



Express Industry in India



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Executive Summary



1. Executive Summary

Express Industry, a key segment of the logistics industry

In the present business environment speed to market is of crucial importance for most industry segments. Businesses need logistics services tuned to such requirements for reaching out to the customers within tight timelines, delivering products, spare parts, samples, contracts, letters etc. The speed of such deliveries is critical for garnering sales across regions, meeting customer expectations and maintaining the business competitiveness. The express industry, by creating an integrated door-to-door linkage across domestic and international regions along with shipment tracking facilities serves the need for time sensitive logistics services.

Express Industry serving the needs of multiple customer segments

The express industry caters to multiple industry segments as well as to individual customers by providing time bound logistics services. The customers use express delivery services for shipment of various products, including documents like letters, trade documents, applications, cheque books and bank statements, promotional materials and non-documents like equipment parts, electronic products, spare parts, trade samples and others. While multiple industry segments use express delivery services, certain industry segments like auto components, banking and financial services, IT components, readymade garments, pharmaceuticals, and telecom products are the largest customer segments for the express industry in India. The business from other industry segments like organised retail and e-commerce is expected to grow in the future as these industries grow in reach and size. The express industry serves the need of domestic as well as international business through their global networks.

Express Industry in India, a fast growing industry segment

The express industry in India has come a long way from its origin in modern form in 1980s. The industry has grown in size and reach. A significant number of players have scaled up their operations and are large businesses in their own right. The industry has invested in information technology systems and set up good processes and proprietary systems capable for handling large volumes.

The Indian express industry size is estimated at Rs. 10,870 crores (about USD 2.2 billion) in 2011-12. As a premium segment, the express industry is a small but significant segment of the logistics industry. It is one of the fastest growing segments of the industry. The industry is expected to grow at 17% per annum to Rs. 17,450 crores (about USD 3.5 billion) in the next three years.

The economic growth in the country and the consequent trade growth will be primary growth driver for the express industry. The growth in current customer industry segments and expansion into new industry segments will be demand drivers for the express industry. In addition, increase in reach

through expansion of network and new products like temperature-controlled logistics, services for importers and others will provide additional growth of the industry.

Any slowdown in economic activity, both local and global, will dampen the growth for the Indian express industry. Further, the industry faces risk from implementation of a restrictive postal act and substitution of documents in physical mode with that in electronic form.

Express Industry, significant contributor to employment and exchequer

The express industry serves as a key enabler for business by providing time-bound logistics services to customer industry segments. Besides providing critical services and aiding economic growth, the Indian express industry has significant contribution to the economy. As a labour intensive industry, the express industry is estimated to presently employ about 11.9 lakhs persons, directly and indirectly. Based on the growth estimates for the industry, the employee base of the industry, direct and indirect, is expected to grow to 17.2 lakhs by 2014-15. The express industry also makes significant contribution to the national exchequer with total tax contributions expected to be over Rs 1100 crores in form of service tax and corporate tax for 2011-12.

Structure of the industry

The express industry offers an integrated shipment delivery services to its customers. The customer thus needs to deal with only one operator. Express services also provide visibility of the shipments to the customers through the tracking mechanism. However, the operations of the express industry are complex involving multiple activities and parties.

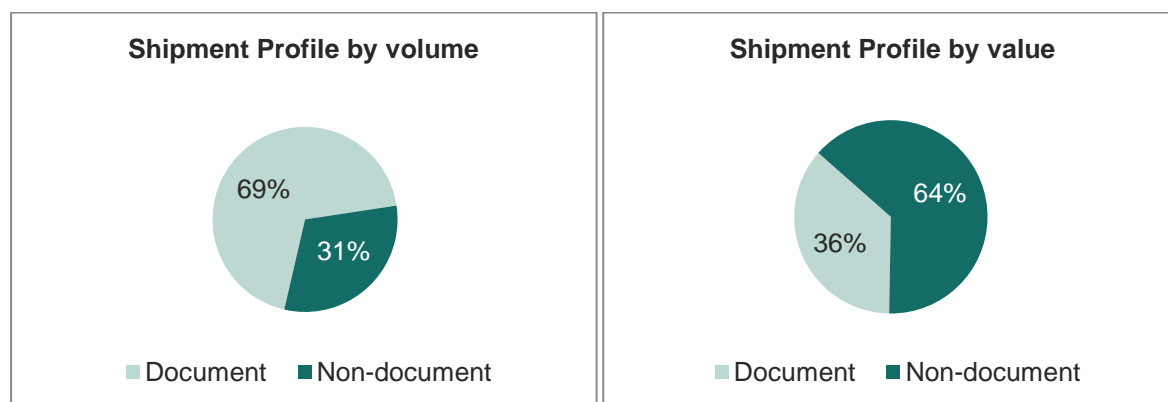
The express industry is a fragmented industry with large number of players, estimated at about 2500. However, there has been considerable consolidation of the industry over the years and the large organized players, including government postal department, presently have about 72% share of the industry revenue with the semi-organized players estimated to have another 15% share while smaller players have the residual market share. The larger players have wide networks with presence in national and international locations. The medium size players have a regional focus with limited presence across other regions. The smaller players are mostly unorganized and have much smaller networks limited to few cities and towns. The larger players have made considerable investment in network and processes including information technology infrastructure and transport assets and are able to handle large volumes across multiple locations. The industry reaches out to its customers through its branches and other service points like franchisee and associate. While most large players use owned branch network, some of the larger players use the franchisee model more extensively. From the branches, the shipments flow to hubs at collection and distribution centres through transport gateways to reach the consignee within the specified timelines.

The shipments carried by the industry can be categorised into two categories – documents and non-documents. Documents refer to letters, cheque books, mailers etc while non-documents refer to samples, equipment parts, electronic items and other multiple items. Documents form the larger share



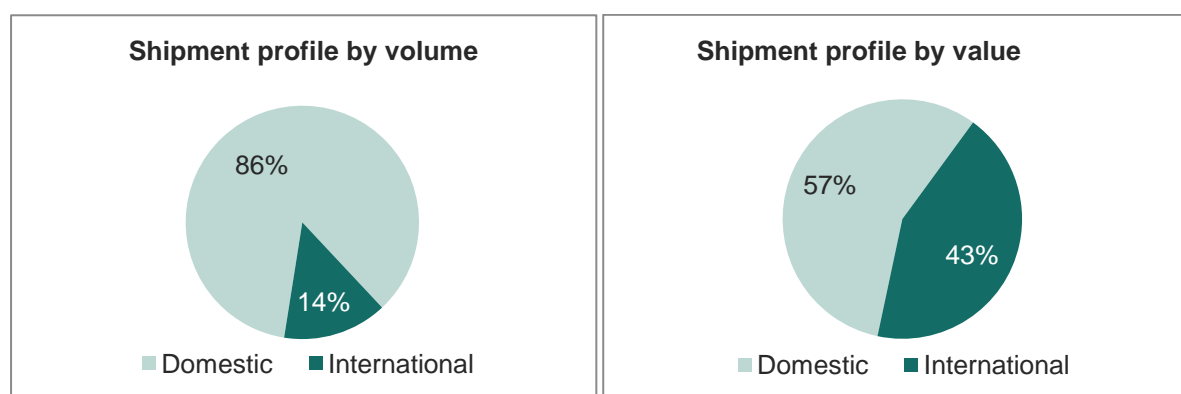
of the industry by volume while non-documents have higher share by value. The share of documents related business is expected to decline in future as increasing use of information technology is reducing the need for sending documents in physical mode.

Figure 1 : Shipment profile - share of documents and non-documents



The industry has global reach and caters to shipments with destinations across the globe. The domestic market generates larger volumes and value relative to the international market, though international market forms a significant part of the market.

Figure 2 : Shipment profile by destination



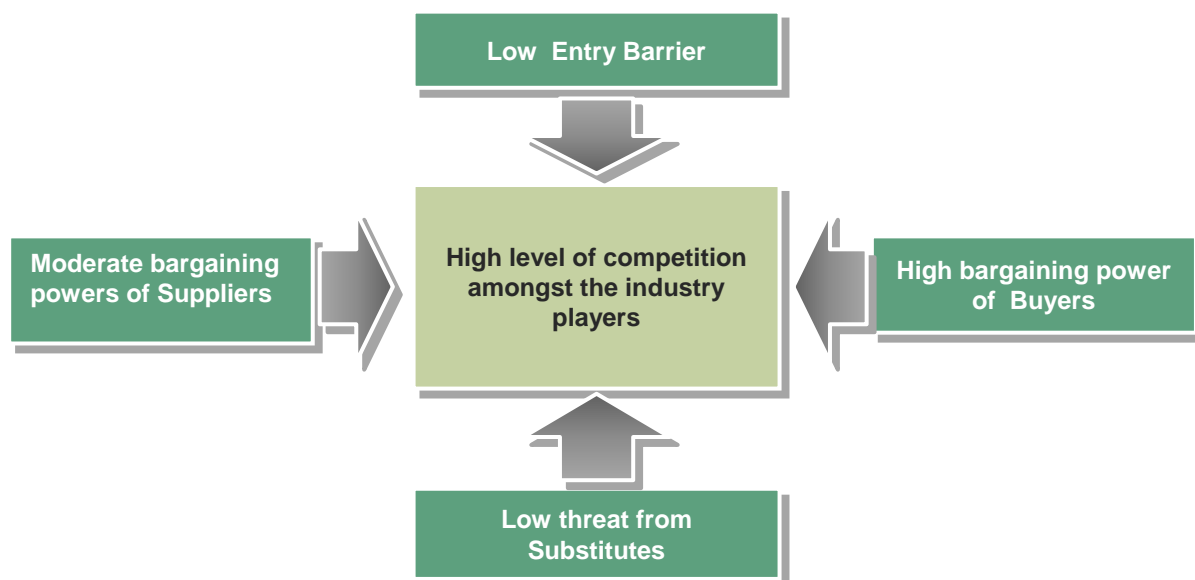
Within the domestic market, the larger cities form the major segment. This is also a function of the demand and the infrastructure availability. Within the international markets, United States, Europe and Middle East form the top destinations.

Highly competitive operating environment of the industry

With a large number of players, the intensity of the competition is high for the industry in general though the industry leaders with ability to differentiate on service quality and network are in a relatively better position. In addition, there is threat of new entrants due to relatively low level of initial investments for starting up operations and availability of outsourcing options. The bargaining power of the buyers is high due to multiple options available to them. This is to an extent mitigated by low

threat of substitutes and moderate suppliers' bargaining power. A combination of these factors leads to high level of competition in the express delivery services industry.

