</tr>
<tr>
<td>Volkswagen, Skoda</td>
<td>Cars</td>
</tr>
<tr>
<td>Suzuki Motorcycles</td>
<td>Two-wheelers</td>
</tr>
<tr>
<td>Swaraj Mazda Ltd.</td>
<td>LCVs, M&amp;HCVs, buses</td>
</tr>
<tr>
<td>Tata Motors</td>
<td>Cars, MUVs, LCVs, M&amp;HCVs, buses</td>
</tr>
<tr>
<td>Tatra Vectra Motors</td>
<td>M&amp;HCVs</td>
</tr>
<tr>
<td>Toyota Kirloskar</td>
<td>Cars, MUVs</td>
</tr>
<tr>
<td>TVS Motor Co.</td>
<td>Two-wheelers</td>
</tr>
<tr>
<td>Volvo India</td>
<td>M&amp;HCVs, buses</td>
</tr>
</tbody>
</table>

**Table: 2.1 Automobile - Manufactures and Segments**
II: Overview of Industries

2.1 Automobile Manufacturing Industry

2.1.4 Business Intelligence and Automobile Manufacturing Industry

Automobile – as an industry – is very complex by its nature. Apart from usual challenges like Complex Market Dynamics & its Cash Intensive nature, the R&D along with Product Innovation poses a great challenge and plays a crucial role in very existence of the Automobile Industry Player. Contemporary Customer is constantly starving for Better Products, her money can possibly buy. Brand Royalty – along with Value for Money – has been playing an important role in buying decisions. Especially in Passenger Car Segment, the currently observed trend shows that – unlike in past – now the family members along with kids are also influencing the Buying Decisions. There are many BI Related Initiatives, which can play a crucial role in efficient operations of an Automobile Industry Player.

Quality Analytics:

It has been proving very expensive – for an Automobile Industry Player – to understand about some Quality Defects in their vehicle, after it reaches the market. The call back cost – for the entire batch – can be very huge, along with the fatal blow on the customers’ confidence in the product / company. Analysing Quality data on the continuous bases can help to detect the issue right on the shop floor and hence further takes action to avoid major losses.
II: Overview of Industries

2.1 Automobile Manufacturing Industry

Market Segment Analytics:

Automobile Industry – typically – deals with a large set of Product Lines like Passenger Cars, Light Commercial Vehicles, Heavy Goods Trucks & Passenger Bus, catering to varied needs of the customers. Different Product Categories within a specific Product line – like Passenger Car – can further add to the complexity of placing the product in the right segment. Market Segment Analytics can surely help the company in identifying the right Product / Product Line and further put in her money into the product development efforts.

Operational Analytics:

Many Automobile Company follows the Production to Stock Approach, which can cause a huge impact on the Fund Flow Requirement. Like Mahindra Tractors – Operational Analytics can be implemented in order to achieve Production on Order approach, while ensuring Just in Time Inventory along with low Inventory carrying Cost as well as Customer Satisfaction by delivering product in right time.

Service Centre Analytics:

Supporting the customer – for Break downs as well as Preventive Maintenance – has been a growth driver in achieving high Customer Satisfaction Index. Service centre analytics can provide insight into the Business Processes like Part Inventory Supply Chain and frequently failure issues, helping the company to take Proactive approach in resolving the same.
II: Overview of Industries

2.2 FMCG Industry

2.2.1 Global Fast Moving Consumer Goods Industry

From a humble origin as a ‘horseless carriage’ manufacturing industry dating back to 1890s, the global automobile industry of has come a long way emerging as market leader in manufacturing activity, providing employment to one in seven people, either directly or indirectly. Hailed as the ‘industry of industries’ by the Management Specialist, Peter Drucker, the automobile industry (US) set standards in manufacturing activity by contributing mass production techniques during early 1910s. The Japanese soon followed by offering lean production techniques in the 1970s. Riding high on economical revival in many developing countries in Asia and Europe, the industry’s global output touched 64.6 million vehicles in 2005.

Japanese players were the leaders in the light vehicle market and hybrid market. China and India attracted the attention of global auto-makers, vying for setting up a cost-effective export base for meeting the demand from Asian markets. Despite government controls, Chinese market boasted of sales of more than 2.7 million commercial vehicles in 2004. With reports of highest growth in mobility in the world at 3% per annum, further surge in demand was anticipated from Chinese market. A booming economy and a low interest regime helped India to make its mark in the automobile sector in 2004, with sales figures exceeding more than 1 million in the passenger car segment for the first time. Foreign auto-makers such as Mercedes Benz, Volkswagen Group, General Motors, Honda, Toyota, Ford, Fiat and Mitsubishi were all making a bee-line to set up their manufacturing units in India to tap the growing demand.
II: Overview of Industries

2.2 FMCG Industry

The world’s automobile industry made over sixty six million cars, vans, trucks and buses. These vehicles are essential to the working of the global economy and to the wellbeing of the world’s citizens. This level of output is equivalent to a global turnover of €1.9 trillion. If vehicle manufacturing was a country it would be the sixth largest economy in the world. Building sixty-six million vehicles requires the employment of more than eight million people directly in making the vehicles and the parts that go into them. This is over five per cent of the world’s total manufacturing employment. In addition to these direct employees, about five times more are employed indirectly in related manufacturing and service provision, such that an estimated more than 50 million people earn their living from cars, trucks, buses and coaches.

The automobile industry is also a major innovator, investing almost €85 billion in research, development and production. The auto industry plays a key role in the technology level of other industries and of society and is one of the largest investors in Research and Development, with several manufacturers leading the Top 10. Vehicle manufacture and use are also major contributors to government revenues around the world, contributing over €430 billion in twenty six countries alone.
2.2 FMCG Industry

Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars.

India’s FMCG sector is the fourth largest sector in the economy and creates employment for more than three million people in downstream activities. Its principal constituents are Household Care, Personal Care and Food & Beverages. The total FMCG market is in excess of Rs. 85,000 Crores. It is currently growing at double digit growth rate and is expected to maintain a high growth rate. FMCG Industry is characterized by a well established distribution network, low penetration levels, low operating cost, lower per capita consumption and intense competition between the organized and unorganized segments.

The Rs 85,000-crore Indian FMCG industry is expected to register a healthy growth in the third quarter of 2008-09 despite the economic downturn. The industry is expected to register a 15% growth in Q3 2008-09 as compared to the corresponding period last year. Unlike other sectors, the FMCG industry did not slow down since Q2 2008. the industry is doing pretty well, bucking the trend. As it is meeting the every-day demands of consumers, it will continue to grow. In the last
II: Overview of Industries

2.2 FMCG Industry

two months, input costs have come down and this will reflect in Q3 and Q4 results.

Market share movements indicate that companies such as Marico Ltd and Nestle India Ltd, with domination in their key categories, have improved their market shares and outperformed peers in the FMCG sector. This has been also aided by the lack of competition in the respective categories. Single product leaders such as Colgate Palmolive India Ltd and Britannia Industries Ltd have also witnessed strength in their respective categories, aided by innovations and strong distribution. Strong players in the economy segment like Godrej Consumer Products Ltd in soaps and Dabur in toothpastes have also posted market share improvement, with revived growth in semi-urban and rural markets.

Graph: 2.3 FMCG India – Market Size
II: Overview of Industries

2.2 FMCG Industry

Industry Category and Products:

Household Care:

➢ **Personal Wash:**

The market size of personal wash is estimated to be around Rs. 8,300 Cr. The personal wash can be segregated into three segments: Premium, Economy and Popular. The penetration level of soaps is ~92 per cent. It is available in 5 million retail stores, out of which, 75 per cent are in the rural areas. HUL is the leader with market share of ~53 per cent; Godrej occupies second position with market share of ~10 per cent. With increase in disposable incomes, growth in rural demand is expected to increase because consumers are moving up towards premium products. However, in the recent past there has not been much change in the volume of premium soaps in proportion to economy soaps, because increase in prices has led some consumers to look for cheaper substitutes.

➢ **Detergents:**

The size of the detergent market is estimated to be Rs. 12,000 Cr. Household care segment is characterized by high degree of competition and high level of penetration. With rapid urbanization, emergence of small pack size and sachets, the demand for the household care products is flourishing. The demand for detergents has been growing but the regional and small unorganized players account for a major share of the total volume of the detergent market. In washing powder HUL is the leader with ~38 per cent of market share. Other major players are Nirma, Henkel and Proctor & Gamble.
II: Overview of Industries

2.2 FMCG Industry

Personal Care

➤ Skin Care:

The total skin care market is estimated to be around Rs. 3,400 Cr. The skin care market is at a primary stage in India. The penetration level of this segment in India is around 20 per cent. With changing life styles, increase in disposable incomes, greater product choice and availability, people are becoming aware about personal grooming. The major players in this segment are Hindustan Unilever with a market share of ~54 per cent, followed by CavinKare with a market share of ~12 per cent and Godrej with a market share of ~3 per cent.

➤ Hair Care:

The hair care market in India is estimated at around Rs. 3,800 Cr. The hair care market can be segmented into hair oils, shampoos, hair colorants & conditioners, and hair gels. Marico is the leader in Hair Oil segment with market share of ~33 per cent; Dabur occupies second position at ~17 per cent.

➤ Shampoos:

The Indian shampoo market is estimated to be around Rs. 2,700 Cr. It has the penetration level of only 13 per cent in India. Sachet makes up to 40 per cent of the total shampoo sale. It has low penetration level even in metros. Again the market is dominated by HUL with around ~47 per cent market share; P&G occupies second position with market share of around ~23 per cent. Antidandruff segment constitutes around 15 per cent of the total shampoo market. The market is further expected to increase due to increased marketing by players and availability of shampoos in affordable sachets.
II: Overview of Industries

2.2 FMCG Industry

2.2.3 Growth drivers of FMCG industry

1. Large domestic market

India is one of the largest emerging markets, with a population of over one billion. India is one of the largest economies in the world in terms of purchasing power and has a strong middle class base of 300 million.

2. Rural and urban potential

Around 70 per cent of the total households in India (188 million) resides in the rural areas. The total number of rural households are expected to rise from 135 million in 2001-02 to 153 million in 2009-10. This presents the largest potential market in the world. The annual size of the rural FMCG market was estimated at around US$ 10.5 billion in 2001-02. With growing incomes at both the rural and the urban level, the market potential is expected to expand further.
II: Overview of Industries

2.2 FMCG Industry

Table: 2.2 FMCG India – Rural Urban Profile

3. India - A Large Consumer Goods Spender
An average Indian spends around 40 per cent of his income on grocery and 8 per cent on personal care products. The large share of fast moving consumer goods (FMCG) in total individual spending along with the large population base is another factor that makes India one of the largest FMCG markets.

