

LEAVE IT TO US

In our continuing series on Logistics Service Providers, SCMP*ro* caught up with **Pirojshaw Sarkari**, CEO of Mahindra Logistics Limited. In a freewheeling talk with our Executive Editor Girish, Phil, as he is fondly called, held forth on the challenges in being a 3PL service provider, much ahead of the industry demand. We bring you edited excerpts from the interview.



PIROJSHAW SARKARI,
CEO, Mahindra Logistics Limited

What is your assessment of the Logistics sector in India?

India has progressed very rapidly as far as manufacturing processes are concerned. But when it comes to logistics, we are way behind. As a 3PL player, we have to justify why our customers need an LSP. There is a perception that there are no good 3PL firms available, and that they can do it better. Because of this, 3PL has only about a 15% share of the logistics spend. One of our challenges is educating the OEM about 3PL and our end goal. We cannot just go in and say that we are

a 3PL Company. We have to explain the value we are bringing to our customers. We need to demonstrate our capabilities, before the company trusts us.

When I took over this role three years back, we were moving about INR 900 crores of freight, and it was all controlled manually. When you move freight manually, there is no visibility, no predictiveness, and no transparency - when the transporters bill you, you bill the OEM. You don't even know what is happening with the freight. The first thing we did was, we invested in technology. That has given customers visibility and transparency right from the time they hand over the goods till the time the goods are received by their customers. And the bonus - the system caters to our customers' customers needs too. Most OEMs have not experienced what a 3PL can bring to the table. Once they use 3PL services, they become advocates themselves. A 3PL can handle variability of service requirement to the customer. And this is what most customers appreciate.

So how would you define Supply Chain Management, and what is the role you want Industry to recognize as a 3PL player?

The word 'Supply Chain Management' is loosely used in India. I would rather say we are a logistics service provider - not Supply Chain managers. The Supply Chain Managers job starts from procurement. Our jobs starts from picking up that material, transporting it either to manufacturing locations or storing it, feeding it to the manufacturing locations, then collecting the finished products and delivering them to either warehouses or market. That is the end-to-end logistics we want to provide to our customers. As a 3PL, we can provide value added services like delivering kits to production lines instead of individual components, or we can do milk runs. We can consolidate

loads and optimize freight. Therefore I define our role as a 3PL, providing end-to-end logistics rather than supply chain management.

Who takes ownership in a 3PL space?

The absolute ownership of the logistics chain is taken by us, which means we sign SLA's (Service Level Agreement) with the customer. The customer need not deal with all the layers that go below us. And that again is the USP of the 3PL - we would be responsible for the SLA's and the performance of all the logistics functions.

Does the customer get visibility into all the layers as far his product is concern?

The challenge here is visibility across the network. Because of our investment in technology, it is very easy for the customer to view the entire movement of his goods from pick up to delivery. From the warehousing perspective, thanks to the WMS we use, customer can view stocks lying in the warehouse. The customer gets full visibility of his end-to-end material movement. However achieving all of this is not that simple. One of the challenges is fitting GPS in the vehicle; it is a challenge to track vehicles manually. We have a command centre, whose only job is to track vehicles day in day out. Today, every time our driver moves out of the premises, his mobile number and name is registered in our command centre. We can track where that vehicle is at any point of time. However, we have to move to a maturity level where GPS is fitted on to all vehicles.

What is your views of 4PL?

Coming to 4PL, it is more of a consulting role. When 3PL is just 15% of the share, 4PL is a long distance away - at least from the Indian market. Having said that, in mature markets where the organized segment is large - for example US, there are fleet owners who own 1000 or 2000 trucks. That is where a 3PL's role is minimized and 4PL comes in play - where 4PL draws up the road map for the OEM and OEM deals with service providers directly, or via a selected 3PL. That is not the case in our country.

There is a concerted effort to reduce the age of our fleet to less than eight years. Vehicles more than eight years, have to be replaced.

Do you think fraud is a challenge and what you could do to minimize it?

Another hot button is fraud; I believe it is not very high. It is more a perception than reality. In a professionally managed logistics system the use of technology makes it difficult for individuals to deviate from the processes set by the company. Corporate governance is paramount. We have zero tolerance to fraud. And our business partners know that. Being a 3PL company, we are totally dependent on our business partners. I am moving in excess of Rs. 1500 crores of freight without owning a single truck. For me my business partners are extremely important, they are fundamental to our operations.

How focussed you are on Sustainability and what are the issues that you face?