Figure 3 : Competitive forces in the Express Industry



Multiple concerns for the industry

The proposed Postal Bill poses a threat to the express industry. The bill proposes to reserve normal mail under 150 grams and express mail under 50 grams for the government postal department and allow registered players to service these reserved segments at twice the postal department rates. The proposed regulation, when implemented, is likely to have an adverse impact on private players in the express industry as it will lead to loss of volumes for them, especially from documents segments, and weaken their competitive position vis-a-vis the government postal department. The impact will be higher for medium and smaller players who have higher dependence on documents business.

The issue of high operating costs is another area of concern for the industry. The inflation in major cost elements like manpower, transportation, airport infrastructure costs have been high in recent times leading to pressure on the operating margins for the industry.

The inefficiencies at customs clearances and at state border checkpoints are other areas of concern for the express industry. These affect the delivery timelines as also the costs for the industry. The lack of adequate infrastructure at airports tuned to requirements of express industry is another area of concern for the industry. Similarly, the road infrastructure is not adequately developed to facilitate high speed movement of commercial vehicles. The express industry players are also concerned by the coverage of express players under the Carriage by Road Act as it imposes requirements of common carriers not considering the integrated operations and multi-modal transportation used by the industry.



Positive user perception

The customers of the industry value the contribution from the Indian express industry. In the primary survey carried as part of this study, over 70% of the customers surveyed agreed that the industry contributes positively to their business. In terms of their expectations, the customers value timely delivery, prompt & timely pick-up and delivery of packages in proper condition while the concern points are lack of complete and accurate information, lack of adequately informed staff and ability of call centres to resolve issues.

Conclusion

The express industry in India forms a significant part of the logistics industry. By providing an integrated time-bound door-to-door delivery services, the industry is catering to the requirements of business as well as retail customer to deliver shipments under tight timelines. In addition, the industry makes significant contribution towards employment and exchequer.

The industry is one of the fastest growing segments of the logistics industry. The industry is poised for high growth in future though the same is constrained by inadequate transport infrastructure and procedural delays at gateway checkpoints (airports, state border checkpoints) in addition to threats from the regulatory restrictions and economic slowdown.



Overview of the Express Industry



2. Overview of the Express Industry

Express Industry serves a vital need for time bound delivery of shipments across the globe. By providing a time bound, door-to-door delivery of shipments across regions, this industry serves as a key enabler for trade and commerce. The Express Industry, in its modern form, is of relatively recent origin but has grown rapidly to an estimated size of Rs 10,870 crores in 2011-12. The industry is also a large employer of human resources and makes significant contribution to the exchequer.

2.1 Express industry

Express industry is a premium segment of the logistics industry, providing logistics services for movement of time sensitive shipments. By creating an integrated chain including multi-modal transport modes, both air and surface, express industry has fine-tuned the logistics process for time-bound deliveries of shipments across domestic and international regions.

Characteristics of the express delivery services are as follows:

1. **End-to-end logistics solution:** Express delivery services provide a complete chain of solutions from the collection of shipments at the doorstep of the consignor to packaging, transportation, storage, clearances, and the final delivery of shipments. For cross-border movement of goods, express delivery services include handling of custom clearances and payment of relevant duties as well.
2. **One-stop solution:** Express delivery services act as a one-stop solution for handling all logistics related requirements of the customers. Given the integrated nature of service, the customer needs to deal with only one operator in the entire value chain of service.
3. **Time bound service:** Time bound delivery is the most critical aspect of the express industry. The delivery timelines ranges from 24 hours to 72 hours for most destinations, In addition to the day definite delivery, express industry also provides time definite delivery services.
4. **Tracking and Delivery confirmation:** Express delivery services provides real time tracking of shipments to enable visibility to the customer on the movement of goods and provides delivery confirmation for the shipments.
5. **Global reach:** Express delivery services links to a large number of destinations across regions providing global reach to its customers.
6. **Premium pricing:** Express delivery services is the premium segment of the logistics industry and is priced at a premium compared to the traditional delivery services given the time-bound nature of services.

Compared to the conventional carrier services, the express industry is focused on fast and reliable delivery of movement of goods with an end-to-end integrated service under the control of one operator.

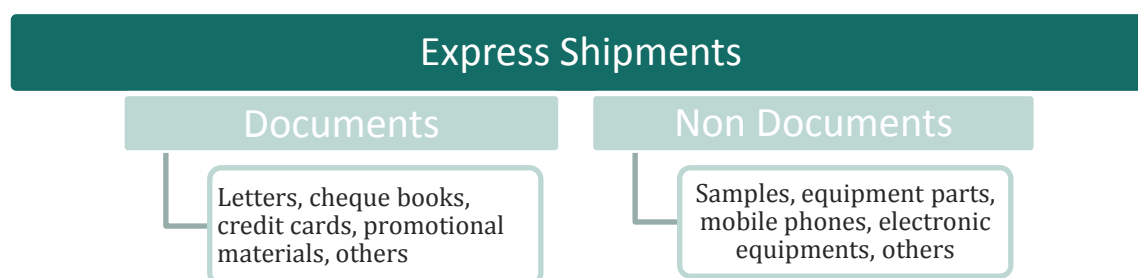
The express industry is a key business enabler and plays an important role in trade facilitation and in the overall economy. By providing faster deliveries, it helps its customers in meeting their evolving requirements with regards to time sensitive logistics.

2.2 Customers for the express delivery services

The express industry caters to customers requiring urgent deliveries of parcels and documents. Express delivery services have a diverse customer base from multiple industry segments. However, certain industry segments form a large share of the customer base. Major customer industries include auto components, banking and financial services, garments, pharmaceuticals, telecom products and IT components. Other segments like organised retail and e-commerce are also emerging as large customer segments. As per the primary survey carried out as part of this study, business customers, with regular accounts, comprise 64% of the customer base of the Express Industry in India.

Express delivery services categorize the shipments into two broad categories—documents and non-documents—as shown below.

Figure 4: Express shipments



The customers use express delivery services for shipments of different types of shipments like commercial documents, samples, material parts, spare parts and other goods. The usage is highest for time sensitive documents and non-documents like high value low weight products, perishable products and products with short commercial life cycle. The customers use express delivery services for shipments within the country as well as outside the country. In addition to the business customers, individual customers also use express delivery services to send time sensitive documents and parcels within as well as outside the country.

Express delivery services provide value addition to its business customers by helping them in reaching out to their customers across geographies, meeting their customer expectations for urgent deliveries and minimizing inventory costs. The relevance of time bound express delivery service is especially high with growing preference for just in time inventory process across a large number of industry segments. The express industry by providing logistics linkages across the globe plays a vital role for the export oriented industries. The express services are used extensively by medium and small scale sector in addressing the requirements of their customers across the globe.



2.3 Evolution of the express industry

Globally, the history of express industry can be traced back to personal messengers and delivery services used since ancient times. A similar history can be traced back for the Indian express industry. Today, the industry has evolved with a wide global network handling various document and non-document parcels on a large scale.

In the global context

The industry in its modern form originated in the United State in 1960s¹. The deregulation of air cargo in the US in the late 1970s provided the express industry an impetus. The express delivery providers started catering to the need of companies for time sensitive logistics that could not be met by either postal services or freight forwarders. Globalization and increase in cross-border trade also contributed greatly to the growth of the express industry. The industry made rapid strides in the initial period.

The express delivery services were initially largely limited to document shipments. Over a period of time, it has evolved into the delivery of documents and parcels to specialist items such as high-tech products, and general airfreight commodities. Typically, the types of goods transported by express delivery services are high-value/low-weight items.

Today, the global market is dominated by four large players, who are also referred to as 'integrators'. However, the industry remains highly competitive with a large number of players including small and medium-sized players.

In the Indian context

The modern express industry can trace back its origin to personal messengers. This system was prevalent in courts of kings and among traders and used to carry personal messages, documents and parcels. A similar service was known as 'angadia' in western region of India. These systems, however, operated at small scale and were unorganized.

Organized express delivery services in India started in early 1980s. International express service companies also entered the Indian market around the same time and entered into tie-ups with Indian players. The initial focus of the industry was on documents and small-sized parcels, but as the scale of operations and expertise grew, the industry widened its coverage to large non-document shipments.

The Indian express industry, like its global counterpart, received an impetus from the development of the aviation sector. Express delivery services, or couriers as they were more commonly known became synonymous with on-board carriers, carrying bags of documents on commercial flights. The

¹ As per Oxford Economics study on express industry

next major break was witnessed with the advancement and implementation of the information technology enabling tracking, scheduling, and helping the industry scale up operations.

Although the industry started with small players, as the industry grew, requirements for a large network of operations and organizational setups have influenced the industry to consolidate. The Indian industry is still highly fragmented, but it is increasingly consolidating. This is in line with the trends observed globally where the industry is dominated by few large players but a large number of small and medium regional players still continue to operate.

2.4 Global express industry

The global industry is estimated to have generated sales revenues of USD 175 billion in 2008, as per Oxford Economics. The global industry is dominated by the top four players, but there are many other players in this highly competitive industry.

By region, North America and Europe accounted for over 70% share of the industry in 2008, and Asia Pacific is another major market accounting for about 25%. Asia Pacific and Latin America are high growth markets for the industry in line with economic growth in these areas. The vast majority of express deliveries are intra-regional, i.e., between countries and states within the Americas, Europe, or Asia-Pacific. The businesses today have expanded across borders in search for new markets and raw material and manufacturing sources. This trend has led to complex logistics requirements which in turn have created the need for specialised services. The need for specialisation has lead businesses to increasingly outsource the logistics requirements to players like express delivery services with global spread and capability to handle large volumes within reasonable costs and delivery timelines. This expansion of businesses and the need to efficiently manage a distributed supply chain through specialised outsourced services is a growth driver for the express industry. The users of express delivery services in the global context are mainly knowledge-based and high-tech industries like finance and banking, automotives, IT, telecommunications, and pharmaceuticals, accounting for over 70% of the express industry clients.

The regulatory environment for the express industry varies from restricted operation to a fully liberalized environment. Some countries like Australia and France have reserved categories for the government postal services but allow express services players to provide service at a price multiple to postal department rates. On the other hand, other countries like United Kingdom, Germany and Malaysia have a fully liberalised environment. There is general trend globally of liberalising traditional government monopolies as economies realise the benefits of a competition driven industry in terms of efficiency and service levels.