4. Change in the Indian Consumer Profile
Rapid urbanization, increased literacy and rising per capita income, have all caused rapid growth and change in demand patterns, leading to an explosion of new opportunities. Around 45 per cent of the population in India is below 20 years of age and the young population is set to rise further. Aspiration levels in this age group have been fuelled by greater media exposure, unleashing a latent demand with more money and a new mindset.
II: Overview of Industries

2.2 FMCG Industry

Table: 2.3 FMCG India – Consumer Profile

<table>
<thead>
<tr>
<th>Population (millions)</th>
<th>1999</th>
<th>2001</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population &lt; 25 years of age</td>
<td>480</td>
<td>546</td>
<td>565</td>
</tr>
<tr>
<td>Urbanisation (%)</td>
<td>26</td>
<td>28</td>
<td>31</td>
</tr>
</tbody>
</table>

5. Demand-supply gap

Currently, only a small percentage of the raw materials in India are processed into value added products even as the demand for processed and convenience food is on the rise. This demand supply gap indicates an untapped opportunity in areas such as packaged form, convenience food and drinks, milk products etc. In the personal care segment, the low penetration rate in both the rural and urban areas indicates a market potential.

2.2.4 Key Players in the Indian FMCG Industry

Domestic players

1. Britannia India Ltd (BIL)

Britannia India Ltd was incorporated in 1918 as Britannia Biscuit Co Ltd and currently the Groupe Danone (GD) of France (a global major in the food processing business) and the Nusli Wadia Group hold a
II: Overview of Industries

2.2 FMCG Industry

45.3 per cent equity stake in BIL through AIBH Ltd (a 50:50 joint venture). BIL is a dominant player in the Indian biscuit industry, with major brands such as Tiger glucose, Marigold, Fifty-Fifty, Good Day, Pure Magic, Bourbon etc. The company holds a 40 per cent market share in the overall organised biscuit market and has a capacity of 300,000 tonne per annum. Britannia Industries Ltd (BIL) plans to increase its manufacturing capacity through outsourced contract manufacturing and a greenfield plant in Uttaranchal to expand its share in the domestic biscuit and confectionery market.

2. Dabur India Ltd

Established in 1884, Dabur India Ltd is the largest Indian FMCG and ayurvedic products company. The group comprises Dabur Finance, Dabur Nepal Pvt Ltd, Dabur Egypt Ltd, Dabur Overseas Ltd and Dabur International Ltd. The product portfolio of the company includes health care, food products, natural gums & allied chemicals, pharma, and veterinary products. Some of its leading brands are Dabur Amla, Dabur Chyawanprash, Vatika, Hajmola, Lal Dant Manjan, Pudin Hara and the Real range of fruit juices. Dabur has firmed up plans to restructure its sales and distribution structure and focus on its core businesses of fast-moving consumer good products and over-the-counter drugs. Under the restructured set-up, the company plans to increase direct coverage to gap outlets and gap towns where Dabur is not present. A roadmap is also being prepared to rationalise the stockists' network in different regions between various products and Divisions.
II: Overview of Industries

3. Indian Tobacco Corporation Ltd (ITCL)

Indian Tobacco Corporation Ltd is an associate of British American Tobacco with a 37 per cent stake. In 1910 the company's operations were restricted to trading in imported cigarettes. The company changed its name to ITC Limited in the mid seventies when it diversified into other businesses. ITC is one of India's foremost private sector companies with a turnover of US$ 2.6 billion. While ITC is an outstanding market leader in its traditional businesses of cigarettes, hotels, paperboards, packaging and agri-exports, it is rapidly gaining market share even in its nascent businesses of branded apparel, greeting cards and packaged foods and confectionary. After the merger of ITC Hotels with ITC Ltd, the company will ramp up its growth plans by strengthening its alliance with Sheraton and through focus on international projects in Dubai and the Far East. ITC's subsidiary, International Travel House (ITH) also aims to launch new products and services by way of boutiques that will provide complete travel services.

4. Marico

Marico is a leading Indian Group incorporated in 1990 and operating in consumer products, aesthetics services and global ayurvedic businesses. The company also markets food products and distributes third party products. Marico owns well-known brands such as Parachute, Saffola, Sweekar, Shanti Amla, Hair & Care, Revive, Mediker, Oil of Malabar and the Sil range of processed foods. It has six factories, and sub-contract facilities for production. The overseas
II: Overview of Industries

2.2 FMCG Industry

sales franchise of Marico’s branded FMCG products is one of the largest amongst Indian companies. It is also the largest Indian FMCG company in Bangladesh. The company plans to capture growth through constant realignment of portfolio along higher margin lines and focus on volume growth, consolidation of market shares, strengthening flagship brands and new product offerings.

5. Nirma Limited

Nirma Ltd, promoted by Karsanbhai Patel, is a homegrown FMCG major with a presence in the detergent and soap markets. It was incorporated in 1980 as a private company and was listed in fiscal 1994. Associate companies’ Nirma Detergents, Shiva Soaps and Detergents, Nirma Soaps and Detergents and Nilnita Chemicals were merged with Nirma in 1996-1997. The company has also set up a wholly owned subsidiary Nirma Consumer Care Ltd, which is the sole marketing licensee of the Nirma brand in India. Nirma also makes alfa olefin, fatty acid and glycerine. Nirma is one of the most successful brands in the rural markets with extremely low priced offerings. Nirma has plants located in Gujarat, Madhya Pradesh and Uttar Pradesh. Its new LAB plant is located in Baroda and the soda ash complex is located in Gujarat. Nirma has strong distributor strength of 400 and a retail reach of over 1 million outlets. The company reported gross sales of US$ 561 million in 2003-04. It plans to continue to target the mid and mass segments for future growth.
II: Overview of Industries

2.2 FMCG Industry

Foreign players:

1. Cadbury India Ltd (CIL)

Cadbury Indian Ltd is a 93.5 per cent subsidiary of Cadbury Schweppes Plc, UK, a global major in the chocolate and sugar confectionery industry. CIL was set up as a trading concern in 1947 and subsequently began its operations with the small scale processing of imported chocolates and food drinks. CIL is currently the largest player in the chocolate industry in India with a 70 per cent market share. The company is also a key player in the malted foods, cocoa powder, drinking chocolate, malt extract food and sugar confectionery segment. The company had also entered the soft drinks market with brands like ‘Canada Dry’ and ‘Crush’, which were subsequently sold to Coca Cola in 1999. Established brands include Dairy Milk, Perk, Crackle, 5 Star, Éclairs, Gems, Fructus, Bournvita etc. The company plans to increase the number of retail outlets for future growth and market expansion.

2. Cargill

Cargill Inc is one of the world's leading agri-business companies with a strong presence in processing and merchandising, industrial production and financial services. Its products and geographic diversity (over 40 product lines with a direct presence in over 65 countries and business activities in about 130 countries) as well as its vast communication and transportation network help optimize commodity movements and provide competitive advantage. Cargill India was incorporated in April 1996 as a 100 per cent subsidiary of Cargill Inc of the US. It is engaged in trading in soyabean meals, wheat, edible oils, fertilizers and other agricultural commodities besides marketing branded packaged foods. It has also set up its own anchorage facilities at Rosy near Jamnagar in Gujarat for efficient handling of its import and export consignments.
II: Overview of Industries

2.2 FMCG Industry

3. Coca Cola
Coca-Cola started its India operations in 1993. The Coca-Cola system in India comprises 27 wholly company-owned bottling operations and another 17 franchisee-owned bottling operations. A network of 29 contract-packers also manufactures a range of products for the company. Leading Indian brands Thums Up, Limca, Maaza exist in the Company’s international family of brands along with Coca-Cola, Diet Coke, Kinley, Sprite and Fanta, plus the Schweppes product range. During the past decade, the Coca-Cola system has invested more than US$ 1 billion in India.

4. Colgate-Palmolive India
Colgate Palmolive India is a 51 per cent subsidiary of Colgate Palmolive Company, USA. It is the market leader in the Indian oral care market, with a 51 per cent market share in the toothpaste segment, 48 per cent market share in the toothpowder market and a 30 per cent share in the toothbrush market. The company also has a presence in the premium toilet soap segment and in shaving products, which are sold under the Palmolive brand. Other well known consumer brands include Charmis skin cream and Axion dish wash. The company’s strategy is to focus on growing volumes by improving penetration through aggressive campaigning and consumer promotions. The company plans to launch new products in oral and personal care segments and is prepared to continue spending on advertising and marketing to gain market share. Margin gains are being targeted through efficient supply chain management and bringing down cost of operations.
II: Overview of Industries

2.2 FMCG Industry

5. H J Heinz Co
A US$ 8.4 billion American foods major, H J Heinz Co comprises 4,000 strong brand buffet in infant food, sauces and condiments. The company was the first to commence manufacturing and bottling of tomato ketchup in 1876. In India, Heinz has a presence through its 100 per cent subsidiary Heinz India Pvt Ltd. Heinz acquired the consumer products division of pharmaceutical major Glaxo in 1994. Heinz's product range in India consists of Complan milk beverage, health drink Glucon-D, infant food Farex and Nycil prickly heat powder, besides the Heinz ketchup range.

6. Hindustan Lever Ltd (HLL)
Hindustan Lever Ltd is a 51 per cent owned subsidiary of the Anglo-Dutch giant Unilever, which has been expanding the scope of its operations in India since 1888. It is the country's biggest consumer goods company. HLL is amongst the top five exporters of the country and also the biggest exporter of tea and castor oil. The product portfolio of the company includes household and personal care products like soaps, detergents, shampoos, skin care products, colour cosmetics, deodorants and fragrances. It is also the market leader in tea, processed coffee, branded wheat flour, tomato products, ice cream, jams and squashes. HLL enjoys a formidable distribution network covering over 3,400 distributors and 16 million outlets. In the future, the company plans to concentrate on its herbal health care portfolio (Ayush) and confectionary business (Max). Its strategy to grow includes focusing on the power brands' growth through consumer relevant information, cross category extensions, leveraging channel opportunities and increased focus on rural growth.
II: Overview of Industries

7. Nestle India Ltd (NIL)

Nestle India Ltd a 59.8 per cent subsidiary of Nestle SA, Switzerland, is a leading manufacturer of food products in India. Its products include soluble coffee, coffee blends and teas, condensed milk, noodles (81 per cent market share), infant milk powders (75 per cent market share) and cereals (80 per cent market share). Nestle has also established its presence in chocolates, confectioneries and other processed foods. Soluble beverages and milk products are the major contributors to Nestle's total sales. Some of Nestle's popular brands are Nescafe, Milkmaid, Maggi and Cerelac. The company has entered the chilled dairy segment with the launch of Nestle Dahi and Nestle Butter. Nestle has also made a foray in non-carbonated cold beverages segment through placement of Nestea iced tea and Nescafe Frappe vending machines. Exports contribute to 23 per cent of its turnover.

