

CargoIndia Pvt. Ltd.: Decision Time

CargoIndia¹, a mid-sized air and road logistic company in India, has been undergoing significant changes, especially in its IT systems, and expansion, in its logistics network. Lot of new opportunities were open owing to growing Indian Logistic and Supply Chain industry and to technological development in the industry. With growing industry, competition in the industry was also growing. In order to leverage its expansion and technological upgradation to the maximum, CargoIndia management needed to take important decisions on product choice, new products and network model.

Industry Overview

Logistics industry includes business of transportation of goods and warehousing. For most domestic players, logistics has, for long, been restricted to the basic transportation of goods. Traditionally, warehousing, which is an important constituent of the logistics sector, has been dominated by small players with low capacities and poor deploying, handling, stacking and monitoring technologies.

The Indian logistics sector has been growing at an impressive rate of 8 to 10% per annum since 2002 to touch revenues of US\$100 billion in 2007- 08. It is expected to grow at the rate of 15-20% annually and revenue is expected to reach \$385 billion by 2015². The World Bank's 2007 Global Logistics Report ranks India 39th amongst 150 countries in terms of logistics performance during the year as well as its future potential³. The accelerated growth of the logistics industry, coupled with an increasing trend of outsource warehousing activities, has made India a vast and untapped market. Over the next five years, approximately 110 logistics parks and 45m sq. ft. of warehousing space is expected to be developed across the country by various logistics companies. While the India logistics sector holds tremendous potential, it forms a very small portion i.e. approximately 2% of the estimated US\$5,000 billion global logistics industry. Despite the impressive growth rates, the logistics sector in India is fraught with inefficiencies.

The Indian logistics and warehousing industry is currently governed by three key factors:

- a) Burgeoning domestic demand: The growth of organized retail has created demand for specialized logistics services, wherein every retailer relies on strong logistics and warehousing infrastructure for the success of its business.
- b) Reducing logistics costs: The implementation of Value Added Tax (VAT) in 2006 has played a role in reducing logistics costs. The proposed implementation of Goods and Service Tax (GST) could lower logistics costs further.
- c) Improvement in infrastructure: One of the major barriers faced by the Indian logistics industry has been the lack of quality physical infrastructure. The country is expected to increase its infrastructure development spend from 4.7% of GDP in 2007 to 8% of GDP by 2012. This increased spend will help boost the logistics industry.

¹ A Hypothetical Company

² QUARTERLY PERFORMANCE ANALYSIS OF COMPANIES(July-September 2008), INDIAN LOGISTICS INDUSTRY, BY Cygnus Business Consulting group

³ http://www.scdigest.com/assets/On_Target/07-11-25-1.php?cid=1358

In India, mainly rail networks and roads are harnessed for transportation. Hence infrastructure is a major growth facilitator for this industry. The major players in this segment are shown in exhibit 1. As mentioned, these companies have seen high growth in sales before the current recessionary period.

Exhibit 1. Major Player in Sector Based on Turnover FY 2009⁴

Company Name	Turnover(Crores)	Net Profit(Crores)	Equity Capital(Crores)	MarketCap(Crores)
Blue Dart Express Ltd.	974.47	77.35	23.76	1,352.02
Gati Ltd.	618.08	-15.06	16.98	531.32
Patel Onboard Couriers Ltd.	133.40	1.97	4.70	25.46
Skypak Service Specialist Ltd.	17.17	-4.68	3.09	1.95
Elbee Services Ltd.	8.28	-19.59	13.43	7.76
Corporate Couriers & Cargo Ltd.	0.11	-0.03	5.98	0.69
Chokhani Global Express Ltd.	0.06	-0.01	3.92	0.00

Company Overview

CargoIndia is a mid-sized Indian Logistics and Supply Chain company. It started in year 2000 in Indore, as a campus-to-home service provider for students of IIM Indore. Since then the company has come a long way to become a logistics and supply chain provider in India with its pan India presence in over 320 destinations, 1.2 million square feet of warehousing space, 1500 trucks and more than 500 routes linked to 24 super-hubs and hubs.

Company's gross revenues in FY2009 were close to Rs. 400 crore. It is planning to invest Rs. 800 crore over next four years in logistics network and other services. This year the company opened up four logistics hubs in Baroda, Coimbatore, Patna and Ludhiana. It is planning to open 20 such hubs in next two year involving an investment of Rs. 450 crore. It is planning to invest Rs. 350 crore in manpower development and IT.

Decision 1: Products and Services

Following are the products and services offered by CargoIndia,

1. ExpressCargo – This is a conventional cargo service, with good reputation for on time delivery and reach.
2. InsuranceCargo – This service is similar to the insurance service for goods.
3. OwnCargo – Boxes for packaging are provided to the customer to do packing on his own as he wishes.
4. AirCargo – Cargo through airlines for faster delivery.
5. ILS – Logistic management and supply chain services to clients.
6. Consulting – Logistics and supply chain consultancy and solutions, beyond physical operations.
7. Campus-to-Home Cargo – Cargo services from institute campuses to different cities for students who shift after completion of their programs in an institute.

CargoIndia management was looking for answers to following questions,

1. What is the true potential of Indian Logistic Industry?

⁴ <http://insight.religaretechnova.com/Insight/Industry/MoreTurnover.asp?IndustryCode=703>

2. Given the recent scheduled investments in expansion and technology (IT), which product/products amongst the listed ones should be focussed on the most?
3. Given the recent scheduled investments in expansion and technology (IT), what are the new products or services which CargoIndia can offer to tap the growing industry and to beat competition?
4. Do you see a potential in its 'Campus-to-Home Cargo' product? Should it discontinue it considering its growing size?

Decision 2: Strategies for Transportation

The companies in Cargo business follow two basic models for transportation of goods to various destinations across the country. The first model in which the truck will move only between two pre-determined locations, is known as **Transportation model** using Hub and Spoke. In this model trucks can move to and fro only between two hubs. It will not carry forward again from that particular hub to another hub. Based on the schedule, specified number of trucks start from source hub to various destination hubs irrespective of the truck load, i.e. a truck will be sent to the destination hub as per schedule even if it is empty (though occasions of sending an empty or even half filled trucks are very rare, considering the huge demand). Each hub has its specified number of trucks contracted from the local providers.

CargoIndia follows this model. Consider movement between Indore and Mumbai. It takes one day to deliver goods to Mumbai from Indore. Daily 2 trucks start from Indore at 10 pm towards Mumbai and from Mumbai towards Indore. Trucks sent from Indore will not go to any other location from Mumbai, but will return in the next day's delivery. This model has advantages of faster delivery and higher quality of service but it is slightly costly and utilization of containers is also low.

Another type of model is the **Transshipment model** using Hub and Spoke. In this case no preplanning is done and scheduling is done according to requirements. There is no such restriction on the movement of trucks and a particular container loads and unloads at various hubs in the route. There would be no definite time of returning of a particular container to its point of origin. Here trucks have to be dynamically contracted as per need. The advantage of this model is low cost and hence less charge to customer but quality of service and speed of delivery suffer. The chances of damages and pilferages are very high due to frequent movement and more hands getting involved.

CargoIndia management was looking for answers to following question,

1. Should CargoIndia adopt Transshipment model? Why / Why not?

(Make appropriate assumptions wherever needed)