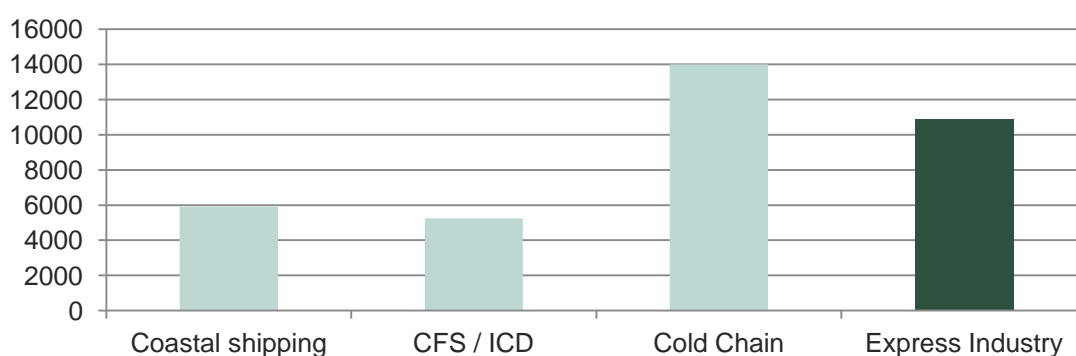


2.5 Indian express industry

Since the introduction of organized services in the early 1980s, the Indian express industry has evolved rapidly and has increasingly added various services and user segments in the ambit of express deliveries. The size of the Indian express industry is estimated at Rs 10,870 crores (USD 2.2 billion) in the financial year 2011-2012.

The industry contributes to about 3% of the Indian logistics industry and is comparable to other segments of the logistics industry like coastal shipping, cold chain and container freight station & inland container depot.

Figure 5: Comparable segments of Indian Logistics Industry: FY 2012



Figures in Rs crores
Source: CRIS Analysis

While compared to the overall logistics industry, the express industry is a small and niche segment but the level of integration and ability to delivery within short timelines is amongst the highest in the industry. Other freight transport segments are unable to offer such high level integration to their customers. The express industry is thus able to place itself as a premium segment of the logistics industry. Further, express industry is one of the fastest growing segments of the logistics industry with expected growth of 17% per annum compared to 11% growth estimated for the overall logistics industry.

The express industry has a large number of players, including large numbers of small and medium sized players. However, the large organized players, including the government postal department, have reached significant size and scale and together account for about 72% of the industry revenues with additional 15% of the market with semi-organized players and smaller unorganized players having the residual share. The share for the larger players also considers revenues generated through the franchisee network. The smaller players serve a vital need of providing coverage in regional segments and offer better economy to their customers and are most likely to continue to form part of the industry in the future as well.

2.6 Growth drivers of the express industry

The time bound delivery along with custodial control and strong IT systems are the main service differentiators of express delivery services. Given the benefits of reduced delivery time and assured delivery, the growing preference of just-in-time approach for inventory to reduce inventory costs, the need to minimize loss of sale opportunities, and the rising end-consumer demand for quality logistics services, express delivery services are increasingly becoming the preferred mode of logistics for a large number of users.

The primary growth drivers for the express industry are overall economic growth, increasing penetration within existing and new customer segments, growing reach and network of the express industry, and introduction of newer products under express delivery services.

Economic growth

The growth in express industry, similar to the logistics industry, is closely linked to the level of economic activity in the country.

In the United States and the European Union, the share of logistics industry in GDP is estimated to be approximately 8% and 7%, respectively. In Japan, logistics spends form approximately 11% of its GDP, while in China, the figure is as high as 18%. In the case of India, various sources have indicated the share of logistics in GDP to be 11%-13%.² While the estimates on the size of the industry vary, it is widely accepted that the logistics industry forms a significant part of any economy and grows in tandem with the economy.

Within the economy, certain industry segments like organized retail, e-commerce, consumer durables, electronic products, and healthcare are likely to witness higher than average growth in the economy. These industry segments will be the major demand drivers for the express industry.

Express industry is also expected to receive a fillip from the higher level of consumption demand in the country. The consumption demand in India is expected to grow at 10% over the next 10 years fuelled by higher economic growth³, and this will in turn push the demand for items like electronics, garments, etc, in turn creating additional demand for express industry.

Growing network and reach

Primary interactions reveal that the business from smaller cities and town is limited. The business is presently primarily generated from metros and major cities.

² Source: EIU, ARC Advisory, CLSA, Council of Supply Chain Management Professionals

³ India Brand Equity Forum/Primary Interactions



However, with the growing importance of non-metro centres as manufacturing and consumption centres, these centres are expected to be a major demand driver for the express industry.

New products

Certain segments like pharmaceuticals require specialized services like temperature-controlled logistics, which are offered today by a handful of players only. Similarly, value added services for import cargo movement would result in the growth in import cargo movement via express delivery services. As the express industry creates products and solutions catering to the specific needs of different industry segments, the penetration levels of the express industry will increase leading to growth for the industry. Some of these products can potentially create fresh markets for the express industry and its customers.

2.7 Contribution to the Indian economy

Express delivery services play a key role in the economy by facilitating trade and speeding up the movement of goods from one place to another. Express delivery services contribute to the overall economy by increasing employment, contributing to the national exchequer, and enabling business for its customer.

Large employer

Express service is labour intensive and creates employment for a large number of people directly. It also uses services like transportation, airport services, air cargo handlers, etc. leading to a significant indirect employment by the express industry.

From the primary survey, It is estimated that the express industry employees about 11.9 lakh persons in its operations, both directly and indirectly. Of this, around 32% are direct employees and the rest are indirect employees.

The employment offered by the express industry is comparable to the direct employee base of the Indian Railways, which employed around 13.6 lakh persons as of 2010⁴.

Significant contribution to the national exchequer

As per the Directorate of Service Tax, the industry contributed about Rs. 554 crores towards service tax in 2010-2011. This number reported by the directorate is the net service tax paid by the industry after setting-off tax on outsourced services.

⁴ Source: India Stat

Gross service tax collection numbers are not readily available; however, based on interactions with industry players, the set-offs on gross service tax is estimated at 40-45%. Based on this estimate, the industry would have contributed Rs 900-950 crores as gross service tax in 2010-11. The industry is estimated to contribute over Rs 1000 crores by way service tax in 2011-12.

In addition to service tax, the industry is estimated to contribute about Rs. 160 crores towards direct taxes in 2011-12. This is based on assumptions for average net profitability of 3% for the industry on a whole.

Business enabler for the customer industry segments

Express industry plays the role of a business enabler by providing logistics links to its customers. Express industry helps businesses reach out to their customers and partners by providing time bound shipment services for documents and goods within the country as well as globally. The express industry provides valuable logistics services to high value-added industries and to export oriented industries. The express services are used by customer segments across categories including large, medium and small scale sectors. The express services are of vital importance to certain industry segments like auto components, banking and financial services, e-commerce, garments, organized retail, pharmaceuticals, telecom products and IT components.

A large portion of the customers surveyed have agreed with the fact that the express industry helps them to service their customers, manage operations, extend market coverage, and meet client expectations. In the survey of business customers carried as part of this study, 70% of the customer respondents felt that express delivery services help in revenue growth, while 79% felt that express delivery services help in meeting customer expectations. This brings out the importance of the industry to business and commerce.



Structure of the Express Industry in India

3. Structure of the Express Industry in India

Express industry is fragmented with a large number of small and medium-sized players operating with local and regional networks. However, it is increasingly consolidating with the growth of a few large players who have nationwide reach. Document shipments provide the largest volume while non-document shipments have higher share by value. Domestic market contributes to a larger share of the industry compared to the international market.

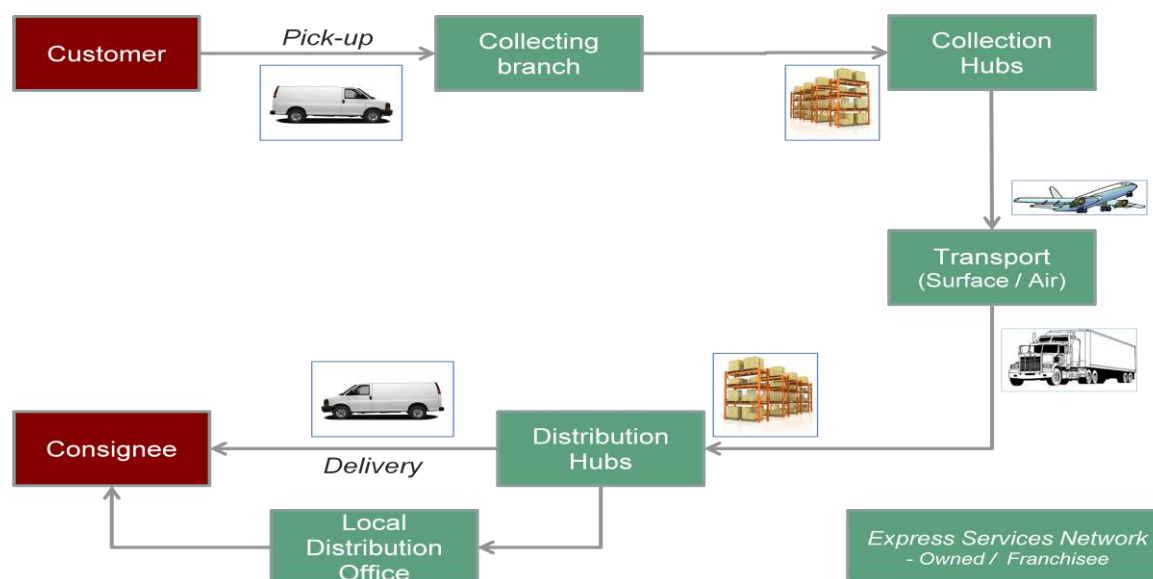
3.1 Express industry value chain

A unique characteristic of the express delivery services is the door-to-door delivery services. A customer has to deal with only one player for the entire process of shipment. However, the shipment process involves various stages and activities. A depiction of the flow of shipments between the consignor and consignee across various stages is presented below.

Broadly, collection, transportation, and distribution are the main activities in the value chain for express delivery services. The collection is typically done through the branch network. The collection at the door of the consignor is generally done once a day, mostly towards the end of the business hours for business segment customers. The shipments are then transported from the branches to a hub, where the sorting and consolidated packing are carried out. For air express player, these hubs are preferably located inside the airports or in the vicinity of airports to allow for faster movement to the transport gateway. The consolidated shipments destined for outstations are boarded onto aircrafts for transport to other cities, within and outside the country. Most players are dependent on commercial airlines and air cargo agents for outstation shipments by air. However, some large players have their own aircraft fleet and have limited dependence as such on commercial airlines and air cargo agents. For the surface express segment, the shipment movement happens largely by road and to a lesser extent by rail. At the destination end, the process is executed in a reverse sequence with the express service player collecting the consolidated shipments from the airlines and moving it to their distribution hubs. The last mile distribution and handing over of the shipment to the consignee may be done directly out of the distribution hub or through a local distribution office.