8. PepsiCo

PepsiCo is a world leader in convenient foods and beverages, with revenues of about US$ 27 billion. PepsiCo brands are available in nearly 200 markets across the world. The company has an extremely positive outlook for India. "Outside North America two of our largest and fastest growing businesses are in India and China, which include more than a third of the world's population" (Pepsico's annual report). PepsiCo entered India in 1989 and is concentrating on three focus areas - soft drink concentrate, snack foods and vegetable and food processing. PepsiCo's success is the result of superior products, high standards of performance and distinctive competitive strategies.
II: Overview of Industries

9. Procter & Gamble Hygiene and Health Care Limited

Richardson Hindustan Limited (RHL), manufacturer of the Vicks range of products, was rechristened ‘Procter & Gamble India’ in October 1985, following its affiliation to the ‘Procter & Gamble Company’, USA. Procter & Gamble Hygiene and Health Care Limited (PGHHCL) acquired its current name in 1998, reflecting the two key segments of its business. P&G, USA has a 65 per cent stake in PGHHCL. The parent also has a 100 per cent subsidiary, Procter & Gamble Home Products (PGHP). The overall portfolio of the company includes healthcare; feminine-care; hair care and fabric care businesses. PGHH operates in just two business segments – Vicks range of cough & cold remedies and Whisper range of feminine hygiene. The detergent and shampoo business has been relocated globally to Vietnam. The company imports and markets most of the products from South East Asian countries and China, while manufacturing, marketing and export of Vicks and sanitary napkins has been retained in India. The parent company has announced its plan to explore further external collaborations in India to meet its global innovation and knowledge needs.

2.2.5 Business Intelligence and FMCG Industry

FMCG – as a vertical – typically faces acute pressures from Long Shift Market Dynamics like Economic Growth, Monsoon Spell, and Government Policies etc.

Although having large Consumer Base as its target market, FMCG as well as PCG verticals faces its own challenges in the current trends. The Brand Loyalty – which has been the strongest growth driver for this vertical – is gradually diminishing.
II: Overview of Industries

2.2 FMCG Industry


Hence – It has become utmost important for the FMCG Industry to respond to the Market Dynamics in real time. This can only be achieved by deploying Business Intelligence across all the processes of the vertical, as depicted in few examples.

Consumer Feedback Analytics:
Increasing Market Share and Enhancing Revenue is utmost target of FMCG. This is generally achieved using Product Innovations and/or by extending the existing successful Product Lines. Promptly responding to the Consumer Feedback plays the key role here. The modern management Mantra of ‘Acting from Front Line’ prompts the contemporary managers/CEO to come out of the Board Rooms and takes the feedback / learning while being physically at the store front.

Going by the current trends in FMCG - The definition of Consumer has extended its footprint, where even the large work force of the company is encouraged to be an active player in Feedback Collection Exercise. They – along with their family – are encouraged to use the company’s product and give candid feedback. Going by the huge data being generated this way – Building Data warehouse and analyzing such feedbacks is the right approach to understand your customers.

What if Analysis:
Taking informed decision – by evaluating different scenarios – is the lifeline of any FMCG industry. Here, being complex Market Dynamics, the Managers come across multiple variables affecting each other’s
II: Overview of Industries

2.2 FMCG Industry

performance. For example, the marketing managers would like to understand the effect of increased marketing budget for a specific product line, on the firms Bottom Line.

Financial Analytics:

FMCG industry – by virtue of its very nature – is Cash Intensive. Huge investment goes in establishing the FMCG Production line as well as Distribution Channels. Brand Building and Product Visibility Exercises are equally cash hungry. Hence it is utmost important to understand the impact of every rupee employed and its effectiveness. Financial Analytics like Working Capitol Optimization, Inventory Optimizations, Product Costing & Profitability Analysis and Cumulative Annual Growth Rate (CAGR) Analysis.
II: Overview of Industries

2.3 Logistics Industry

2.3.1 Logistics Industry - India & Global

The global logistics industry is estimated to be worth USD 300 billion. Though most of the large service providers are headquartered in Europe, the biggest market is the US, which captures about one-third of the world market. The global logistics industry is characterized by high costs of operations, low margins, shortage of talent, infrastructural bottlenecks, demand from clients for investing in technology and providing one-stop solutions to all their needs, and consolidation through acquisitions, mergers and alliances.

The retailing industry accounts for more than 70% in the global logistics industry. Other major industries that contribute to logistics industry are Automotive, Hi-tech, Pharmaceutical and Consumer Electronics. Asia-Pacific is the leading regional market in Asia accounting for more than a third of the Asian logistic industry. Global logistic industry is highly fragmented and success in logistics depends on ultimate resource management and customer specific IT applications. There exists a large market and the developing countries should focus on means of achieving efficient logistics so that the overall economic loss can be minimized. Over the next five years the high potential logistics markets will be US, China and India.
II: Overview of Industries

2.3 Logistics Industry

Logistics and supply chain management (SCM) as an area of research has been getting increasing attention from academicians and practitioners over the last two decades since it may lead to reduced operational costs, improved delivery performance and increased customer satisfaction levels, thereby making an organization more competitive in terms of cost, quality, delivery and flexibility. The importance of logistics and SCM is increasing also due to globalization as more and more multi-national companies (MNC) are sourcing, manufacturing and distributing on a global scale, making their supply chains very complex to manage. However, outsourcing logistics activities to experienced logistics service providers (LSP), also known as third-party logistics (3PL) providers, may enable companies get very efficient and customized logistical support while themselves focusing on the core organizational activities. Today, there are many large multi-national LSPs that offer complete supply chain solutions across many diverse countries in terms of their socio-economic and political environments. Apart from core logistical activities such as transportation and warehousing, LSPs also offer value-added services such as customs clearance, freight forwarding, import/export management, inventory management, assembly/installation, packaging and labelling, distribution, after sales support, reverse logistics and so on. By outsourcing logistics, companies can leverage the expertise of LSPs while concentrating on their core competencies.

2.3.2 Brief History of Logistics Industry

Evolution of Industry

Logistics has always been a central and essential feature of all economic activity. Despite this importance, there is a long history of organizations paying little attention to their logistics. They traditionally concentrated their efforts into manufacturing products and considered
II: Overview of Industries

2.3 Logistics Industry

the movement and storage of materials as an uninteresting errand that formed part of the overheads of doing business. However, over the years, the status of logistics has continued to improve, primarily due to recognition by the organizations of the following critical factors:

- Appreciation of high logistics cost and opportunities for major savings
- Increasing competition for both users and providers of logistics, who have to continually improve operations to remain competitive
- New types of operations, which can force changes to logistics – such as just-in-time, total quality management, flexible operations, time compression etc.
- Need for improved technology for identifying, locating and tracking materials

Recession in many markets, combined with new sources of competition, has raised the consciousness of customers towards value of service delivered to them by their service providers. Accordingly, the logistics industry has consciously strived to be at the focal point of strategy formulation and operational excellence to continue in its endeavour for providing maximum contribution in value creation.

Evolution of the global logistics industry:

Globalization, consolidation, technology advancements and outsourcing have led to growth in the logistics services market. The capabilities of logistics service providers are growing along with the changing expectations of their clients. As the logistics services industry evolves, competitors are moving away from asset-based commoditized services to more strategic, information-based approaches.
II: Overview of Industries

2.3 Logistics Industry

Figure: 2.5 Logistics Services Model

Customers are demanding a “single point of contact” for all logistics services and are looking for “one-stop logistics shopping” unable to cope with complexities across their supply chains. The models in logistics industry have accordingly evolved over time to address the changing needs of the market and vary based on scope of service offerings, degree of collaboration, levels of asset intensity and IT capabilities across the supply chain. The logistics model has been evolving from a specialized function to fourth party Logistics (4PL) and fifth Party Logistics (5PL) companies.

First and Second Party Logistics handle all logistics functions, such as trucking and warehousing, which face low returns and high levels of asset intensity but low barriers to entry. With the increasing need for “one-stop solutions”, many 2PL have evolved into 3PL by adding new logistics capabilities and integrating their operations. They are asset
II: Overview of Industries

2.3 Logistics Industry

light and usually tend to have high returns; they contact most of their capacity needs to 2PLs. While the 2PL puts in hard cash tangible asset, the 3PL puts in intellectual property.

Fourth party logistics is an integrator that assembles the resources, capabilities, and technology of its own organization and other organizations to design, build and run comprehensive supply chain solutions. The figure below illustrates the gamut of services that a 4PL provider will offer.

Table: 2.4 Logistics Services Model

As the “orchestrator” of this broad set of providers, a 4PL must comprehend broad and deep expertise and capabilities. Since the advent of the 4PL service, the international logistics industry has been researching on the development of the fifth-party logistics service i.e. the realization of full-scale operation of e-procurement. A key function of the 5PL is to aggregate the demands of the 3PL into a bulky volume for negotiating more favorable rates with airlines and shipping
II: Overview of Industries

2.3 Logistics Industry

Logistics and SCM are often used interchangeably, though there is a subtle difference between the two. While SCM is more strategic in nature, logistics is more operations-oriented. The evolution of logistics and SCM in the 1990s can be traced back to “physical distribution management” in the 1970s when there was no coordination among the various functions of an organization and each was committed to attain its own goal. This myopic approach then transformed into “integrated logistic management” in the 1980s that called for the integration of various functions to achieve a system-wide objective (Vrat, 1999; Seturam, 1999). SCM further widens this scope by including the suppliers and customers into the organizational fold, and coordinating the flow of materials and information from the procurement of raw materials to the consumption of finished goods. The objectives of SCM are to eliminate redundancies, and reduce cycle time and inventory so as to provide better customer service at lower cost. The focus has shifted from the “share of the market” paradigm to the “share of the customer” paradigm, wherein the goal is to create “customer value” leading to increased corporate profitability, shareholder value, and sustained competitive advantage in the long run (Evans and Danks, 1998).
### II: Overview of Industries

#### 2.3 Logistics Industry

The description of the logistics requirements for each of the attributes, is mentioned below:

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large logistics spend</td>
<td>Industries whose logistics spend is significant relative to the value of its products naturally place a high degree of importance and priority on logistics</td>
</tr>
<tr>
<td>Relatively high value products</td>
<td>Industries with high value products place a high degree of importance on logistics which can impact macro inventory levels.</td>
</tr>
<tr>
<td>Manage across multiple modes</td>
<td>Logistics functions operating multiple modes of transport face significant issues in dealing with the resulting complexity and present greater opportunities for logistics service providers</td>
</tr>
<tr>
<td>Manage complex, time sensitive supply chain</td>
<td>The more complex a supply chain, and the more important it is to manage time across it, the more likely companies are to look to a logistics service provider for help</td>
</tr>
<tr>
<td>Diverse supply chain footprints, including their own operations, suppliers and customers</td>
<td>Diverse and wide spanning supply chains are complex and difficult to manage. Companies with such supply chains are more likely to struggle with these complexities and may therefore seek help</td>
</tr>
<tr>
<td>Maturity in outsourcing cycle (currently managing 3PLs)</td>
<td>History has shown that outsourcing is an evolutionary process and that industries that have a longer history of outsourcing are more receptive to advanced stages of outsourcing such as contracting with third and fourth party logistics providers</td>
</tr>
<tr>
<td>Decentralized management of logistics</td>
<td>The logistics function is difficult to manage across geographic boundaries. Companies with decentralized management tend to offer ripe opportunities for logistics service providers to add immediate value</td>
</tr>
<tr>
<td>Complementarily to current base of 3PL / 4PL business</td>
<td>Industries whose logistics and/or product attributes are complimentary to the 3PL / 4PL base of business (macro flow patterns, etc.) offer opportunities to increase efficiencies of logistics resources (e.g., increased utilization of transportation equipment) and thereby reduce rates and total spend</td>
</tr>
<tr>
<td>High cube and high weight products</td>
<td>Industries with these product attributes offer greater opportunity to leverage and better utilize common transportation equipment</td>
</tr>
</tbody>
</table>

