India's 'digital first economy' will change logistics landscape

A high level market analysis of digital development and its impact on Indian logistics
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Indian Government to take the lead with India Stack

India is exploring its opportunities to become a fully 21st-century digital economy. The country is taking plenty of initiatives to promote economic digitalization and the countless new startups are illustrative of this success. But even though India has made great progress in the past two years, it still has a long way to go.

As India feels increasing pressure from strong digital economies such as the USA and China, the Indian government decided to invest massively in internet accessibility and digital growth. The country's existing challenges can only be overcome with entrepreneurial determination, which is spreading at a quick pace. New business models, digital platforms and data-based services are shaping a new Indian market. Rapid change is occurring not only on an economic, but also on a social scale.

With the introduction of the nationwide digital system India Stack, the Indian population was catapulted into the digital age for good. India Stack is the largest open Application Programming Interface (API) in the world. The groundworks for the application were laid back in 2009, with the launch of Aadhaar, a sophisticated ID-system which provided a unique ID number for 99% of the population. The number was and is based on individual biometric and geographic data. By having a biometrically-verifiable identity number, the government was able to create a digital link with Jan Dhan (bank accounts), Aadhaar (identity information), and mobile phone numbers, or in short "JAM".

Other digitalization initiatives followed soon after:
- eKYC (identity verification system);
- Esign India (legally binding electronic signatures);
- UPI (cashless payments);
- Digilocker (verification and issuance of documents and certificates).

India Stack covers an identity layer, a documents layer, a payments layer and a transaction layer and therefore provides a solid foundation of further digitalization in various industries.

Digitalized payments

At the end of 2016, India removed 86% of the country's currency notes by value from circulation. The demonetization strongly enforced the digital infrastructure and served as a catalyst for all industries to innovate their administration processes. Since this change, there are nationwide 76 million more monthly online transactions. Furthermore, the Reserve Bank of India is reportedly exploring the introduction of cryptocurrencies, such as Bitcoin.

Full Truck Load (FTL) transport in India benefited greatly from this demonetization. The sector reported a 23% month-on-month revenue growth after the implementation in December 2016. Cashless transaction tools such as FASTags and diesel cards, a direct result from India Stack, resulted in significant savings on capital expenses for truck owners who associated themselves with such platforms.

Tax reform

Besides the drastic demonetization reformations, India's government implemented the largest tax reform ever at a single time. A complex constellation of 17 different tax systems was replaced by one transparent GST-system (Goods and Services Tax). More than 1 million businesses registered within the first month. This created digital data availability, resulting in new opportunities to open up extra sources of lending money to SMEs.

Creating room for individual innovation

Although the country still faces many challenges that need to be overcome, India is ready for further growth. The country is working on strong government support for entrepreneurs, a modern policy framework, nationwide internet connectivity and related intelligence and a secure environment for sharing digital data.

Also, the required infrastructure for digital innovation keeps growing. 110 million new smartphone user enter the Indian market every year, and almost every one of them uses the Aadhaar's biometric authentication system that was built into their phones and tablets. This allows the economy to create a system that is not only cashless but also card-less. APP-based companies therefore benefit from a vastly growing audience and can apply the technology for unlimited possibilities of innovation.

Educating the people

The Indian government has launched a National Digital Literacy Mission (NDLM) that penetrates the rural areas. Since 2016, more than 8,2 million people have been trained to use a computer, which caused the percentage of internet users to grow with about 40% over the past two years.

Expected benefits for the logistics industry

The market for logistics in India is enormous, as are its optimization opportunities. India spends 14.4% of its GDP on logistics, compared to an average of less than 8% in other industrialized countries. The logistics market in India is expected to be worth 307 billion USD by 2020.

Local success stories

In the past 4 years, plenty of newcomers in online logistics and freight management industry have emerged. Many of them are making an effort to streamline intercity and intra-city logistics management in India. BlackBuck, Rivigo and Cogoport are only a few examples.

Cogoport for example, is India's answer to global platforms offering price benchmarking platforms. Competing with international companies such as Flexport, Freightos and Xeneta, Cogoport aggregates data for ocean- and airline freight. The platform allows customers to compare prices set by the different Indian logistics players and includes door-to-door services for trucking, custom charges and inland docking charges. Like many of the logistics startups, they are located in Mumbai and Guarat. These types of platforms are changing the market rapidly. Where exporters used to collect all data from different sources, they can now rely on one source. Shipments can be planned more efficiently and the management improves, thanks to quick (price) comparisons. Cogoport alone handles over 500 containers per month through the portal and charges 6-7% commission per order. In future the company wants to focus more on trucking and air freight.