As part of the process, the express service provider also provides customs clearances for international shipments and state border clearances for domestic shipments, wherever applicable. In addition, services like special packaging, storage, etc., may also be provided by the express service player.

Figure 6: Value chain of express industry – Flow of consignment



The shipments may be transported on leased vehicles and commercial aircrafts. Most of the express delivery services companies use services of commercial airlines for air express services though some of the larger players have their own air fleet. At the distribution end, the services of an agent may be employed for the last mile distribution, especially by medium and smaller players.

The ability to outsource a large number of services across the value chain helps an express player in scaling its operations without investing large amounts upfront in the same. This lowers the entry barrier for the industry and allows for the presence of large number of players in the industry.

However, the high level of outsourcing combined with tight delivery schedules leads to a complex operation. An express service company needs to have strong processes, which ensure clockwork precision, in order to deliver shipments within the short and committed timelines. The use of information technology aids in the process. An express service player keeps control and visibility on the movement of shipments across the value chain. The ability to manage movement of shipments across various activities and services to ensure timely delivery at an economic cost is the key to operation of express.

Most of the large players have a preference for an owned branch model, while few of the large players prefer a franchisee network model. The transport services like air transport are mostly outsourced though some of the larger players have their own aircraft fleet. The larger players have wide networks, sophisticated processes and strong information technology networks which have enabled to capture higher market share and put them in a better competitive players vis-a-vis the others.

3.2 Services offered by the express industry

The express industry is reckoned as one of the more customer responsive industries. With a premium service charge, the expectations of the customers are also higher from the industry. The high level of competition in the industry has also contributed to this level of customer responsiveness of the industry.

The key characteristic of express delivery services is door-to-door one-stop timeline-defined service with global reach along with shipment tracking. These service elements are standard across the express industry. In case of international shipments, customs clearance service is also a part of the standard service offering from the industry.

The industry players also offer services like call centres/customer service numbers to resolve queries on bookings and shipments. In addition, most players offer a web-based track and trace system for shipments to its customers.

In addition to the standard offering, the express industry also provides customized services to suit the needs of its various customers. These include services like flexible billing (centralized/decentralized across branches of a customer), storage facility at warehouses, additional risk cover for high-value items, free packaging materials, shipment of non-standard items, multiple pickups in the day, and others. Another service offering from the express industry is specialized shipments for temperature sensitive materials like pharmaceutical and clinical products.

The larger players in the express industry have also started offering guaranteed time definite services. These are premium services guaranteeing delivery by a certain stipulated time, rather than just guaranteeing the delivery day, with money-back guarantee on failure in adhering to timelines.

The service charge for the industry is based on volumetric weight slabs, destination and priority. The slabs are designed such that better rates are offered to more voluminous shipments. Therefore, the charges for documents, which typically are low-weight items, are at the highest rate to weight ratio, while larger shipments have lower rate on the same basis. This is in line with the service charges for transport services where larger shipments attract relatively lower rates.

3.3 Industry segmentation

The express delivery services industry is a highly fragmented industry with a large number of players operating in various regions. As per the industry estimates, there are about 2000–2500 express



service providers in the country, out of which 1000 are active players. The others are largely small-time players with very limited operations.⁵

The players in the express industry can be broadly classified into three categories: organized players, semi-organized players, and small unorganized players.

Organized players are comparatively bigger in size as well have a wide network with presence in national and international locations, and semi-organized players have focus on regional markets and small unorganized players providing services in local areas/limited lanes.

The organized players together have about 72% of the share of the overall express industry by value, with the medium sized semi-organised players having another 15% share while the rest of the market is divided across a large number of smaller semi-organized and unorganized players.

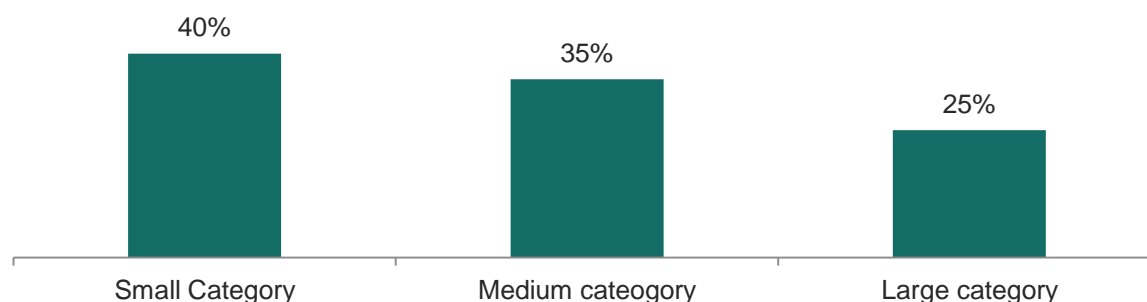
In terms of size, the players have been classified as large players with over Rs. 50 crores in annual revenues, medium players with annual revenues ranging from Rs. 5 to Rs. 50 crores, and small players with less than Rs. 5 crores in annual revenues for the purpose of this study.

3.4 Operational network

The express services providers use a hub and spoke network model. The branches form the spokes in this network. As per the primary survey conducted as part of the study, a larger player owns and operates more than 3,000 branches and service points whereas a smaller player in the surveyed sample has an average of 35 branches. The branches for larger players are distributed over multiple regions, while branches of smaller players are largely concentrated in one region. Express service providers operate through a mix of owned and franchisee branch networks. Most large players prefer owned networks while some of the larger players have large part of business coming from franchisee network. The express service providers also get into tie-ups with other players in regions outside their core area of operations. These tie-ups are of operational nature and are largely on non-exclusive basis. These tie-ups help in extending the geographical reach. These tie-ups and franchisee are important for extending reach and managing operational costs. The smaller players have higher dependence on tie-ups to extend their reach.

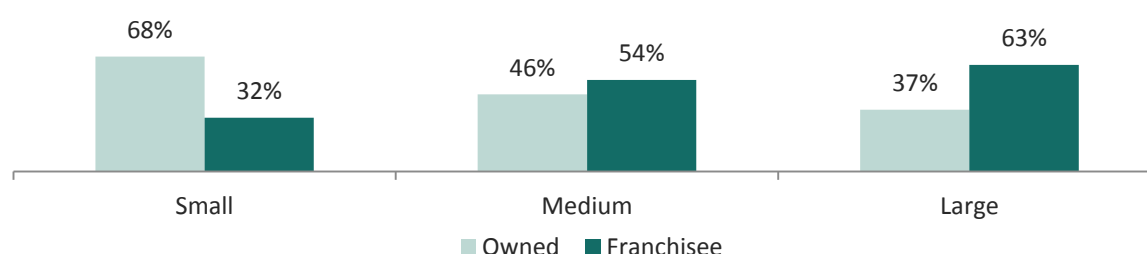
⁵ Based on primary interactions

Figure 7: Share of players with distribution tie-ups



Source: Primary Survey

Figure 8: Owned and franchise branch network



Source: Primary Survey

In addition to branches, larger express service providers have hubs at important centres; these hubs are important centres used for sorting/consolidation of shipments.

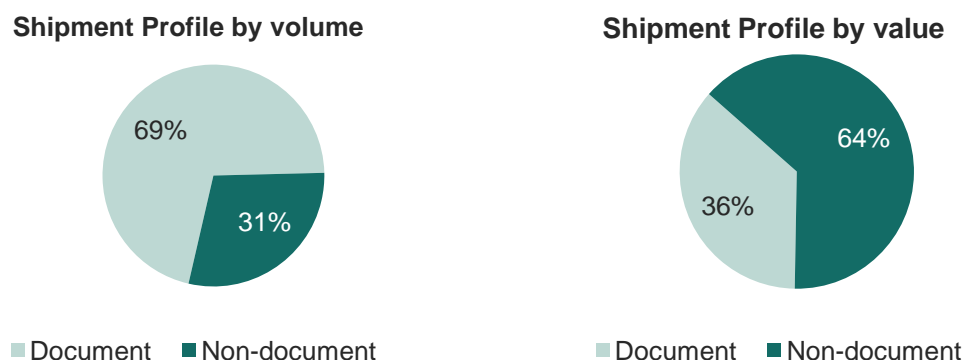
The investments in network are required to be made in furniture and fixtures, transport equipment, office space/lease deposits and information technology networks. Some of the larger players have aircrafts of their own, although most of them use services of commercial airlines/cargo airlines. The express service providers prefer to lease assets to manage upfront costs within moderate limits. On an average, the average sales to fixed asset turnover for the express industry players in India is about 5.5.

3.5 Shipment profile

In volume terms, document shipments form a major share of the express shipments volumes; however, the non-documents provide the larger share for the industry revenue in India.



Figure 9: Shipment profile – share of documents & non-documents

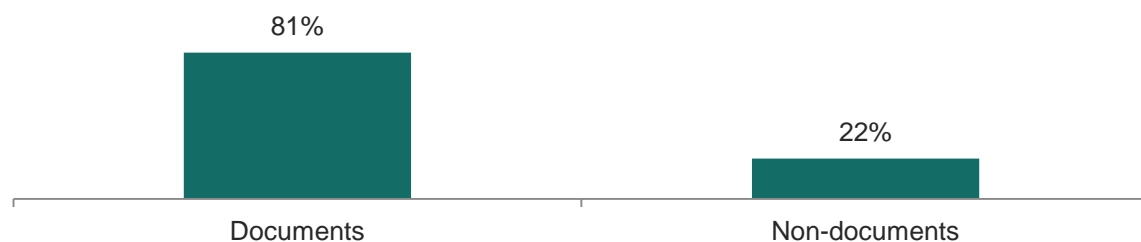


Source: Primary Survey

The express document shipments includes items like letters, bills, papers, quotations, cheques while the non-document shipments consists of garments, computer and computer parts, plastic items, imitation jewellery, return goods, electronic items and others.

As can be seen in the graph above, documents account for larger share of the total volume of express distribution services. The share of documents, in terms of volume, is relatively higher for the smaller category of players. In respect of document segment, a large share of documents form is under 150 grams category. Non document shipments account for a smaller share of the shipment profile by volume, but in value terms it accounts for approximately 64% of the value.

