

The Four Pillars to Drive Commodity Markets in India

Primary Markets
Warehousing & Standardisation
Regulatory Reforms
Information & Technology



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A large, light gray decorative graphic of a tree branch with leaves and two small birds perched on it, extending from the left side of the page towards the center.

Warehousing & Standardisation:

Brief History of Warehousing

While it might be futile to try and pinpoint the exact origin of the warehouse, historical evidence points to the availability of public storage in ancient China. Renowned sociologists like Alain Testart have suggested that storage practices played an important role in the evolution of human society since the Hunter-gatherer stage. The Roman Horrea –rectangular stone buildings with raised floor and overhanging roof used to store grain and other things- is one of the earliest examples of a warehouse. Some Horrea complexes are huge even by today's standards and can cover upto 2,25,000 sq. ft. or 21,000m². The evolution of the warehouse from ancient granaries into a more specialized functioning linked to Shipping, trading and production can be traced back to the industrial revolution in the 19th century when warehouses formed an integral part of the urban landscape at that time.

In India, structures like the Kanaja, Sanduka, Kothi and earthen pots etc. have been traditionally used to store food grains and pulses. These private storage practices have evolved over a period of time and are ideal for storage of small quantities of grains for personal consumption. And as production increases owing to the introduction of modern high yielding varieties and adoption of more scientific and efficient farming practices such as irrigation and pesticides, the demand for storage increased manifold. The lack of storage facility meant that in the event of a bumper harvest farmers are forced to sell their produce at lower prices or risk storage loss leading to a glut in the market. To address the need for more storage capacity and to arrest the glut in the market, the government intervened by establishing state owned corporations to provide storage facility for agricultural commodities in the 1950's, and started purchasing grains from farmers and storing them at depots and godowns. This marks the beginning of large scale warehousing in the country.

These government run depots and godowns dominated the Indian warehousing scene for most

part of the century providing basic storage for inventory. These buildings are often in dilapidated conditions due to lack of proper maintenance. Warehousing in India has come a long way from the 'godown' days riding the economic boom and in the process have become an important backbone of the economy itself. The Indian warehousing industry is still at a nascent stage as compared to developed markets such as the US and UK. With the active participation of players from the private as well as public sector, the warehousing industry in India is taking off and is fast catching up in the adoption of scientific facilities management, storage practices, inventory management, and equipments.

Warehousing in India has played a major role in ensuring food security and promoting agricultural growth in the country. By regulating demand and supply during on and off seasons warehouses helped in solving the age old problem of glut in the market and reduced scarcity during off season. However, the growth of the sector today is largely driven by industrial activities, to this effect governmental initiative such as Make in India, FDI relaxation, GST and the National Manufacturing Policy (NMP) have played a great role in the development of the sector. The rapid rise in e-commerce and increasing activity in the Fast Moving Consumer Goods (FMCG), auto, chemicals, pharmaceutical etc. are the next generation growth drivers for the industry.

Warehousing in India

Warehousing in India has come a long way from just brick and mortar structures a few decades ago to a sophisticated booming industry today. The emergence of organized retail and the advent of e-commerce led to an increase in demand for warehouse space in the country. As per a Ernst & Young/CII report, the Indian warehousing industry is estimated to be around INR 560 Billion and growing at an average 10% per annum. The warehousing industry in India is broadly divided into two

segments, the industrial segment –accounting for roughly 2/3rd of the industry - and Agricultural warehousing segment. The industry as a whole is estimated to grow at a CAGR of 8-10% from 2015-16 to 2017-19 (CRISIL). Organised warehousing which constitutes roughly 17% of the warehousing segment is expected to see a healthy growth rate of 13-18% CAGR while the unorganized warehousing that dominates the industry is projected to growth at 5-6% CAGR during 2015-16 to 2018-19 (CRISIL Research).

The evolution of warehousing in India from Godowns to Warehouses and now to delivery centers is also accompanied by structural, operational, as well as functional changes. From brick and mortar structures to RCC & fabricated steel structures to pre-engineered structures today a modern warehouse is bigger, has higher load bearing capacity and are better equipped with loading/unloading machines and automation as well. Today a warehouse is not just storage for goods but also offers several value added services such as sorting, packing, and processing. Though warehousing has come a long way, much more ground needs to be covered for the Indian warehousing to be at par with the best in the global markets.

The Indian Warehousing market is still local driven, fragmented, and dominated by unorganized players. There is no set national standard for warehousing that can be uniformly adopted to ensure consistency and quality in the industry. Also frameworks for the regulation and governance of the warehousing industry vary from region to region as well which leads to regional imbalances. Today location of a warehouse is dictated by prevailing legislation and tax arbitrage that can be gained by setting shop in a particular location rather than being based on operational efficiency and market requirements. A lot still needs to be done to transform this booming industry and turn it into an efficient and robust backbone of the economy.

Organised retail, e-commerce, manufacturing, chemicals, pharmaceuticals, and agri-warehousing are some of the major consumer of warehousing space and are also driving change in the warehousing industry. The demand for warehousing space rose by nearly 40 per cent in 2015-16 to an all-time high of about 10 million sq. ft. driven by demand from, FMCG, e-commerce and engineering & manufacturing firms according to property consultant CBRE. The Indian economy continues to grow and is one of the fastest growing economies in the world, this has attracted a number of MNC's to invest in the country and the FDI inflow into the country is also increasing on the back of the governments initiative to improve the ease of doing business in India. The robust economic activity and the increasing investments especially in the manufacturing sector also adds to the increasing demand for warehouses and a fresh supply of modern warehousing space needs to be urgently created to augment existing capacity and also cater to anticipated growth in demand for warehousing space in the future.