As an organization, Mahindra is very focused on sustainability. It is the number one priority for us. Whether air, sea or surface, logistics is the largest emitter of Carbon. Our challenge is to measure carbon emission. The first thing we did was measure our carbon footprint. We must first know and be aware of our carbon Footprint. Only then can we take steps or launch initiatives to improve or positively impact the same. Post base lining our carbon footprint, we have launched several initiatives to improve the same at Mahindra logistics. We know for a fact that every truck that we replace, the carbon footprint reduces. There is a concerted effort to reduce the age of our fleet to less than eight years. Vehicles more than eight years, have to be replaced. For me sustainability is not just about the carbon footprint, it is also the driver. Without the driver there is no business. Today 20% of the trucks are standing idle on the road, not because there is no freight, but because there are no drivers available. We are now forging a relationship with the driver, who is the critical component of the whole process. We are training them, teaching them, showing them that they can have a positive impact. We give scholarships to the children of our drivers, we have driver welfare programs. We put just one question to the driver. Will you like your child to be a driver? And there are no guesses to the answer over here. The third, and it is again a Mahindra federation initiative, is the "Rise" philosophy - to give back to the community. We at Mahindra logistics invest a significant portion of our profits towards driver and community welfare.

As 3PL player do you have a large role in mitigating a risk in the whole business?

From the risk perspective, corporate governance once again is extremely important. And that is part of

our DNA. It allows us to plan and structure our business process, controls and consequences in a manner which minimizes risk; both for us as well as our customers. The other risk which is prevalent is the boarder environment risk. The way we design our solutions, the value addition via technology and a centralized command centre all go a long way in mitigating the various risks which a logistics system may face. I believe that OEM's would rather move risk on to a 3PL. How a 3PL builds mitigation of risk into each solution is therefore very important. However, this cannot be the leading factor when it comes to an OEM making an outsourcing decision.

As a CEO, what are your concerns like. Essentially what keeps you awake at nights?

My biggest concern is skilled manpower. It is extremely challenging and difficult to find good professionals for logistics. Take an example; it is extremely difficult to find good solution designers. We have to look outside the country. If you want to become a billion dollar company, I think skilled manpower is the biggest challenge. There are enough customers and there is enough business out there, but you need skilled manpower. That and technology.

What vision you see for technology?

Technology is the only differentiator between a normal 3PL player and a company which will really give you an edge. Without technology I do not think any 3PL will be able to survive. We have the technology backbone already in place. Without technology, there is no visibility, and visibility is key to any supply chain. If there is no visibility, there is no predictability. Customers cannot just sit and wait for goods to arrive. Technology is extremely critical and more so mobile technology. I think the important thing is how to provide visibility on customer's mobile phone.

I see a strong future growth path for Mahindra Logistics. Last year our turnover was in excess of Rs. 1500

crores, just a few years ago, in 2010 we were at only Rs. 900 crores. Yet we are not even 5% of the market, and when the opportunity is so huge, market volatility should not stop you from growing. Since just 15% of logistics spends are through a 3PL, I do not think market volatility should hamper us. It would be challenging as the automotive industry, which contributes around 80% of our business is facing a slump. We have started diversifying and a lot of the present and future growth has and will continue to come from other industries such as FMCG, consumer durables, hi-tech, electronics, engineering goods and retail. We are also looking at Agri business. We are going into all aspects from irrigation to product movement. And that opens up a totally new canvas for Mahindra Logistics.

We have set ourselves a target of billion dollars in the next three years. We cannot achieve that without inorganic growth. We have identified couple of areas for inorganic growth - one is International freight - we

are looking at a few target companies to be acquired or to invest in for our international freight. Similarly we are also looking at a service provider who can cater to the emerging express and e-commerce distribution business. We will move to countries where Mahindra is present.

There are two props this sector (logistics) requires. One is GST has to come in quickly. That is one regulatory change that everybody has been looking forward to for 3-4 years. That will bring along lot of consolidation in the warehousing space. Today warehouses have been set up for tax rather than business purposes.

Once GST comes, we will see modern warehousing, as in US or Europe. The other area which is extremely critical is infrastructure development. We are seeing a lot of development on that front. The only problem is that by the time the infrastructure development is complete, it would fall short of our requirements. That is something that requires better planning and vision.

And to sign off, I would like it if manufacturers would focus on their core strengths and leave logistics to a 3PL service provider like us! ☺

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I am delighted that in two years Mahindra Logistics has become India's top 3PL company, says Parag Shah, Managing Partner of Mahindra Partners the \$750 Mn Private Equity division that oversees Mahindra Logistics. Mahindra Partners also overseas 11 companies spanning various industry sectors like Cleantech, Steel, Retail, Vocational Education and Consulting.