Figure 10: Shipments under 150 grams



Source: Primary Survey

Under the proposed Indian Postal bill, normal letters less than 150 grams and express mail less than 50 grams are proposed to be reserved for the postal department.

3.6 Geographical distribution of shipments

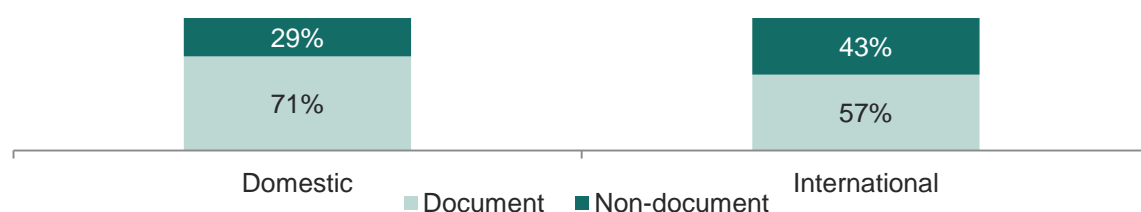
Express service providers serve both domestic and international markets. The share of domestic market, in terms of volumes and value, is higher than that of international market though international market has significant contribution in terms of value.

Figure 11: Shipment profile: Share of domestic & international destinations



Source: Primary Survey

Figure 12: Destination-wise distribution of shipments by volume



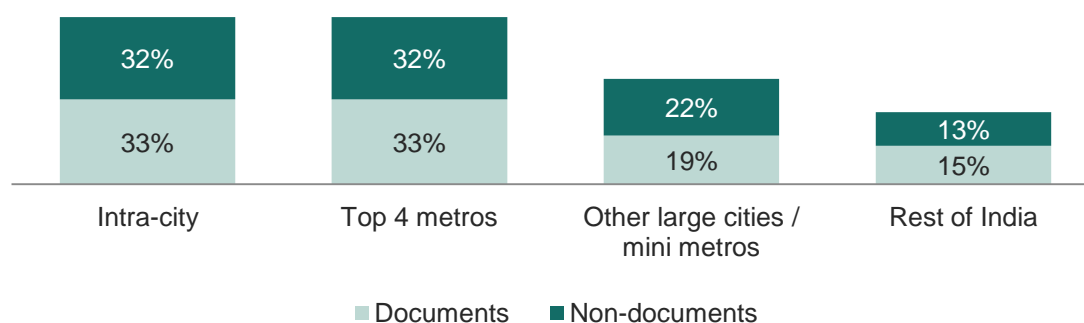
Source: Primary Survey

Documents form a major segment, by volumes, of both the domestic and international markets. However, the share of non-documents is higher in the international markets relative to the domestic market.

Within the domestic market, intra-city and top four metros form the top two segments, together accounting for almost two thirds of the markets by volumes while metros and large cities make up more than half. This also indicates that the express services market is presently dominated by the large urban locations and that there is lower penetration of express services in the smaller cities. However, this trend is changing as economic activity in others regions have been growing. The express services providers have also been expanding their branch network to these regions to cater to these requirements.



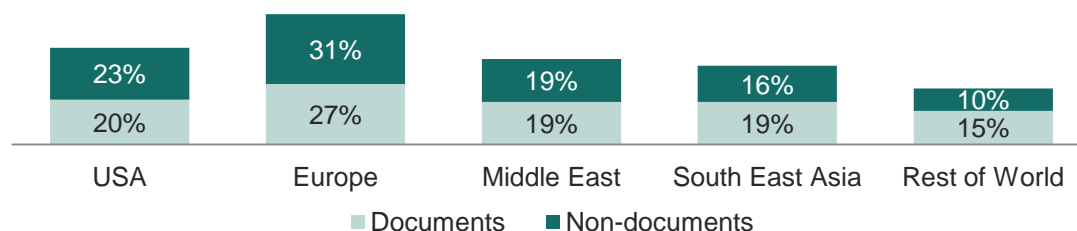
Figure 13: Distribution of domestic shipments



Source: Primary Survey

Among international destinations, USA and Europe are the major segments, in terms of number of shipments, accounting for 47% of the document shipments and 54% of the non-document shipments with Middle East and South East Asia being other major destinations. The international express market caters to the foreign trade and the destination distribution pattern follows the foreign trade pattern for the country.

Figure 14: Distribution of international shipments

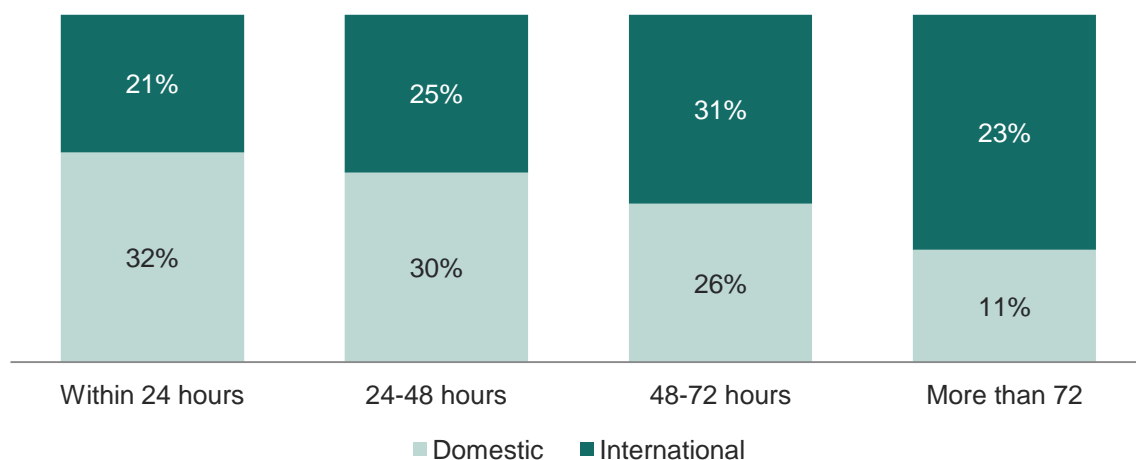


Source: Primary Survey

3.7 Delivery timelines and modal split

Delivery within short timelines is a core characteristic of the express delivery services. For domestic destinations, 'under 24 hours' category forms the largest segment, whereas for international destinations, 'within 48-72 hours' category forms the largest segment.

Figure 15: Delivery timelines



Source: Primary Survey

Express industry provides an integrated multimodal approach to the delivery of shipments. Shipments are moved through air and surface modes depending on the urgency of the delivery. All international shipments are routed through air while the surface transport forms the larger mode for domestic shipments, especially for the non-document segment. Air transport is used for time-sensitive shipments, with documents forming the larger share. The following figure shows the modal split of shipments.

Figure 16: Share of various modes of shipments

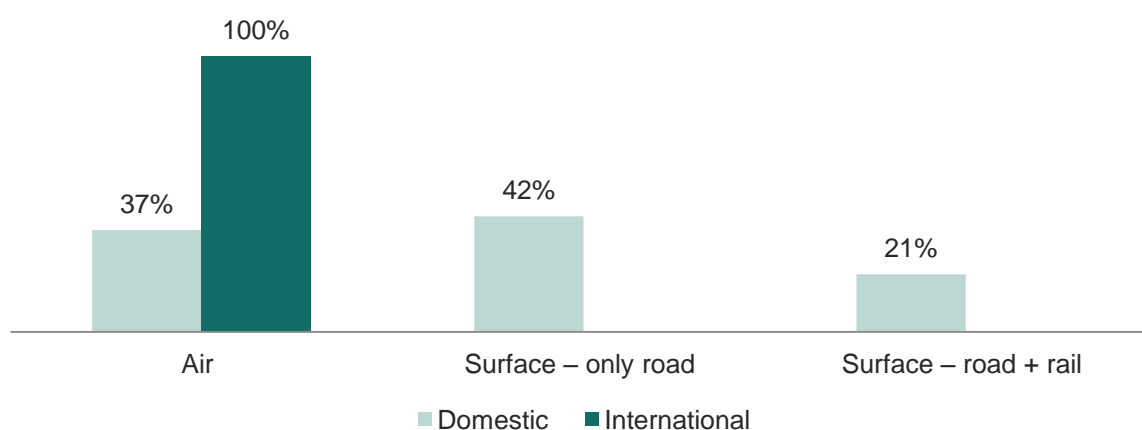
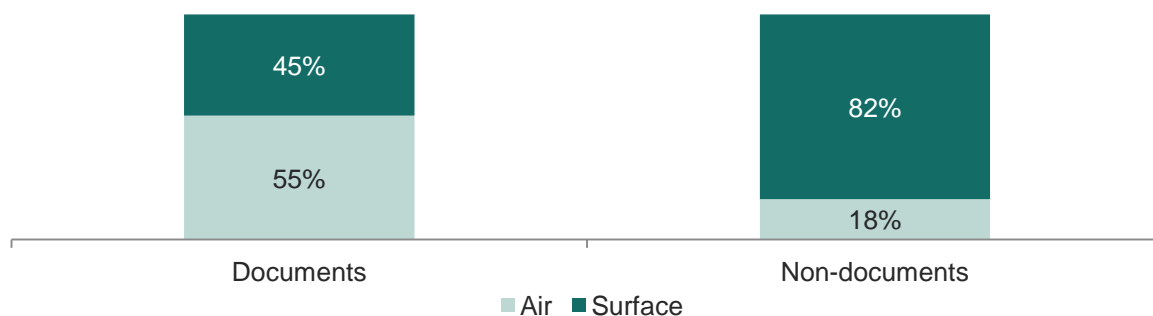




Figure 17 : Modal split for Domestic shipments



Source: Primary Survey

3.8 Indian Postal Department

The Indian Postal Department, which is a department of the Government of India, apart from handling postal mail service in the country, also provides express mail service. The postal department enjoys a large network of 1.5 lakh post offices with more than 90% of the post offices spread across the geography of the country and only 10% of them in the major urban centres. The postal department also has a large workforce of about 2.1 lakh employees.

The Indian Postal Department is also modernizing its set-up and has made efforts towards addressing the changing market requirements with over 12,000 computerized post offices and automated mail processing centres at major locations and initiatives like Project Arrow for upgrading post offices and enhancing the service quality.

The Indian Postal Department offers speed post and express parcel post as a part of its express delivery services. In 2008-09, India post generated revenues of Rs. 515 crores and Rs. 23 crores from speed post and express parcel post, respectively. As per the corporate business plan of the Indian Postal Department, the target revenues for speed post is Rs. 1,155 crores in 2013-14, assuming CAGR of 18%.