What ails the industry?

The biggest predicament facing the agri-warehousing industry in India today is undoubtedly that of post-harvest losses of agricultural produce. In India, 10% of crops, i.e. worth INR 1 Lakh crores is estimated to be lost annually either in the storage processes or in transit. Poor infrastructure alongwith a lack of scientific technology to save the crops are often blamed and rightly so, for the humongous post-harvest losses.

Agri-warehousing plays a critical role in combating the risk of post-harvest losses. According to a FICCI study the adoption of appropriate scientific practices in Agri-warehouses has the potential to cut the post-harvest losses to a mere 0.5% from the present 10%. Thus, along with the creation of additional infrastructure, investment in scientific management practices in Agri-warehousing is critical to bring that 10% wasted crop back to the

plates of the people of our nation.

Another hurdle confronting the warehousing industry in India is the dearth of skilled manpower to power its growth. The scarcity of trained drivers, laborers, packers, loaders, and supervisors also constitutes a huge stumbling block for the growing industry. Government intervention and support in terms of skill developments through the 'Skill India' initiative and training programs offered through the National Skills Developments Council (NSDC) will go a long way in addressing this shortcoming.

The Need for Standardization

Standardization in simple terms means identifying the best procedure or steps to achieve something, fine tuning the identified steps and then replicating the same to achieve maximum efficiency and almost zero percent glitches in the system. As such warehousing operation with repetitive procedures like loading/unloading, stacking/de-stacking, packing/unpacking and managing offers ample opportunity for standardization.

A standardized operation affords better insight into a process thereby enabling continuous improvement, better organisation, and also measurement of performance metrics. Typical warehouse work flow like receiving, storing, stock replacement, sorting and shipping etc. appears uncomplicated yet wastage can creep into the process causing sizeable loss not only to materials stored but also loss of productive man-hours. Standardization can help reduce waste and ensure optimal efficiency in production.

Technology can be a key enabler and game changer in establishing efficient and transparent processes in the supply chain system and facilitate sharp reduction in post harvest losses. The efficient value chains will not only cut down wastage but also bring down the yawning gap between farm gate prices and retail prices. For example, introduction of GPS enabled handheld devices will ensure real time reporting on the status of the

goods stored, enable digital signature, cut down turnaround time, and transmit data on key parameters to one central location while GPS tracking will ensure warehouse manager's availability. The real time data can also be shared with the clients so that they can immediately point out in case of any anomalies.

Similarly, warehouses can be sealed with hybrid seals having unique numbers and the breaking and fixing of seals can be both monitored on daily basis. This also enables monitoring of timely opening and closure of warehouse, facilitates regular monitoring of the stored commodity and allows immediate action in case of any fidelity or theft.

India's farm output is precious and the efforts should be aimed at ensuring that not even a morsel is wasted. There is a need for a sustained campaign to improve exiting storage spaces and introduce a standardized technology to make the entire supply chain smooth, transparent and mobile to ensure quality, timely delivery, right price and minimal losses.

With the help of an integrated technology, the post harvest losses which are pegged at 10% could be reduced to merely 0.5%. Henceforth, it would give an interim solution to "Food Security Problem" of India which is a major social challenge to our society by saving on post harvest losses. This has been validated in a 2013 study by FICCI as well:

- Data management in warehouse and real time capturing of data with real time reporting and controls
- Facilitates digital signature and cuts down turnaround time
- Configured to communicate to the MIS database kept at a remote location
- Configured to fire SMS to the client upon validation of the data by the main database

Agri warehousing providers in the country, especially those from the private sector are increasingly investing in modern technology and scientific know-how in their warehouse operations and terms such as Geo-fencing, Real Time tracking, bar-coded warehouse receipts, and technology solutions are today

very much a part of the warehousing lexicon. Moreover, private players have also made significant foray into the upstream process of crop financing and farmer support etc. which have helped farmers adopt scientific crop management practices and result in improvement in the quantity and quality of farm outputs in the country.

Apart from improving operational efficiency, technology standardization in warehousing offers the added benefits of a more effective training and cross-training of workers. It also lends stability to an operation and the same can be easily replicated across existing or new warehouses. The procedure offers clear visibility into the scope of work, defines responsibility, and facilitates easier measuring of performance metrics and knowledge sharing. By implementing a standard process to be followed by all employees, a consistently high level of productivity can be maintained across the warehouse. Standardization allows for processes and procedures to be documented for easy reference in-case of a fault and to serve as a template to improvise and improve upon existing processes.

Future Horizons

In India, it is distressing to note that every year; an enormous amount of food grains gets wasted due to archaic procurement, storage and inefficient warehousing methods. This results in huge burden on the economy because one, it leads to inflation as additional supplies could have helped cool down prices and two, this production can go a long way in providing food to millions of poor people in India at subsidized rates.

I believe that the demand for scientific warehouse management is likely to increase in the foreseeable future on the back of an economy that is on a roll. Improving ease of doing business, easing of FDI regulations and a progressive taxation regime will serve to attract more MNC's to invest in the country and the possibility that some of that investment will be in the warehousing segment itself makes the case for existing warehouses to pull up their socks and invest in getting themselves ready to ride the impending boom in the industry. Existing growth drivers will demand more space and new demand drivers will emerge, the competition for market share in the sector is already heating up and investments of time and money into standardizing warehouse operations will improve operational efficiency and profitability of warehouses.