Based on the detailed analysis of the above attributes, the following industries were identified as potential high priority areas of focus for marketing opportunities for logistics services:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto OEM &amp; suppliers</td>
<td>This industry offers obvious synergies, large market potential and the most immediate opportunities for 3PL / 4PL. However, auto suppliers are highly fragmented with very few having large logistics spend</td>
</tr>
<tr>
<td>Heavy equipment manufacturing</td>
<td>This industry is similar to the auto industry in terms of shipment attributes. However there are challenges to penetrating this industry, due to the smaller size and regional focus of most companies</td>
</tr>
<tr>
<td>Metals</td>
<td>Logistics flow balance opportunities exist within the industry; majority shipments flow to automotive and industrial equipment manufacturing applications. However, these industries are fairly vertically integrated and traditionally manage logistics operations in-house</td>
</tr>
<tr>
<td>Technology infrastructure</td>
<td>This industry is attractive in terms of majority shipment attributes including complex supply chains with short order-to-delivery cycles</td>
</tr>
<tr>
<td>Retail</td>
<td>This industry offers tremendous opportunities from synergies in shipment attributes; large players are looking to cut logistics costs dramatically</td>
</tr>
</tbody>
</table>

**Figure: 2.6 Logistics Requirements and Attributes**
II: Overview of Industries

2.3 Logistics Industry

The successive stages of evolution of logistics and SCM, the central characteristics of each stage, and the drivers of change are shown below.

Figure: 2.7 Evolution of Logistics and Supply Chain Management

While SCM deals more with the linkages in the chain, contracts and relationships, supplier selection, information and financial flows besides materials flows, creating new facilities such as plants, warehouses and distribution centres, and broader issues such as society, economy, government and environment, the scope of logistics is more or less confined to the routine job of transportation and storage of goods.

However, if one deeply ponders, one may realize that logistics is the core of SCM, and if logistics fails, the whole chain snaps. Though logistics deals with mundane vehicles, warehouses, layouts, material handling equipment, Motor, Vehicles Act, toll tax, sales tax, octroi, documentation etc., efficient management of it has the potential to make the chain taut and agile. Therefore, there is growing interest in
II: Overview of Industries

2.3 Logistics Industry

logistics, and hence in SCM, around the world. The concept of logistics outsourcing can be traced quite far back in history. In Europe, a number of LSPs can trace their origins back to the Middle Ages (Lynch, 2002). Tracing the evolution of logistics outsourcing in recent decades, we find that, in the 1950s and 60s, logistics outsourcing was limited to transportation and warehousing. The transactions were mainly short-term in nature. In the 70s, the emphasis was on improved productivity, cost reduction and long-term contracts, while value-added services such as packaging, labeling, systems support and inventory management were on offer in the 80s.

Since the 90s, outsourcing has picked up momentum, and more value-added services are being offered. Some of them are import/export management, customs clearance, freight forwarding, customer service, rate negotiation, order processing, assembly/installation, distribution, order fulfillment, reverse logistics, consulting services that include distribution network planning, site selection for facility location, fleet management, freight consolidation, logistics audit etc.

Evolution of logistics as a strategic function:

Logistics came to be recognized as a distinct function with the rise of mass production systems. Production and distribution were viewed as a sequential chain of extremely specialized activities; the role of logistics was to ensure availability of all the requisite materials before each step in this chain. Obviously inventory of raw materials, semi-finished and finished goods was a must across this chain to ensure its smooth functioning. Business environment was relatively stable and the mass production system ensured huge economies of scale for the manufacturers.
II: Overview of Industries

2.3 Logistics Industry

Enter the Japanese. The whole paradigm of mass production system came crumbling down! Suddenly companies scrambled to adopt Japanese philosophy in manufacturing and distribution – Lean manufacturing, Just-in-Time, Kaizen, and Quality Circles became the key techniques. Simultaneously the role of logistics underwent a paradigm shift. It became the cornerstone of business strategy – a key enabler for the new techniques. Lean manufacturing called for drastic reduction in inventory costs across the supply chain. This required on-time delivery of raw materials, semi-finished and finished goods at different points in the chain; often the window of on-time delivery was as low as 10 minutes. Hence logistics became an extremely complicated process and firms hired experts to do this job.

Logistics management has, if anything, grown much more complex ever since. Product lifecycles have shortened, customer behavior has become very fickle and business environment as a whole is extremely volatile. Manufacturers can no longer push their products down the supply chain; it is the consumer who pulls the products she desires. And the products should be there right in front of her, as and when she wants them. Price and quality are no longer sufficient to thrive in this market; speed to market and flexibility of the supply chain are also of paramount importance.

To achieve this flexibility, information has to freely flow throughout the supply chain – information not just about where the products are but also how the supply chain as a whole has been functioning. The performance of the supply chain needs to be constantly analyzed and improved to ensure its survival.
II: Overview of Industries

2.3 Logistics Industry

Indian logistics industry:

India is being touted as the land of opportunity for logistics service providers all over the world.

The Indian logistics market represents $50 billion and is growing at a rate of 7 percent annually. [source: Frost & Sullivan]

Figure: 2.8 Indian Logistics Industry

The annual logistics cost in India is estimated to be 14% of the GDP, which translates into USD 140 billion assuming the GDP of India to be slightly over USD 1 trillion. Out of this USD 140 billion logistics cost, almost 99% is accounted for by the unorganized sector (such as owners of less than 5 trucks, affiliated to a broker or a transport company, small warehouse operators, customs brokers, freight forwarders, etc.), and slightly more than 1%, i.e. approximately USD 1.5 billion, is contributed by the organized sector. So, one can see that the logistics industry in India is in a nascent stage. However, the industry is growing at a fast pace and if India can bring down its logistics cost from 14% to 9% of the GDP (level in the US), savings to the tune of USD 50 billion will be realized at the current GDP level, making Indian goods more competitive in the global market. Moreover, growth in the logistics sector would imply improved service delivery and customer satisfaction leading to growth of export of Indian goods and potential for creation of job opportunities.
II: Overview of Industries

2.3 Logistics Industry

India’s logistics sector attracted investments worth Rs. 23,200 crore in the first half of 2008, according to a study by Assocham.

It outclassed some of the major sectors including aviation (Rs 20,890 cr), metals and mining (Rs 8500 cr) and consumer durables (Rs 6000 cr) among others.

Among the factors cited by analysts for the rapid growth of Indian logistics include the growth of organized retail industry, commodity markets, growth in manufacturing and development of Special Economic Zones (SEZ).

According to a report by Cushman and Wakefield, real estate consultants, Indian logistics industry is expected to grow annually at the rate of 15 to 20%, reaching revenues of approximately $385 bn by 2015.

Market share of organized logistics players is also expected to double to approximately 12% during the same period.

The report said about 110 logistics parks spread over approximately 3,500 acres at an estimated cost of $1 bn are expected to be operational and an estimated 45 mn sq ft of warehousing space with an investment of $500 mn is expected to be developed by various logistics companies by 2012.

A large number of upcoming SEZs have necessitated the development of logistics for the domestic market as well as for global trade.
II: Overview of Industries

2.3 Logistics Industry

Mumbai, Kolkata, Chennai and Hyderabad have become preferred locations for logistics parks. These locations are characterized by excellent port, rail, and road connectivity and are witnessing significant investment in infrastructure.

Eight logistics parks with an approximate investment of $200 mn is 600 acres of land around Mumbai.

According to industry analysts, almost all logistics players are in the process of setting up warehouses, container freight stations, inland container depots, logistics parks, distribution centres and other facilities to tap the trade opportunities fuelled by revolution in the retail, ports etc.

Demand for warehouses and logistics services are expected to accelerate further due to increase in foreign trade and the upcoming Maha Mumbai Special Economic Zone.

Warehouse rentals in Panvel are expected to increase by 15 to 20% over the next two years.

Proximity to textile and auto-component industry clusters and other manufacturing units has made Kolkata a major economic centre.

Ten Special Economic Zones (SEZs) in the proximity of Kolkata have received in-principal approvals. This will result in major demand for logistics in this region. There are plans for 4 logistics parks spread across approximately 400 acres.
II: Overview of Industries

2.3 Logistics Industry

Centers like Haldia, Falta, Pargana, Dankuni, Kharagpur, Bantala and Durgapur are expected to witness substantial logistics activities in the near future.

Five logistics parks are being set up in Hyderabad, spread across 220 acres and approximately 10 mn sq ft of warehouse space coming up by 2012. It scores high as a logistics destination as it provides excellent connectivity to large markets in southern and western India and has established clusters of textile and engineering firms, as well as an important centre for the pharmaceutical industry.

2.3.3 Development of Logistics including industry Sales, finance data

Growth rate of the Logistics industry:

Graph: 2.4 India 4th Largest Economy in the World
II: Overview of Industries

2.3 Logistics Industry

40% of total cost of logistics service is spent on transportation in India:

Graph: 2.5 Asia Pacific Logistics Industry
II: Overview of Industries

2.3 Logistics Industry

Indian Road Network:

India has the second highest largest road network-3.3 million km.

- US has the largest road network with 6.4 million km & China-1.8 million km
- National Highways-2% of total road length
- But carry 40% of goods traffic of India.
- Road Network carry nearly 65% of freight and 85% of passenger traffic.

Graph: 2.6 Indian Road Networks

- Vehicle ownership is firmly in the hands of individual truck owners
- 67% of vehicle owners have fleets of less than five vehicles.
- Traffic on roads is growing at a rate of 7 to 10% per annum
- Government spends-12 per cent of capital and 3 per cent of total expenditure on roads

Indian Rail Logistics

- The Indian Railways boasts of being the world’s 2nd largest rail network spread over 81,511 km and covering 6896 stations.
- The freight segment accounts for roughly two thirds of railway’s revenues
- The tone / kilometre costs for Indian rail freight at three times that of China. [Tata Iron & Steel].
II: Overview of Industries

2.3 Logistics Industry

Indian Rail Infrastructure:

- Indian Railway (IR) network is spread over 81,511 km covering 6,896 stations.

- Operating on three gauges - broad gauge (1676 mm) meter gauge (1,000 mm) and narrow gauge (762 and 610 mm).