Operating Environment of the Industry



4. Operating Environment of the Industry

The Indian Express Industry is a highly competitive industry. While large number of players increases the competition intensity, customers, suppliers and new entrants bring external pressure. All this has an impact on the economics of the industry. The industry is presently not subject to major specific regulations but is governed by general regulations dealing with the logistics industry overall.

4.1 Environmental analysis of the express industry

Policy and regulatory factors

The policy environment governing the express industry is largely similar to that covering the logistics sector in general. In the Indian context, presently, no specific licenses are required to set up an express delivery service company. The Indian postal services are presently governed by an old act which may not be very relevant to the present situation. While the Indian government has attempted to bring in contemporary legislation, it has arguably been mixed with the intention of providing a protected position to the government postal department. This move has been opposed by the express industry as any such move would have adverse impact on the industry.

The express industry is affected by the multiple regulations in the course of its operations. Some of the major regulations affecting the industry are discussed below.

The regulations applicable for all carriage of goods by air, road and rail, are applicable to express players as well. It defines the duties, rights, and liabilities of a carrier in case of damage or loss of the goods. These are covered under Carriers Act and its recent replacements.

The Director General of Civil Aviation (DGCA), India, outlines the various procedures and guidelines that govern the transportation of dangerous goods through air. The Aircraft (Carriage of Dangerous Goods) Rules, 2003, were framed to develop the packaging process and the clearance system required for such materials, including explosives and nuclear material.

The Courier Imports and Exports (Clearance) Regulations is applicable for imports and exports through the express / courier mode. Only authorized express service companies registered with the Customs are allowed to handle import and export cargos. The act prescribes weight limits and cargo categories that are not allowed to be imported or exported by express delivery services and lays down the obligation of the authorised courier / express services providers.

For export and import activities, express delivery services also come under the purview of the Customs Act of 1962.

In addition, laws relating to labour, shops and establishment, department of transportation, narcotics and others also apply to the express industry.

Economic factors

The express industry, like other segments of the logistics industry, is affected by economic factors like macro-economic growth, interest rates, inflation, state of infrastructure, fresh investments, exchange rate, tax rates, and others. These factors affect the demand for the industry as well as the cost structure of the industry. A favourable economic condition is conducive for the growth of the industry as it leads to greater level of trade, thus creating demand for the express industry while conversely slowdown in economic activities has negative impact on trade, and thus impacting the demand for the express industry.

Technological factors

Technological factors affect the industry demand as well as the operations. The increased use of information technology tools has enabled the industry to track the large number of shipments and provide visibility on the same to the customers of the express industry. These tools have helped the industry in scaling up its operations. However, on the other side, development of technologies like mails, faxes, e-bills, e-statements, e-tendering, etc., has enabled customers to send information and carry out activities on electronic channels, thereby reducing the need for shipment of documents. This has a negative effect on the demand for shipment of documents.

Infrastructure factors

Express companies use the services of various infrastructure providers. Air express services use airport infrastructure while surface express services use road and rail infrastructure. The airport infrastructure includes freighter parking bays, handling equipments, storage facilities, truck docking facilities and screening facilities. Some large players have dedicated facilities at the major airports and operate their own aircraft fleet while the others use the common user facilities and use commercial airline services. Surface express by road use customised fleet of vehicles, owned and hired, with GPS facilities and transshipment hubs at strategic locations across the geographies covered. Some players also use rail mode of transport for express services using the parcel van leased out by Indian Railways on their trains.

4.2 Competition within the express industry

There are a large number of players in the express industry. The total number of players is estimated at about 2500 across the country. Out of these, about 1000 players are estimated to be active players, while the rest of them are largely small unorganized players with very limited level of express operations. The presence of a large number of players leads to a high level of competition within the industry.



The smaller players, due to limited networks, tend to operate in a specific region like intra-city market, state-level market or specific routes. These players also act as agents for the larger players for inter-regional shipments. The competition level in this segment is the highest as multiple players cater to this segment, and the service differentiation is limited, leading to pricing becoming the major element of competition.

The larger players, with wider network and better systems, are able to offer wider range of services as well better reliability of services. In addition, there are the large global players who have a wide global network. The large players with a nation-wide network or with large global networks are limited to about 15- 20 in number. These players have recognized brands and have a differentiated presence in the industry. As a result, these players have greater ability to charge a premium though significant price based competition also exists in this segment. Based on the primary survey, it is estimated that industry leaders have ability to charge 1.5 to 2 times more than the average express service providers.

There exist a large number of medium-sized players with focus on regional markets but presence across multiple regions. These players have differentiated presence in their focus markets. Though they have better pricing power than smaller players, price remains a major competition element for this segment as well.

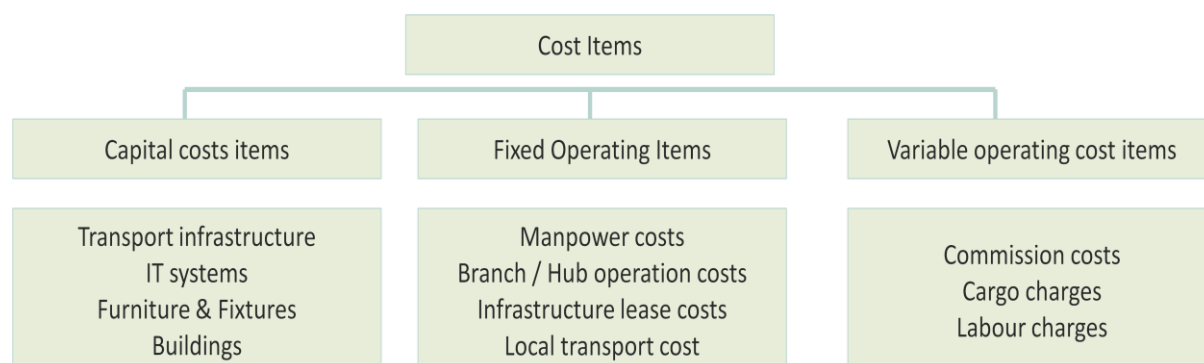
Overall, the level of competition in the Indian express industry is at a high level with the larger players enjoying a competitive advantage over the rest of the industry.

4.3 Economics of an express player

An express service player has to maintain a network for collection, transportation, and distribution of parcels. The investments in assets can be reduced by higher level of outsourcing. The cost structure of the players is such that there is high proportion of operating costs of fixed nature.

Sizeable investments need to be made towards developing the branch and hub network for any operation spread across multiple cities. However, quantum of upfront investment required for a small operation is relatively low. As a result, the entry barrier for the industry is low but scaling up operations is a challenge as it involves significant investment as well as strong systems. Transport infrastructure and IT system infrastructure have to be developed in order to offer acceptable service quality. The operations of express delivery services are labour intensive and therefore involve high manpower costs. A large number of these costs are fixed in nature requiring high volumes for breaking even.

Figure 18: Cost elements of an express service provider



Amongst the operating costs, shipment handling charge and employee cost are the major cost elements accounting for 80%-85% of the total operating costs. These costs are largely fixed in nature.

The express players charge their customers on a volumetric weight basis. The rates are based on weight slabs as also on distance, destination and priority of service. The average charges for documents is lower than that for non-documents and charges for domestic shipments are lower than that for international shipments. The regular business customers get better rates compared to retail customers due to higher shipment volumes. The rates are market determined with individual players having limited bargaining powers. Within the overall market, there also exist premium segments like time definite services providing higher reliability on services with ability to charge higher rates.

The high level of competition and limited pricing power leads to low profitability for the industry. As per a primary survey of industry players, the average operating margin is in the range of 6%-10% and the average net profit margin is around 3%.

Express service players often meet the network requirements by using third party networks. Transporting shipments on these third party networks require the express player to pay for the usage charges. These charges are mostly based on a weight-based system, wherein with larger volumes, a player can gain leverage and negotiate for better rates on use of third party infrastructure.

Given the limited pricing power due to a high level of competition, the ability of players, especially the small and medium players, to pass on any increase in costs is restricted. This can also be seen from the low profitability for the industry.

4.4 External competitive forces for the Industry

The external competitive forces, as per the Porter analysis model, for an industry are the buyers, suppliers, substitutes, and new entrants. The bargaining powers of these forces have been analyzed to understand the competitive pressures on the Indian express industry.



Buyer's bargaining power: High

The buyers for the express industry can be categorized as business and retail customers with business customers forming a major share of the customer base. A large number of players in the industry provide the customers options to choose between the various express service providers on price parameter. Industry leaders through a better offering on service reliability and reach mitigate the buyer's bargaining power to some extent. However, the buyer's, especially business customers, does retain high bargaining power over the industry and limits the ability of the industry to charge higher rates and pass on the increase in costs completely to the customers.

Supplier's bargaining power: Moderate

The suppliers for the express industry can be categorized as transport service providers, mainly the airlines, cargo agents and surface transporters and human capital providers. Limited capacity availability, especially for air transport, strengthens the bargaining power of the transport service providers; however, high competition amongst transport service providers mitigates this effect to some extent.

Availability of manpower is increasingly becoming a challenge for the express industry given the relative demanding nature of job in the sector. Express players are increasing usage of technology to reduce the requirement of human capital though this is possible only to limited extent given the nature of industry.

Overall, the bargaining power of suppliers of the express industry is moderate.

Threat of new entrants: High

Express industry is characterized with low entry barriers given the limited requirements in terms of upfront capital requirement. Technical capability requirements and investments in IT infrastructure are also relatively moderate for starting of express service operations.

However, scaling up from a small player to a medium-sized regional player or a national player is a challenge since this would require substantial investments, tie-ups, and a large network of owned or franchise-operated branches, investments in IT infrastructure and strong systems.

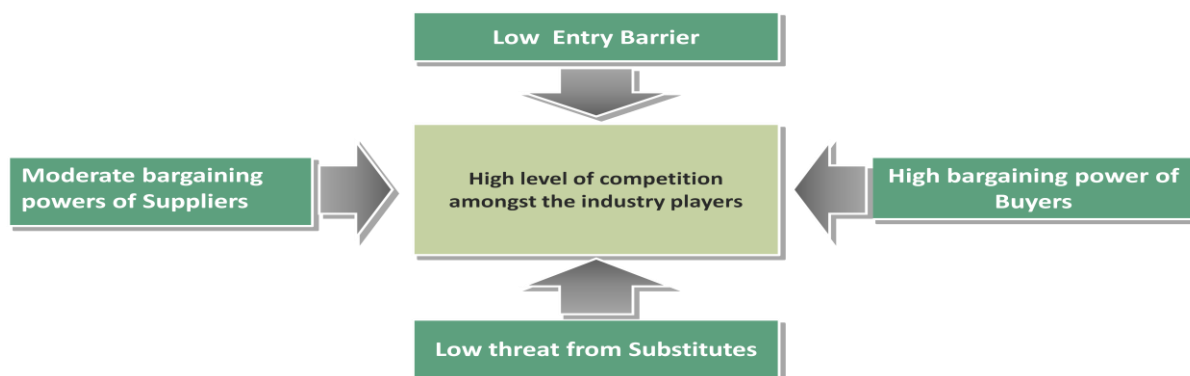
Overall, the threat of new entrants is high for the industry which in turn leads to pricing pressures on existing industry players.