Rivigo is a technology-enabled logistics company that aims to provide its users the much needed transparency and a sense of reliability. By doing so, they address the issues local shippers and customers often face. Indian shippers for example, struggle to offer competitive prices on the global market. Another frequent problem is the non-transparency of transactions and the high percentage of empty-cargo. By focusing on said transparency, Rivigo is convinced it can also increase efficiency. The company recently collected more than 105 million USD in funding.

Tata Sons Ltd, a well-known Indian data company, recently launched Tata Insights and Quants, which enables them to quickly analyze and process data derived from consumer behavior. Tata also launched Tata Digital Health. This technology helps to connect patients with doctors and create healthcare based on digital solutions. Tata Cliq is Tata Group's venture into e-commerce.

MobiKwik, the Indian answer to Alipay, is the nation's largest independent mobile payments network, connecting more than 55 million users with more than 1.5 million retailers. Some well-known customers are Uber, Big Bazaar, Zomato, eBay, Cleartrip, etc. The company aims to empower 150 million Indians to pay 5 billion USD to 500.000 retailers.

International innovation

International investors also see the opportunities. Amongst others Chinese companies are showing an interest in investing in Indian logistics startups. Among them, Fosun, a Shanghai-based investment firm will soon close 2 to 3 more deals with early-stage startups with an innovative business model. Investments range between 5 and 15 million USD.

But also European startups such as Famaco are keen to take part in this digital revolution.

FAMOCO is a Belgian market leader in Android-based transactional devices. They specialize in cashless payment, transportation, smart city and the overall digital transformation in mobility. They deployed over 100.000 devices in more than 30 countries during the last 2.5 years, making them a vital tool in the digital transformation of transactions. After seeing opportunities in the Indian market, they soon opened a local office and quickly gained a considerable market share.

Ahlers, an international logistics service provider with headquarters in Antwerp (Belgium) and active in India since 2004 is introducing its new data-analytics services to Indian companies. The aim is to support international export flows of clients, as well as to optimize their supply chains in India.

Unsuccessful attempts are part of the picture

The dream to revolutionize India's logistics sector inspired many innovators to offer new services and to provide new concepts. Out of the thousands of Indian startups that emerged in these past few years however, only a handful turned out to be a success. The intense competition is definitely one of the key reasons for bankruptcy, but many also vanished because of specific challenges we see recurring over time:

- The logistics market in India is highly fragmented, making it hard to gain market share by offering technology only as a service.
- Startups often struggle to cope with the long payment terms in the logistics industry.

Innovative companies, such as Ola and Uber, inspired investors to provide funds for promising startups in the logistics industry. Yet many of those startups vanished silently. We found at least six startups, all dealing with truck aggregating for intra as well as inter-city transport, confronted with the same faith: Truckmandi, TheKarrier, Trucksumo, Loadkhoj, Zaicus and Sastabhada.

> Truckmandi offered a marketplace for trucks, providing transport companies and vehicle owners with the chance to connect directly to businesses and customers who needed their services. They took a head start and quickly gained market share. Yet they were forced to pull the plug in June 2016. They were not able to cover the very long payment terms in the industry.

Conclusion

Digitalization in India has enjoyed a significant boost, thanks to the forward-looking vision and policies of the government. It is the ambition of PM Modi to create an environment where established players as well as start-ups can offer new and more efficient services to the immense population, and catapult the economy into a new growth phase. The impact on the logistics sector will be important and will allow - in conjunction with GST introduction – companies to innovate and redesign their supply chains to be more efficient and cost competitive.

Local as well as international players will take part in creating this new environment. The Indian business community today has the opportunity to have easy access to platforms such as Aadhar, as well as to a large consumer base, offering many beneficial opportunities for the further development of the country.

Professional redesign of supply chains and the introduction of new business models will be a core challenge for the Indian business community to take full advantage of the subcontinent's growing role in the global economy. Collaboration between Indian and international logistics experts will pave the way forward and allow India to become an example in sustainable development for the rest of the world.

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