- Almost all the double/ multiple track sections and electrified routes lie on broad gauge. 14,579 route km constituting over 19.5% of the total network and 30% of broad gauge network of Indian Railways is electrified. This carries approx. 41% of the passenger traffic and 52% of the freight traffic on Indian Railways.

- Indian Railways has nearly 121,699 bridges of which 10,799 are major bridges.

- The transportation is done through the use of 7429 locomotives, 2,53,186 wagons and 40,775 coaching vehicles.

- 1,56,846 telephone exchange lines, 18,445 long haul MT km., 1,730 optical fiber communication route km and over 8,54,613

SEA (Indian Ports):

- India has 12 major and 184 minor / intermediate ports spread across the vast coastline of 7517km.

- The 12 major ports handle about 76 per cent of the traffic.

- India's West Coast port handles almost 70% of traffic.
II: Overview of Industries

2.3 Logistics Industry

**Graph: 2.7 Total Cargo handled at Ports**

- India now has the largest merchant shipping fleet among the developing countries.
- India ranks 17th in the world in shipping tonnage.
- Indian share of maritime transport services is 1% of world market.

**Graph: 2.8 Total Indian Fleet**

**Aviation**

- Air Freight is very expensive in India in comparison to road and rail.
II: Overview of Industries

2.3 Logistics Industry

- The size of the world air cargo market is estimated at 27 million tonnes valued at $200 billion.

- India accounts for meager 3% of the global air cargo market.

Graph: 2.9 International Air Cargo

Graph: 2.10 Domestic Air Cargo

India’s Aviation Growth Plans:
- Investments of USD 5.07 billion over next 5 years in Indian Airport Infrastructure.
II: Overview of Industries

2.3 Logistics Industry

- Blue-Dart, the only dedicated freight carrier in domestic sector

- Air India plans to increase cargo revenue from current 10% to 15-20% in 3yrs.

- Jet Air, GoAir, Kingfisher Airlines charting out plans to play bigger role in Indian domestic air cargo.

- International Airlines-Cathay Pacific and BA increasing cargo capacity to and from India.
II: Overview of Industries

2.3 Logistics Industry

The primary growth drivers of Logistics industry:

The evolving business landscape and increasing competition across industries, is creating the need for more efficient and reliable logistics services than what exists today. For example, rapid growth of...
II: Overview of Industries

2.3 Logistics Industry

organized retail and the need to reach out to the large untapped rural markets in India are necessitating development of strong back end and front end supply networks.

While the end user industries like auto, consumer durables, organized retail, etc are direct triggers for the growth of the logistics sector in India, some of the other drivers are described below:

Figure: 2.10 Growth Drivers Logistics Sector
II: Overview of Industries

2.3 Logistics Industry

1. Increased demand of 3PL services:
The logistics cost is a direct function of quality of the national transportation infrastructure and professionalism of the logistics services offered. In addition, the level of maturity of the logistics industry of a nation is co-related to the share of 3PL service providers vis-à-vis the share of first and second party logistics service providers. In the developed economies like Japan, the United States, Canada and the European Union nations, business customers have very similar high expectations for logistics system performance, regardless of where in the developed economies they're operating. The professionalism and maturity has indeed been derived from the share of the 3PL service players in the referred countries. Hence it is not surprising to note that the logistics cost of the developed countries is comparatively less than that of emerging world nations (India, China, Brazil).

Table: 2.5 National Logistics costs Vis a Vis share of 3PL
Many Indian companies are realizing the importance of their supply chain network and are increasingly calling upon logistics managers for their professional inputs into corporate and marketing strategies.
Consequently there has been an uptrend in the requirement of specialized Third Party Logistics Service Providers to whom companies are looking to outsource their logistics requirements. As per industry estimates, it is expected that 3PL solutions in India would grow at a CAGR of more than 20% during the period 2009-15.

2. Investments in Infrastructure:
A well-knit and coordinated system of logistics infrastructure plays an important role in the sustained economic growth of the country. India’s infrastructure deficiencies have become more visible because of high growth witnessed during the past few years. The most visible indicators of overstretched infrastructure are India’s congested highways, airports and ports. Though the current levels of efficiency are much below when compared with other developed nations, the government has plans for improvement through infrastructure development. While projects like development of the dedicated rail freight corridors, port development projects under National Maritime Development Program are being envisaged and executed at the national level, it is imperative that India augments its infrastructure spending.

Given the scale of work that is needed, presently it is still relatively low at 4.6% of GDP far behind China’s which is around 10% of GDP. The Planning commission recommends a step-up in this ratio to 8% by 2011-12. Post elections it is indeed perceived that the government will demonstrate renewed vigour in implementing transportation infrastructure projects across the country. It is expected that a stable government at the centre 2009 will usher a new wave of confidence globally in the Indian economy. The government has also indicated that bottlenecks and delays in implementation of infrastructure projects
II: Overview of Industries

2.3 Logistics Industry

because of policies and procedures, especially in railways, power, highways, ports, airports will be systematically removed. It is also expected that a large number of PPP projects in different areas currently awaiting government approval would be cleared expeditiously and the regulatory and legal framework for PPPs would be made more investment friendly.

3. Streamlining of the indirect tax structure:
The introduction of Value Added Tax (VAT) and the proposed introduction of a singular Goods and Services Tax (GST) are expected to significantly reduce the number of warehouses manufacturers are required to maintain in different states, thereby resulting in a substantial increase in demand for integrated logistics solutions.

4. Robust trade growth:
Strong economic growth and liberalization have led to considerable increase in domestic and international trade volumes over the past five years. Consequently, the requirement for transportation, handling and warehousing is growing at a robust pace and is driving the demand for integrated logistics solutions.

5. Globalization of manufacturing systems
Globalization of manufacturing systems coupled with advancements in technology are increasingly compelling companies across verticals to concentrate on their core competencies and avail the cost saving potential of outsourcing. This is expected to contribute to an increase in the need for integrated logistic solutions, which is the niche of every third Party Logistics Service (“3PL Services”) provider.
6. Qualified work force

For an industry to prosper, the quality of the personnel it absorbs is an essential facilitator for sustaining its long term growth. While logistics was not usually the first career choice for many and hence quality of manpower was an issue that was felt in the industry. However with the growing recognition of the strategic role that logistics managers can provide, there has been a steady inflow of some of the best talent in the logistics sector over the past few years. From the point of view of supply chain planning, the key roles for a logistics manager with a broad remit might be summarized as:

- To lead the design, creation, configuration and parameter setting of the entire supply chain
- To create the framework and the dialogue that determine the performance targets along the whole chain
- To drive the systems and monitor and report the entire logistics operational performance against agreed targets
- To review how problems can be solved and performance improved

Educational institutes in India have also commenced designing undergraduate, post graduate, diploma and executive level courses specifically catering to the logistics and supply chain management sector, for which there has been a very encouraging response. In addition, logistics companies are sincerely trying to benchmark their HR practices with the best in the industry and implementing measures to attract and retain talent. Given the steady interest in logistics as a
II: Overview of Industries

2.3 Logistics Industry

long term career option amongst the brightest of the Indian youth, it can be safely derived that Indian logistics sector will leverage on the growth path it has witnessed over the past decade.

7. The industry has been valued at US$ 125 billion in 2010. (CII)
A snapshot of the FDI regulations governing the industry is as under:

- 100% FDI under the automatic route is permitted for all logistic services except services mentioned in points ii and iii below.

- FDI up to 100% subject to FIPB approval is permitted for courier services. FDI up to 49% under the automatic route is permitted for air transport services, including air cargo services. It is pertinent to mention in this context, that Press Note 1 (2007) that is expected to be imminently notified by the DIPP proposes to increase the limit of FDI on air cargo services in 74%.

- The industry has been at the receiving end of increasing interest from the private equity sector. The year 2007 witnessed just under US$ 1 billion in private equity investments in this industry, representing approximately 7% of total private equity investments during the year, against 3% in the previous year.
II: Overview of Industries

2.3 Logistics Industry

2.3.4 Key Players in the Indian Logistics Industry

- Express industry
  - Road express: Gati, Safexpress, TNT (Speedage), TCI
  - Air express: Gati, Safexpress

- Courier industry
  - Courier industry: Bluedart, Firstflight, AFL, DTDC, Overtite, Professional couriers

- Warehousing industry
  - CWC, DHL logistics, AFL, Om Logistics, Safex

- Trucking industry
  - Delhi Assam Roadways, Patel Roadways

- 3PL service providers
  - DHL, Schenker-BAX, SembCorp, Panalpina, Agility
II: Overview of Industries

2.3 Logistics Industry

Chart: 2.3 Key Players in Indian Logistics Industry

Blue Dart is market leader holding 40% of Market share, followed by first flight and DTDC.

2.3.5 Problem of the Industry

The following problems existing in the Indian logistics industry make it unattractive for investments and also create entry barriers.

- Logistics is a high-cost, low-margin business. The problem of organized players is compounded by unfair competition with unorganized players, who can get away without paying taxes and following operating norms stipulated in the Motor Vehicles Act such as quality of drivers and vehicles, volume and weight restrictions, etc.

- Economies of scale are absent in the Indian logistics industry. Even the organized sector that contributes slightly more than 1% of the logistics cost, is highly fragmented. Existence of the
II: Overview of Industries

2.3 Logistics Industry

differential sales tax structure also brought in diseconomies of scale. Though VAT (Value Added Tax) has been implemented since April 1, 2005, failure in implementation of a uniform VAT structure across different states has let the problem persist even today.

Apart from the non-uniform tax structure, Indian LSPs have to pay numerous other taxes, octrois, and face multiple check posts and police harassment. High costs of operation and delays involved in compliance with varying documentation requirements of different states make the business unattractive. On an average, a vehicle on Indian roads loses 24-48 hours in complying with paperwork and formalities at different check posts en route to a destination. Fuel worth USD 2.5 billion is spent on waiting at check posts annually. A vehicle that costs USD 30,000 pays USD 7,500 per annum in the form of various taxes, which include the excise duty on fuel. This is why freight cost is a major component of the cost of a product in India.

There is lack of trust and awareness among Indian shippers with regard to outsourcing logistics. The volume of outsourcing by Indian shippers is presently very low (~ 10%) compared to the same for the developed countries (> 50%, sometimes as high as 80%). The unwillingness to outsource logistics on part of Indian shippers may be attributed to skepticism about the possible benefits, perceived risk, and losing control, of sensitive organizational information, and vested interests in keeping logistics activities in-house.
II: Overview of Industries

2.3 Logistics Industry

Indian shippers expect LSPs to own quality assets, provide more value-added services and act as an integrated service provider, and institute world-class information systems for more visibility and real-time tracking of shipments. However, they are unwilling to match the same with increased billings; even pay little attention to timely payments that leave LSPs short of adequate working capital.