Threat of substitution: Low

There are limited substitution options for time bound delivery, especially for smaller sized time sensitive consignments, given that the traditional logistics services are unable to guarantee the kind of timelines promised by express delivery services and the level of visibility in the delivery process. However the threat is higher in case of document shipments with increasing use of technology like emails, e-fillings, e-statements, etc dampening the growth in this segment. In case of non-document

shipments, competing logistics service providers do offer alternatives to the express delivery services industry to some extent. Overall, the threat from substitution is low.

Figure 19: Competition in express industry



Source: CRIS Analysis

Competition within the industry is at high level due to the presence of large number of players, limited differentiation of services, high bargaining power of buyers and low entry barrier mitigated by low substitution risks and moderate bargaining powers of suppliers. Larger players due to their reach and network are in relatively better competitive position compared to the medium and smaller players. Overall, the competition in the express delivery services industry is high.



Major Issues Concerning the Industry

5. Major Issues Concerning the Industry

The Indian express industry has to operate in a competitive environment. The industry has to deal with a lot of issues with the major issues being high operating costs, bottlenecks in customs and state borders clearance, and infrastructure issues, as identified in the primary survey. In addition, the proposed Postal Bill poses a major threat as it puts the private express players in a disadvantageous position vis-a-vis the postal department.

The operating environment of the express industry is a challenging one. The major issues concerning the industry are discussed in the sections below.

5.1 Postal Bill

The Government of India has been considering a new post office bill, which will also cover the express industry in India. A bill was proposed earlier, but was withdrawn due to opposition from various segments of the industry.

The salient provisions of the draft postal bill 2011 as posted on the website of India Post are as follows:

1. Reservation of letters under 150 grams and express mail under 50 grams for the Indian Postal Department, with licensed express industry players able to deliver such letters only at a higher rate.. The rate prescribed for a licensed player in the case of express delivery is twice times the speed post rates.

A gradual opening up of the market by phase wise removal of the monopoly is proposed with a 15 years sunset clause for complete removal of exclusive privilege in express service and Parliamentary review of privilege in letters is proposed.

2. Setting up of a Registering Authority is proposed. Registration of courier services is proposed and grant of license to registered couriers for providing certain specific services is proposed. Licensing to be required for reserved area.

The global trend for postal regulation is towards removing monopolies, restrictions and licensing requirements. While few countries have reserved segments for government postal departments or imposed pricing regulations based on multiple of the lowest weight slab of the basic letter rate, most of the larger ones have kept it open. In a lot of cases, the express segment has been kept out of the reserved areas. This is a trend which has been followed for a lot of sectors in India as well. The general experience in the Indian and global contexts have been that a competition driven market with low level of regulatory interference has witnessed faster growth while contributing to the general economic growth as well and is, therefore, seen as better approach to adopt.



Impact of the Postal Bill

The postal bill, if implemented, is likely to have an adverse impact on the express industry. It will result in the loss of market share as certain segments are reserved for the postal department or are allowed only on the condition of higher service charge. The impact is likely to be higher on the large number of small and medium players.

Letters form a major portion of the volumes in express delivery services. As per the primary survey, letters less than 150 grams account for 82% of domestic document volumes of express industry. Any reservation or pricing regulation in this segment is likely to lead to loss of business for express industry as the express delivery services from private players will become expensive vis-a-vis that offered by the postal department. Also, the licensing requirement is likely to result in an increase in administrative costs for players due to additional monitoring & filing requirements. The loss of business could impact the ability of the industry to maintain large networks and coverage and lead to shrinkage in express services. This in turn would have negative impact for the customers of the industry.

The complete details of the proposed bill are not available; therefore, a complete assessment may not be possible. However, reservation and pricing regulations, if implemented, will have negative impact on the private sector express players as it will put the private sector players at a competitive disadvantage vis-a-vis the postal department. From this perspective, the proposed postal regulation represents a significant risk to the express industry with potential impact on the customer industry segments.

5.2 High operating costs

The express industry is sensitive to the high level of operating costs given the low profitability for the industry. The major items of operating costs for the industry are shipment handling charges and manpower costs, together accounting for about 80-85% of the total costs. These costs have high level of fixed element given the need to maintain networks at optimum levels at all times. This makes the industry profitability highly sensitive to business volumes. Further, these cost elements have witnessed high level of inflation in recent times. The industry overall also has limited bargaining power vis-a-vis most of these cost elements and has had to suffer the increase in costs.

The high level of competition in the industry limits the ability of the express players to increase pricing and pass on completely the cost increases like fuel price increases. Thus the combination of high level of operating costs and limited pricing powers lead to low profitability for the industry overall.

The high level of operating costs and the increase in these costs have come out as a major issue of concern to the industry players as per the survey conducted as part of the study.

5.3 Delays at Customs clearances

Express delivery services by virtue of providing end-to-end logistics solutions also provide customs clearances services for their customers. In addition to Customs clearances, some of the shipments additionally require NOCs from the allied regulatory authorities.

In the primary survey, the industry players have ranked operational delays at Customs as a major concern.

Even though there is expedited Customs channel of clearances for authorized players, the clearance process at the Customs is cumbersome requiring multiple papers, declarations, etc., especially for non-document shipments. Similarly, for other regulatory clearances, approvals are required from multiple authorities. The long processes and lack of single window clearances many a times lead to delay in shipment, thereby increasing the transaction cost and impacting the overall service quality for the express services.

The cumbersome checking process and manual verification of documents make the process inefficient and results in increased operational costs and delays. Streamlining the verification process and using information technology may help in reducing the clearance time and cost.

5.4 Delays at state border checkpoints

The inter-state movement of goods in India is subject to multiple taxes and clearances. A system of check-points at entry points has been created for collection of these taxes, including octroi. In addition, checks are carried out by transport, narcotics and other departments. As a result, there is considerable paperwork and transactions involved in inter-state movement of goods. Moreover, there are no common requirements as procedures and requirements vary across states.

As per discussions with the players, these checkpoints lead to considerable delays and affect the overall operations of the express players. In some cases, the delays can extend to many hours. Though some state governments have initiated steps to streamline the processes by simplifying procedures and using information technology tools, it has still to extend to all the states.

Implementation of Goods and Service Tax (GST) is expected to streamline the processes and reduce a lot of these delays. With GST, multiple tax regimes with different rules and rates across states will merge into a single tax structure. This will reduce the need for checkpoints and improve efficiency of operations for the express service providers by reducing delays and paper-works. However, the contours of GST are still to be finalised and the overall impact can be assessed once the structure is known.



5.5 Infrastructure issues

Good infrastructure is critical for delivery of express delivery services as it increases speed and reliability of services. However, lack of the required infrastructure has remained as a concern area for the industry.

Air transport infrastructure

The air infrastructure in the country is inadequately developed, both in terms of cities covered as well as handling capacities at major airports especially for cargo, including express shipments. This is evident from the fact that the average dwell time for cargo at Indian airports is significantly higher- between 5-10 times- compared to international standards⁶. The air express delivery services are constrained by this lack of adequate facilities at the airport with problems of insufficient aircraft bays, truck docking stations and limited space for express terminals compounded by procedural delays in clearance process, as discussed above, leading to delay in shipments and impact on operational costs.

The high aircraft fuel price with varying rates across states due to different tax rates is another area of concern for the industry as it directly impacts the operating margins.

Road transport

Though the level of basic infrastructure has generally improved over the period of years given the investment made in the road sector, the overall speed of travel still remains low at 35-40 kilometres per hour. In addition, road transport has to pass through multiple checkpoints adding to the transit time. This leads to sub-optimal utilisation of surface transport for express delivery services. Restriction of movement of large commercial vehicles in city limits in day hours leads to usage of small vehicles and multiple handling thus impacting the costs of operations.

Rail transport

Rail transport has the potential to emerge as a major mode of transport, especially non-document shipments between cities. However, rail transport is constrained due to the limited availability of parcel holds on trains and the high costs involved. This in turn leads to limited usage of rail as a transportation mode for express delivery.

5.6 Other issues

Following are the other major issues concerning the industry.

⁶ Ministry of Civil Aviation, Working group report 2012

Coverage under Carriage by Road Act

Under the act, the express services companies have been designated as common carriers and are required to comply with requirements like goods forwarding note in a mandated format with upfront declaration of routes and ownership of commercial vehicles. As per discussion with express players, the classification as express players is inappropriate and does not consider the multi-modal transportation used in the express delivery services. This additionally leads to conflict of the act with other regulations governing the express delivery services. The concern of express delivery service providers is that the law by classifying them as similar to road transportation companies imposes requirements on them which are at contradiction to how the industry is organised.

Availability of transport linkages

The availability of reasonably priced third party transport facilities at the right time is an issue of concern for most players. Since transport services are outsourced to a great extent to keep investments at optimum levels, express players rely on transport markets for availability of transport facilities. These may not be available or may be very highly priced, thus affecting the operations and costs for the express players. Due to these constraints, a lot of players are compelled to invest in transport assets of their own for better reliability, thereby increasing their fixed costs and capital requirements.

Availability of manpower

The activities of the express industry are labour intensive. The spend on manpower is the second largest cost element for the industry. However, availability of manpower is becoming an issue of concern for the industry. The high intensity of work makes the industry relatively unattractive for the labour force. Further, availability of trained manpower is a concern, especially at middle level of operations.

The above issues affect the industry by increasing the costs of operations, reducing efficiency of operations, increasing the need for capital investments and by posing a threat to the growth of the industry. The sensitivity of the express industry to these issues is high due to the high level of competition in the industry leading to lower profitability which limits the ability to absorb higher costs, making larger investments and expanding its business.



User Perception Analysis

6. User Perception Analysis

As per the survey, customers value the contribution of express delivery services to their business. The customers value timely delivery, safe handling of shipments and prompt pick-up of shipments while expecting improvements in availability of information, adequately informed staff and resolution of issues by call centres.