Indian freight forwarders face stiff competition from multi-national freight forwarders for international freight movement. MNCs, because of their size and operations in many countries, are able to offer low freight rates and extend credit for long periods. Indian freight forwarders, on the other hand, because of their smaller size and lack of access to cheap capital, are not able to match the same. Moreover, clients of MNCs often want to deal with a single service provider and especially for FOB (Free on Board) shipments specify the freight forwarders, which most of the time happen to be the multi-national freight forwarders. This is sort of a non-tariff barrier imposed on Indian freight forwarders.

Poor physical and communications infrastructure is another deterrent to attracting investments in the logistics sector. Road transportation accounts for more than 60% of inland transportation of goods, and highways that constitute 1.4% of the total road network, carry 40% of the freight movement by roadways. Slow movement of cargo due to bad road conditions, multiple check posts and documentation requirements, congestion at seaports due to inadequate infrastructure, bureaucracy, red-tape and delay in government clearances, coupled with unreliable power supply and slow banking transactions, make it difficult for
II: Overview of Industries

2.3 Logistics Industry

exporters to meet the deadlines for their international customers. To expedite shipments, they have to book as airfreight, rather than sea freight, which adds to the costs of shipments making them uncompetitive in international markets. Moreover, many large shipping liners avoid Indian ports for long turnaround times due to delays in loading/unloading and hence Indian exporters have to resort to transshipments at ports such as Singapore, Dubai and Colombo, which adds to the costs of shipments and also delays delivery.

Low penetration of IT and lack of proper communications infrastructure also result in delays, and lack of visibility and real-time tracking ability. Unavailability and absence of a seamless flow of information among the constituents of LSPs creates a lot of uncertainty, unnecessary paperwork and delays, and lack of transparency in terms of cost structures and service delivery. For example, a shipper has to pay a higher freight rate if it cannot ensure return load. At present, there is no real time process by which a shipper may know about the availability of trucks and going rates at the destination market. Therefore, it has to pay more. Had the market information been available to both the shipper and the service provider, the service provider’s cost structure would have been transparent to the shipper and it would have ended paying the actual market rate. Another example would be that LTL (Less than Truckload) shipments cost more than FTL (Full Truckload) shipments. Now, when a shipper books a LTL shipment, it has no idea about the status of its shipment after it leaves the warehouse at the origin and before it reaches the warehouse at the destination. The service provider may still convert this LTL shipment into a FTL shipment at its own
II: Overview of Industries

2.3 Logistics Industry

warehouse before delivering at the destination. So, the shipper ends up paying LTL rates for a FTL shipment. Had there been visibility during delivery, this problem would not have occurred.

Since most of the LSPs are of relatively small size, they cannot provide the entire range of services. However, shippers would like service providers to offer more value-added services and a single-stop solution to all their logistical problems. The inability of service providers to go beyond basic services and provide value-added services such as small repair work, kitting/dekitting, packaging/labeling, order processing, distribution, customer support, etc. has not been able to motivate shippers to go for outsourcing in a big way.

Service tax levied on logistics service fees (currently 12.36% with educational cess) may make outsourcing costly and outweigh the possible benefits.

There is lack of skilled and knowledgeable manpower in the logistics sector. Management graduates do not consider logistics as a prime job. To improve the status of the industry, service providers have to move beyond the level of brokers and truckers to attract and retain talent.

2.3.6 Prospects of the Industry

Despite problems, The Indian logistics industry is growing at 20% vis-à-vis the average world logistics industry growth of 10%. Since the organized sector accounts for merely 1% of the annual
II: Overview of Industries

2.3 Logistics Industry

logistics cost, there is immense potential for growth of the sector. The major opportunities are highlighted below.

Many large Indian corporations such as Tata and Reliance Industries have been attracted by the potential of this sector and have established logistics divisions. They started providing in-house logistics services, and soon sensing the growth of the market, have started providing services to other corporate as well.

Large express cargo and courier companies such as Transport Corporation of India (TCI) and Blue Dart have also started logistics operations. These companies enjoy the advantage of already having a large asset base and an all-India distribution network. Some large distributors have also forayed into the logistics business for their clients.

Since logistics service can be provided without assets, there is growing interest among entrepreneurs to venture into this business.

Indian shippers are gradually becoming more aware of the benefits of logistics outsourcing. They are now realizing that customer service and delivery performance are equally important as cost to remain competitive in this global economy.

The Indian economy is growing at over 9% for the last couple of years (compared to the world GDP growth rate of 3%), which implies more outputs and more demand for specialized logistics services.
II: Overview of Industries

2.3 Logistics Industry

The Indian government has focused on infrastructure development. Examples include the golden quadrilateral project, east-west and north-south corridors (connecting four major metros), Free Trade and Warehousing Zones (FTWZ) in line with Special Economic Zones (SEZ) with 100% Foreign Direct Investment (FDI) limit and public-private partnerships (PPP) in infrastructure development. It is expected that infrastructure development would boost investments in the logistics sector.

In India, 100% FDI is allowed in logistics whereas in China, until recently, foreign investment was not allowed in domestic logistics. Almost all large global logistics companies have their presence in India, mainly involved in freight forwarding. For domestic transportation and warehousing, they have tie-ups with Indian companies. As the Indian logistics scenario looks promising, these MNCs are expected to play a bigger role, probably forming wholly-owned subsidiaries or taking the acquisition route. The latter may be the preferred route of investment since the target company is readily acquired with its asset base and distribution network, and the need for building everything from scratch can thus be avoided. The benefits for the acquired company include the patronage of an MNC and access to the MNC’s global network. As an example, DHL Danzas, the biggest logistics company in the world, has taken over Blue Dart.
II: Overview of Industries

2.3 Logistics Industry

2.3.7 Business Intelligence and Logistics Industry

Transportation and Logistics companies use business intelligence software to streamline operations, distribution, and fleet management in an industry adapting to increasing fuel costs, consolidation and global competition.

Leading companies in the Transportation and Logistics sector rely on the Business Intelligence platform to make more effective decisions, especially in the following business areas:

- Shipping Performance Management
- Supply Chain and Logistics Optimization
- Customer Service and Order Management

Shipping Performance Management
Promote long-term profitability and customer retention by tracking key measures such as:
- Daily revenue per mile travelled
- Number of overruns
- The percentage of on-time deliveries

Business Intelligence Analyzes:
- Key throughput
- Asset utilization
- Load balance
- Revenue metrics

To ensure that headcount and resources are used as efficiently as possible at distribution centers Business Intelligence Monitor shipment
II: Overview of Industries

2.3 Logistics Industry

details and inspection asset utilization to better determine when, where, and how often to inspect shipments. Fleet Analysis and Maintenance Business Intelligence Combine analytics with Automatic Vehicle Location (AVL), RFID, GPS, and other technologies to track weight, travel, and maintenance data for planes, trucks, and other vehicles in a fleet. Business Intelligence Monitor fuel pricing, rental agreements, fleet specifications, maintenance scheduling, and over- and under-utilized vehicles to improve operations and limit unnecessary costs.

Supply Chain and Logistics Optimization Conduct thorough supply chain analysis to uncover inefficiencies and allow importers, exporters, transportation carriers, suppliers, and other partners to easily manage the distribution of their goods. Business Intelligence Analyzes shipping, bar-code, and manifest data to quickly identify errors and quality issues at distribution centers. Budget and Cost Management Business Intelligence Compares forecast vs. actual sales, tonnage, and yield to isolate the travel routes that generate the least amount of revenue and accurately predict future activity and related expenses. Business Intelligence Manage budgets effectively by monitoring daily vehicle running costs, forecasting monthly results based on previous results, and shedding light on expense related metrics such as vehicle age, customer name, and book value.

Customer Service and Order Management Provide time-saving oversight and self-service to managers, customers, suppliers, and partners with 24x7 Web access to account, booking, billing, and delivery information.
II: Overview of Industries

2.3 Logistics Industry

The Business Intelligence supports the technical needs of Transportation and Logistics customers. The amount of data generated by Transportation and Logistics companies, especially considering the incredibly high numbers of vehicles and shipments, is unusually high. Transportation and Logistics companies who distribute goods to millions of customers and manage large supply chains across many channels often deploy analysis and reporting capabilities to far more users than most other companies, and having a Business Intelligence platform that supports external users in addition to the internal requirements is essential. One, central location to control all security policies, access control lists, and permissions allows administrators the ability to maintain security across a user base that is spread around the globe.
Retail has played a major role world over in increasing productivity across a wide range of consumer goods and services. The impact can be best seen in countries like U.S.A., U.K., Mexico, Thailand and more recently China. Economies of countries like Singapore, Malaysia, Hong Kong, Sri Lanka and Dubai are also heavily assisted by the retail sector.

Retail is the second-largest industry in the United States both in number of establishments and number of employees. It is also one of the largest world wide. The retail industry employs more than 22 million Americans and generates more than $3 trillion in retail sale annually. Retailing is a U.S. $7 trillion sector.

Wal-Mart is the world’s largest retailer. Already the world’s largest employer with over 1 million associates, Wal-Mart displaced oil giant Exxon Mobil as the world’s largest company when it posted $219 billion in sales for fiscal 2001. Wal-Mart has become the most successful retail brand in the world due its ability to leverage size,
market clout, and efficiency to create market dominance. Wal-Mart heads Fortune magazine list of top 500 companies in the world. Forbes Annual List of Billionaires has the largest number (45/497) from the retail business.

There were 1,409 transactions valued at $17.1 billion USD in the last twelve months (ended September 2010) for the retail sector, representing a downside of 33.6 percent in terms of transaction value ($25.7 billion USD during the previous 12-month period with 1,473 deals). Dollar volume in this period included two major transactions (Kohlberg Kravis Roberts/Pets at Home and Lotte Shopping Co/GS Square and GS Mart), which represented $2.7 billion USD or nearly 15.8 percent of total dollar volume. During the previous period, the largest transaction was the acquisition of Next Rx LLC by Express Scripts for $3.5 billion USD.

In terms of business segments, specialty and distributors accounted for the highest in terms of value at nearly 56 percent of total dollar volume for the period.

In terms of geography, the United Kingdom had the highest transaction value of $3.9 billion USD with a total of 161 transactions over the last 12 months. The United States came in second with a value of $3.4 billion USD through 370 transactions. Among other regions, Europe was the clear leader at $7.3 billion USD with 688 transactions.
### M&A Activities at a Glance

<table>
<thead>
<tr>
<th>2010 v. 2009</th>
<th>LTM ended 3Q 2009</th>
<th>LTM ended 3Q 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction value (USD billion)</td>
<td>25.7</td>
<td>17.1</td>
</tr>
<tr>
<td>Top 5 transactions</td>
<td>32.4%</td>
<td>27.3%</td>
</tr>
</tbody>
</table>

#### Segment Analysis

<table>
<thead>
<tr>
<th>Segment</th>
<th>No. of transactions</th>
<th>Value (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialty Stores</td>
<td>299</td>
<td>5.1</td>
</tr>
<tr>
<td>Distributors</td>
<td>692</td>
<td>4.5</td>
</tr>
<tr>
<td>Department Stores</td>
<td>50</td>
<td>2.4</td>
</tr>
<tr>
<td>General Merchandise Stores</td>
<td>28</td>
<td>1.6</td>
</tr>
<tr>
<td>Home Furnishing Retail</td>
<td>38</td>
<td>1.1</td>
</tr>
<tr>
<td>Internet Retail</td>
<td>124</td>
<td>0.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top 5 regions</th>
<th>No. of transactions</th>
<th>Value (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>688</td>
<td>7.3</td>
</tr>
<tr>
<td>North America</td>
<td>412</td>
<td>4.1</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>245</td>
<td>4.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>36</td>
<td>1.4</td>
</tr>
<tr>
<td>Middle East</td>
<td>13</td>
<td>0.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top 5 countries</th>
<th>No. of transactions</th>
<th>Value (USD mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>161</td>
<td>3.9</td>
</tr>
<tr>
<td>United States</td>
<td>370</td>
<td>3.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>3</td>
<td>1.2</td>
</tr>
<tr>
<td>France</td>
<td>87</td>
<td>1.1</td>
</tr>
<tr>
<td>China</td>
<td>65</td>
<td>0.9</td>
</tr>
</tbody>
</table>

*Source: Capital IQ Database, IMAP*

**Table: 2.6 Mergers and Acquisition in Retail Industry**
II: Overview of Industries

2.4 Retail Industry

2.4.2 India Retail Industry

The Indian retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan / beedi shops, convenience stores, hand cart and pavement vendors, etc.

India’s retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 9-10 per cent by the year 2010 bringing in a huge opportunity for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India’s GDP.
II: Overview of Industries

2.4 Retail Industry

Graph: 2.11 Comparative Penetration of Organized Retail Trade

Table: 2.7 Retail Trade in India, US and China

The last few years witnessed immense growth by this sector, the key drivers being changing consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the Government increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers. In order to keep pace with the increasing demand, there has been a hectic activity in terms of
II: Overview of Industries

2.4 Retail Industry

entry of international labels, expansion plans, and focus on technology, operations and processes.

This has lead to more complex relationships involving suppliers, third party distributors and retailers, which can be dealt with the help of an efficient supply chain. A proper supply chain will help meet the competition head-on, manage stock availability; supplier relations, new value-added services, cost cutting and most importantly reduce the wastage levels in fresh produce.

Large Indian players like Reliance, Ambanis, K Rahejas, Bharti AirTel, ITC and many others are making significant investments in this sector leading to emergence of big retailers who can bargain with suppliers to reap economies of scale. Hence, discounting is becoming an accepted practice. Proper infrastructure is a pre-requisite in retailing, which would help to modernize India and facilitate rapid economic growth. This would help in efficient delivery of goods and value-added services to the consumer making a higher contribution to the GDP.

International retailers see India as the last retailing frontier left as the China’s retail sector is becoming saturated. However, the Indian Government restrictions on the FDI are creating ripples among the international players like Walmart, Tesco and many other retail giants struggling to enter Indian markets. As of now the Government has allowed only 51 per cent FDI in the sector to ‘one-brand’ shops like Nike, Reebok etc. However, other international players are taking alternative routes to enter the Indian retail market indirectly via strategic licensing agreement, franchisee agreement and cash and carry wholesale trading (since 100 per cent FDI is allowed in wholesale trading).
II: Overview of Industries

2.4 Retail Industry

2.4.3 Value Chain of Retail Market

The retail industry is composed of individuals and companies engaged in the sale of finished products to end-user consumers. It implies that retailing is the final step in the distribution of merchandise—the last point in the supply chain—connecting the bulk producers of commodities to the final consumers. Retailing covers diverse products such as food, apparels, consumer goods, financial services, leisure, etc.

Considering the nature of the business, retailing is extremely competitive and the failure rate of retail establishments is relatively high. While price is the most important arena of competition, other factors such as location, selection and display of merchandise, attractiveness of the establishment and reputation also matter.

Retail is usually classified by the type of products as follows:
- Food products - Soft goods: clothing, apparel and other fabrics
- Hard goods (hardline retailers): appliances, electronics, furniture, sporting goods, etc.

Traditionally, the retail business was dominated by smaller family-run or regionally targeted stores, but this market is increasingly being taken over by multinational conglomerates such as Wal-Mart and Sears, indicating the era of “retail globalization.”

These larger retailers have managed to set up huge supply/distribution chains, inventory management systems, financing pacts and wide-scale marketing plans. This dynamic nature of the retail business has created different business models and a wide range of new formats such as vending machines, door-to-door and telephone sales, direct-
mail marketing, online retailing, and traditional formats such as discount houses, specialty stores, department stores, supermarkets, and consumer cooperatives. This has led to the emergence of multichannel retailing, which refers to the concept of selling goods through multiple channels rather than just one, such as traditional stores.

The Indian retail market is estimated at US$ 350 billion. But organized retail is estimated at only US$ 8 billion. However, the opportunity is huge, organized retail is expected to grow at 6 per cent and touch a retail business of $ 17 billion as against its current growth level of 3 per cent which at present is estimated to be $ 6 billion, according to the Study undertaken by The Associated Chambers of Commerce and Industry of India (ASSOCHAM).
II: Overview of Industries

2.4 Retail Industry

Segment Analysis: The structure of Indian retail is developing rapidly with shopping malls becoming increasingly common in the large cities. However, the traditional formats like hawkers, grocers and tobacconist shops continue to co-exist with the modern formats of retailing. Modern retailing has helped the companies to increase the consumption of their products for example: Indian consumers would normally consume the rice sold at the nearby kiranas viz. Kolam for daily use. With the introduction of organized retail, it has been noticed that the sale of Basmati rice has gone up by four times than it was a few years back; as a superior quality rice (Basmati) is now available at almost the same price as the normal rice at a local kirana. Thus, the way a product is displayed and promoted influences its sales. If the consumption continues to grow this way it can be said that the local market would go through a metamorphoses of a change and the local stores would soon become the things of the past or restricted to last minute unplanned buying.

- The food and beverages segment accounts for the largest share over 74 per cent of the total retail pie.

- Traditional retail dominates food, grocery and allied products sector, with grocery and staples largely sourced from the "Kiranas" and push-cart vendors.

- Apparel and consumer durables verticals are the fastest growing verticals.

- With high telecom penetration in towns and villages and five million new users having added every month, the mobile phone category is one of the highest
II: Overview of Industries

2.4 Retail Industry

- Growth product categories.
- With the reducing average age of Indians buying homes, the home décor sector is growing rapidly coming down.
- Beauty care, home décor, books, music and gifts segments are gaining traction predominantly in the urban areas and emerging cities.

Table: 2.8 Share and Revenue of Retail Verticals
II: Overview of Industries

2.4 Retail Industry

- Organized retail in India is largely restricted to the urban and semi-urban regions, with consumer exposure to modern retailing formats like malls and stand-alone stores, etc., for specific product categories.
- Penetration of Organized retail is projected to increase to 9.52 per cent in 2009-2010, with revenues from Organized retail touching US$ 43,829 million in 2009-2010.
- Clothing and textiles/apparel segment dominates the Organized retail sector with revenues worth US$ 4.76 billion, contributing to over 36 per cent of the Organized retail pie.

Size of Indian retail market across segments,

<table>
<thead>
<tr>
<th>Segment</th>
<th>Total retail</th>
<th>Organised retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and grocery</td>
<td>6,422</td>
<td>50</td>
</tr>
<tr>
<td>Textile and apparel</td>
<td>980</td>
<td>185</td>
</tr>
<tr>
<td>Jewellery and watches</td>
<td>554</td>
<td>30</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>415</td>
<td>43</td>
</tr>
<tr>
<td>Pharma</td>
<td>364</td>
<td>10</td>
</tr>
<tr>
<td>Home solutions</td>
<td>351</td>
<td>32</td>
</tr>
<tr>
<td>Books, music and gifts</td>
<td>115</td>
<td>15</td>
</tr>
<tr>
<td>Others</td>
<td>1,159</td>
<td>111</td>
</tr>
<tr>
<td>Total</td>
<td>10,360</td>
<td>475</td>
</tr>
</tbody>
</table>

Table: 2.9 Segment Vs Organized Retail

2.4.5 Growth Drivers of Retail Industry

Metros Leading the Way

Six million Indian households are classified as ‘rich’ with annual income over US$ 4,700 and over half of them live in Delhi, Mumbai...
II: Overview of Industries

2.4 Retail Industry

and Bangalore. 62 per cent of the market for premium products in India is also concentrated in these three cities. 85 per cent of India’s retail market is concentrated in the country’s eight largest cities.

One million households at the top of India’s income map constitute the ‘super-rich’ in the country. Growing by 20 per cent every year, this segments’ buying behaviour is in line with its corresponding international counterparts. While this segment is a worthy target for high-end premium products, it is not the key driver of the Organized retail sector.

Emerging retail hubs

Bengaluru, Hyderabad, Chennai and Kolkata contribute to US$ 15,511 million worth retail revenues. Retail activity in Bengaluru, Hyderabad and Chennai is growing at an exceptional rate, with phenomenal increase in mall space by the day. Most of the retail sector giants have a footprint in these cities, with future plans of expanding base, owing to the rapid transition of households from lower income groups to higher income groups.

Evolving consumer behaviour

Retailers are rapidly integrating and diversifying their store formats to cater to emerging trends in consumer behaviour. Food Bazaar stocks staples in bulk; weighing and packing them for customers in their presence keeping in mind the ‘touch and feel’ mindset of buying staples while Reliance Fresh stocks fresh flowers and vegetables. Retailers are expanding into the emerging cities with modest store formats as opposed to the glitzy mall formats adopted for metros.
II: Overview of Industries

2.4 Retail Industry

Figure: 2.12 Modern Retail Format

Higher disposable incomes

Disposable incomes are on the rise with the economy providing new avenues of employment in IT/ITeS and other sunrise sectors like biotech, hospitality etc. Employers are offering attractive compensation packages and perquisites to skilled Indian professionals. Indians have an ability to spend over US$ 30,000 a year (PPP terms) on conspicuous consumption. Disposable incomes are expected to rise at an average of 8.5 per cent per annum till 2015.

Increasing urbanisation

India’s urban population is estimated at 286 million, constituting 27.8 per cent of the total population, as of 2001. The urban population is projected to increase to 468 million, constituting 33.4 per cent of the total projected population of 1,200 million by 2010-11. Increase in the number of young employed executives and the thinning gender divide is stimulating growth of modern retailing in urban areas.

Easy credit:

Banks and financial institutions have increased their range and amount of retail credit and service offerings. Average exposure of banks to retail loans was at 25.5 per cent of total loans in 2005-06. Growing acceptance of plastic money across small and medium.
II: Overview of Industries

2.4 Retail Industry

International players eyeing the Indian market

Wal-Mart has entered into a 50:50 Joint Venture and Franchisee agreement with Bharti Retail Ltd. and plans to set up its first cash-n-carry outlet by 2007-08. The Starbucks – Pepsi Co. joint venture is expected to provide Indian market access to the world’s largest coffee chain. French retail major, Carrefour, is set to finalize its entry route to India.

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer/Investor</th>
<th>Value in US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provogue (India)</td>
<td>Fidelity, New Vernon, Blackstone, Genesis Capital, Artis Capital and Liberty International</td>
<td>33.24</td>
</tr>
<tr>
<td>Mudra Lifestyle</td>
<td>SIDBI Venture Capital and State Bank</td>
<td>3.27</td>
</tr>
<tr>
<td>Flemingo Duty Free Shops</td>
<td>Citigroup Venture Capital</td>
<td>22.73</td>
</tr>
<tr>
<td>Home Solutions Retail India</td>
<td>Kotak Private Equity</td>
<td>12.00</td>
</tr>
<tr>
<td>S Kumars Nationwide</td>
<td>ADM Capital</td>
<td>82.00</td>
</tr>
<tr>
<td>Brandhouse Retail</td>
<td>ADM Capital</td>
<td>25.00</td>
</tr>
</tbody>
</table>

Table: 2.10 Recent VC /PE Deals

2.4.6 Key Players in the Indian Retail Industry

Modern retailing has entered India in form of sprawling malls and huge complexes offering shopping, entertainment, leisure to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to specialty chains.
II: Overview of Industries

2.4 Retail Industry

![Retail Formats in India](image)

**Figure: 2.37 Retail Formats in India**

However, kiranas still continue to score over modern formats primarily due to the convenience factor. The organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring system.

The modern retail formats are encouraging development of well-established and efficient supply chains in each segment ensuring efficient movement of goods from farms to kitchens, which will result in huge savings for the farmers as well as for the nation. The Government also stands to gain through more efficient collection of tax revenues. Along with the modern retail formats the non-store retailing channels are also witnessing action with HLL initiating Sangam Direct, a direct to home service. Network marketing has been growing quite fast and has a few large players today.
II: Overview of Industries

2.4 Retail Industry

Available routes for foreign players to enter the retail sector

<table>
<thead>
<tr>
<th>Strategic License Agreements</th>
<th>Cash-and-Carry Wholesale Retailing</th>
<th>Distribution</th>
<th>Franchisee Route</th>
<th>Manufacturing</th>
<th>Joint Venture</th>
</tr>
</thead>
<tbody>
<tr>
<td>This route involves a foreign company entering into a licensing agreement with a domestic retailer or partnering with Indian promoter owned companies.</td>
<td>100 per cent Foreign Direct investment is allowed in wholesale trading which involves building of a large distribution network.</td>
<td>An international company can set up a distribution office in India and supply products to the local retailers. Franchisee outlets can also be set up in this route.</td>
<td>The entry route, which includes the master franchise and the regional franchise routes is widely used, with a number of international brands to set a presence in India.</td>
<td>A company can establish its manufacturing unit in India along with standalone retailing outlets.</td>
<td>International firms can enter into agreements with domestic players and set up base in India. Share of MNCs is restricted to 49 per cent in this route.</td>
</tr>
</tbody>
</table>

Indicative list of International players and their chosen entry route

<table>
<thead>
<tr>
<th>FRANCHISE</th>
<th>CASH &amp; CARRY WHOLESALE RETAILING</th>
<th>JOINT VENTURES</th>
<th>MANUFACTURING</th>
<th>DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>• PIZZA HUT</td>
<td>• METRO</td>
<td>• MCDONALD'S</td>
<td>• BATA</td>
<td>• SPARBOIS</td>
</tr>
</tbody>
</table>

Figure: 2.14 Available route for Foreign Players in Indian Retail

Profile of the Major Players

1. Pantaloons Retail

Pantaloons Retail (India) Limited, is India’s leading retail company with presence across multiple lines of businesses. The company owns and
II: Overview of Industries

2.4 Retail Industry

manages multiple retail formats that cater to a wide cross-section of the Indian society and is able to capture almost the entire consumption basket of the Indian consumer. Headquartered in Mumbai, the company operates through 4 million square feet of retail space, has over 140 stores across 32 cities in India and employs over 14,000 people.

2. Lifestyle International

Lifestyle International Holdings Ltd’s principal activity is the operation of lifestyle department store and retail outlets. It focuses on high-end department store format.

Lifestyle International operated its retailing business through two brand names, SOGO and Jiuguang. The SOGO Department Stores consists of the Company's flagship department store, SOGO CWB, in Causeway Bay, Hong Kong, and the Tsimshatsui store, which features a slightly different format that targets younger group of customers. The Jiuguang Department Store, which is located in Shanghai, has a similar business format as that of the SOGO store.

3. RPG Retail

RPG Enterprises is one of India’s largest business conglomerates, with a turnover of US$ 1.65 billion (Rs 7,472 crore) and assets worth US$ 1.8 billion. Since its inception in 1979, RPG Enterprises has been one of the fastest growing groups in India with more than 20 companies operating successfully in 7 business sectors: Retail, IT & Communications, Entertainment, Power, Transmission, Tyres and Life Sciences.
II: Overview of Industries

2.4 Retail Industry

4. Shopper’s Stop
The foundation of Shoppers’ Stop was laid on October 27, 1991 by the K. Raheja Corp. group of companies. From its inception, Shoppers’ Stop has progressed from being a single brand shop to becoming a Fashion & Lifestyle store for the family.

5. Trent (Tata)
Trent (Tata) was established in 1998, Trent operates some of the nation’s largest and fastest growing retail store chains. A beginning was made in 1998 with Westside, a lifestyle retail chain, which was followed up in 2004 with Star India Bazaar, a hypermarket with a large assortment of products at the lowest prices. In 2005, it acquired Landmark, India’s largest book and music retailer.

6. Vivek Ltd
Vivek Limited, is the largest Consumer Electronics & Home Appliances retail chain in India, with 14 world class showrooms in Chennai, Bangalore and Salem; covering a retail space area of over 1,00,000 sq. ft and a turnover of over Rs. 1 billion (US $ 23 Million). Its brand, VIVEKS, is now a household name. The group’s turnover, comprising of interests in distribution of consumer products; finance, safe deposit lockers; property development and real estate, is about 2 Billions (US $ 46 Million).

7. Madura Garments
II: Overview of Industries

2.4 Retail Industry

plans: Projected to increase to 300 outlets and diversify into the women’s wear segment

### 2.4.7 Challenges in Retail Industry

The industry is facing a severe shortage of talented professionals, especially at the middle-management level. Most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding. Long intermediation chains would increase the costs by 15 per cent.

Lack of adequate infrastructure with respect to roads, electricity, cold chains and ports has further led to the impediment of a pan-India network of suppliers. Due to these constraints, retail chains have to resort to multiple vendors for their requirements, thereby, raising costs and prices. The available talent pool does not back retail sector as the sector has only recently emerged from its nascent phase.

Further, retailing is yet to become a preferred career option for most of India’s educated class that has chosen sectors like IT, BPO and financial services. Even though the Government is attempting to implement a uniform value-added tax across states, the system is currently plagued with differential tax rates for various states leading to increased costs and complexities in establishing an effective distribution network. Stringent labor laws govern the number of hours worked and minimum wages to be paid leading to limited flexibility of operations and employment of part-time employees.
Further, multiple clearances are required by the same company for opening new outlets adding to the costs incurred and time taken to expand presence in the country. The retail sector does not have ‘industry’ status yet making it difficult for retailers to raise finance from banks to fund their expansion plans. Government restrictions on the FDI are leading to an absence of foreign players resulting into limited exposure to best practices.

Corporate Catalyst India A report on Indian Retail Industry Non-availability of Government land and zonal restrictions has made it difficult to find a good real estate in terms of location and size. Also lack of clear ownership titles and high stamp duty has resulted in disorganized nature of transactions.

2.4.8 Niche focus areas in Retail Industry

1. M-commerce (Mobile commerce)

A number of retailers and third-party developers have introduced mobile applications that give consumers powerful new shopping tools and added convenience. But most retailers are either standing on the sidelines or in the midst of planning their mobile commerce strategy. Hence, a number of recognized retail brands have launched mobile commerce programs so they can be where their customers go.
II: Overview of Industries

2. Retail Industry

2. Online Grocery Shopping

Online grocery shopping has continued to experience a rapid evolution in recent years, facilitated by the ongoing development of the Internet and related technologies. From a consumer perspective, the convenience factor of placing an order online and having goods delivered to the door is perhaps the biggest appeal to consumers looking for ways to save time or have physical difficulty carrying products.

3. Online Healthcare

Nowadays, healthcare consumers gather information online which includes healthcare-related information and services, looking for doctors, researching. While consumers are becoming more self-reliant and empowered, healthcare providers are beginning to offer their services online and learning how to become more consumer-focused.
II: Overview of Industries

2.4 Retail Industry

2.4.9 Business Intelligence and Retail Industry

Retail Vertical – by its very nature – is generating huge amount of Operational Data, on day to day bases. Though, majority of such data is revolving around Sales Baskets, it also contains data generated from the processes related to Vendor & Order Management, Supply Chain, Inventory, Finance and Product Line Management.

It is generally observed that – though each of these processes has close co-relations in operating the retail organization in most effective way, such a huge data is grossly underutilized. The potential of converting this rich set of data – using BI - into Analytics can truly unlock the value hidden within it.

Some of the arena – where BI can be leveraged to achieve such a Customer Centric vertical, is highlighted below:

Demand Forecasting:
Sales Basket Data can be used to do demand forecasting – using mathematical technique called Regression Analysis or likewise methods using data mining. This can – more correctly – forecast the demand for a specific class of products in a specific time frame. This way, the business can respond to the customers’ needs and demands, more efficiently and in proactive way.

Customer segmentation & Target Marketing:
Available demographic data on Customers – when correctly correlated with the Sales Basket Data – can provide true picture about your customers’ segmentation. Such analysis can enable the managers to take informed decisions in implementing Target Market Processes in the most efficient and result oriented way.
II: Overview of Industries

2.4 Retail Industry

**Up-sale & Cross-sale efforts:**
Sales Basket data – when combined with the Product Line data - can provide a powerful tool for Cross-sale as well as Up-sale activity. This is a proven and sure-shot approach to drive the Sale Basket value, by logically prompting the customer to buy some product based on the customer’s buying history.

**Price Elasticity Analytics:**
In retail – it has been observed that – the demand of a specific category of product varies with the Price Point Band offered for them. The Business can achieve better revenue by playing around with this Price Band.

**Promotions Efficiency Analytics:**
Promotions are – invariably – a vital activity in retail vertical. It is equally important to scientifically evaluate the efficiency of each of the promotional activities, as a measurable objective parameter. BI can help a lot in digging the Sales Basket data with respect to the ongoing promotion for the period. Such learning can be of immense value for any retail organization and can take more correct and informed decisions for the future promotional activities.