6.1 Usage of express delivery services in India

Customers of the express delivery services prefer using express delivery services to other means of transport for shipments falling under the following categories

1. Time sensitive shipments
2. High value shipments
3. When volume of parcel is less than truck load, especially for domestic movement of time sensitive non-documents cargo.
4. When volume of parcel is less than container load, especially for international movement of time sensitive non-documents cargo.

Most customers use Express delivery services for delivery of documents. For non-documents, certain industry segments like auto components, readymade garments, mobile handsets, pharmaceuticals, organized retail, IT hardware, export / import trading houses are major users of the industry

Most corporate customers have more than one regular Express Service Provider. From the primary survey 67% of the 310 respondents surveyed have more than one service providers & 59% have rate contracts with more than 3 players.

For critical shipments, customers use larger players while for non-critical customers mostly use small / regional players

A lot of the customers deal with local service providers, referred to as wholesalers in the industry, who in turn pass on the shipments to larger players.

6.2 Customer expectations from express service providers

Based on the survey of user groups the following services have been identified as desirable services.

1. Timely pick up & delivery
2. Safe handling of packages



3. Prompt service
4. Delivery confirmation report
5. Round the clock service

The expectations of the customers have be categorized as must haves, should haves and good to have services in the following table.

Figure 20 : Customer expectations from express players

| “Must have” services | “Should have” services | “Good to have” services |
|---------------------------|--|---|
| Door to door delivery | Non-standard shipments for odd shipments | Time definite guaranteed service |
| Real time tracking | Centralized / De-centralized billing | Service to multiple location |
| Multiple pick-up in a day | Time definite guaranteed service | Low cost service for non-critical items |

Source: Primary Survey

6.3 Customer rating of service providers

The primary survey conducted for user segments reveals that most corporate customers use more than one express service provider for their shipments. This usage is typically categorized into critical and non critical shipments. The service provider is selected based on the criticality of shipments since critical shipments require speedy delivery & security. The second criterion for selection of an express service provider is price of services.

The following parameters of service quality have been ranked as top likes for the main service provider as per the primary survey of user segments.

1. Timely delivery
2. Prompt & timely pick-up
3. Packages delivered in proper conditions

The following parameters have been ranked as main concerns for the main service provider as per the primary survey of user segments

1. Complete and accurate information
2. Adequately informed staff
3. Call centre able to promptly resolve issues



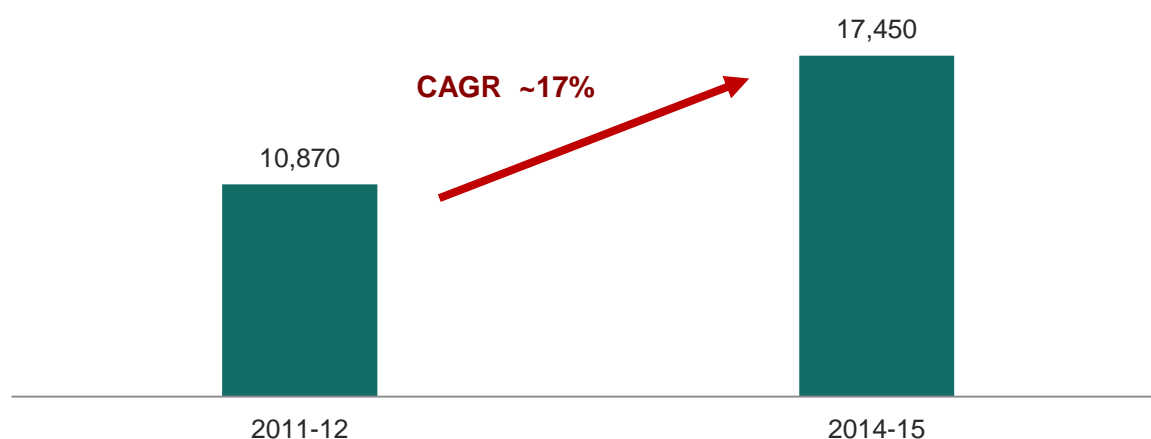
Outlook of the Industry

7. Outlook of the Industry

Express Industry is a fast growth segment of the logistics industry. Growth in the present consumer industries coupled with increased penetration, extension to other industry segment, increase in network reach and introduction of new products are expected to drive growth in the express industry.

Express industry in India is expected to grow at a CAGR of about 17% over the next three years to Rs 17,450 crores (USD 3.5 billion) in 2014-15 from Rs 10,870 crores (USD 2.2 billion) in 2011-12.

Figure 21: Growth outlook for the express industry in India



Figures in Rs. Crore

The growth of the industry will be driven by the current major customer segments, namely auto components, banking & finance, garments, pharmaceuticals, IT hardware and mobile phones. In addition, new segments like organized retail, e-commerce and others are expected to emerge as major customer segments in the medium term. The demand from the customer segments, increased reach of the express industry and new services will together drive the growth for the industry.

The above estimation was done based on growth expectation in customer industry segments, current and new, and the penetration of express delivery services in these segments. As per the primary market survey carried as part of this study, most players expected growth in the next three years to be in the range of 16-25% CAGR.

The growth will be higher if the general economic situation in the country and across the globe improves leading to increase in domestic and international trade, and creating incremental demand for the express industry. On the other side, an economic slowdown will impact the growth of the express industry by suppressing demand and creating pricing pressure. The industry faces threat from implementation of restrictive regulations and increased usage of technology to replace need for documents shipments.

Regulatory changes like implementation of Goods and Service Tax (GST) are expected to give a fillip to the logistics industry by reducing complexities related to movement of goods and boosting the

overall demand in the economy. The express industry is also expected to benefit from this especially from the improvement in efficiencies related to movement of goods across state borders.

Employment

Employee base, including direct and indirect employees, of the express industry is expected to grow to 17.2 lakhs by 2014-15 from the present 11.8 lakhs based on the industry growth forecast.

The industry will need to grow its direct employee base to manage the increased scale of operations. As the operations of the industry grow further, the level of outsourcing will also increase. This will in turn create indirect employment in industries like transport services, airport services, etc. With increasing difficulty in getting the human resource, the industry would also have to consider higher usage of automation and information technology for its operations.

Investment


In order to sustain the forecasted growth, the industry is likely to invest about Rs 1200 crores over the next three years. The investments will have to be made in extension of branch networks, hubs, transport equipments and IT systems.

Future trend of the industry

The industry is likely to become more mature in terms of processes as size and spread of operations increase. Further, the market share of large players in the industry is expected to increase. The smaller players will continue to exist in their niche segment. The share of documents is expected to decline due to increased use of emails, e-filings, e-statements, internet and other information technology tools while the share of non-documents is expected to increase with spread of business and manufacturing growth to smaller cities and towns and the increased penetration of express delivery services to these centres.

The use of information technology tools by the industry players will increase with the need to improve efficiencies and service quality to create a competitive advantage. The express service providers will also have to look at creating more industry specific products to increase their reach and grow in size.

The Express Industry is poised for growth. As an integrated service provider, it has evolved with robust structures strengthened by competition. The need for time bound delivery will increase with economic growth and development of trade and commerce, creating growth opportunities for the express industry.

A black silhouette of a person wearing a cap and carrying a large box, walking from left to right against a light beige background. The person is in profile, and the box is held in front of them with both hands.

Annexure – Approach and Methodology

8. Annexure – Approach and Methodology

8.1 Background

The Express Industry Council of India (EICI), an industry body of the express industry in India representing a cross section of the industry, plays a pivotal role in driving policies impacting the express industry and aims to create a favourable environment by promoting the common interest of its members. EICI interacts with various government agencies to represent industry concerns and facilitate resolution of these issues. EICI also manages the common user express terminals at the Mumbai, Bangalore and Delhi airports and is working jointly with the Indian Customs in developing state-of-the-art electronic express clearance systems.

In order to perform its role in a more effective manner, EICI wished to understand the present state of the industry and identify the major issues and concerns of the industry. In furtherance of this objective, EICI commissioned CRISIL Infrastructure Advisory to conduct an independent study of the industry. This report is the result of the comprehensive study of the express industry in India undertaken by CRISIL Infrastructure Advisory.

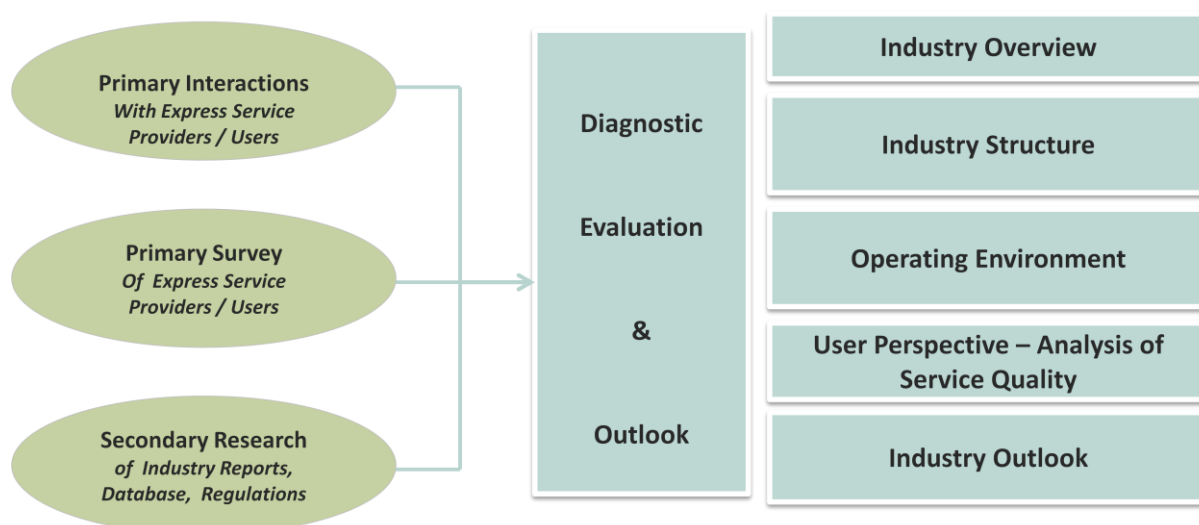
8.2 Objective of the study

This report attempts to understand the industry from the perspective of both the users and the service providers of the industry.

The broad objective of the study is to understand the current status of the express industry in India and its growth trajectory and identify major concerns and issues affecting the industry.

8.3 Approach & Methodology for the study

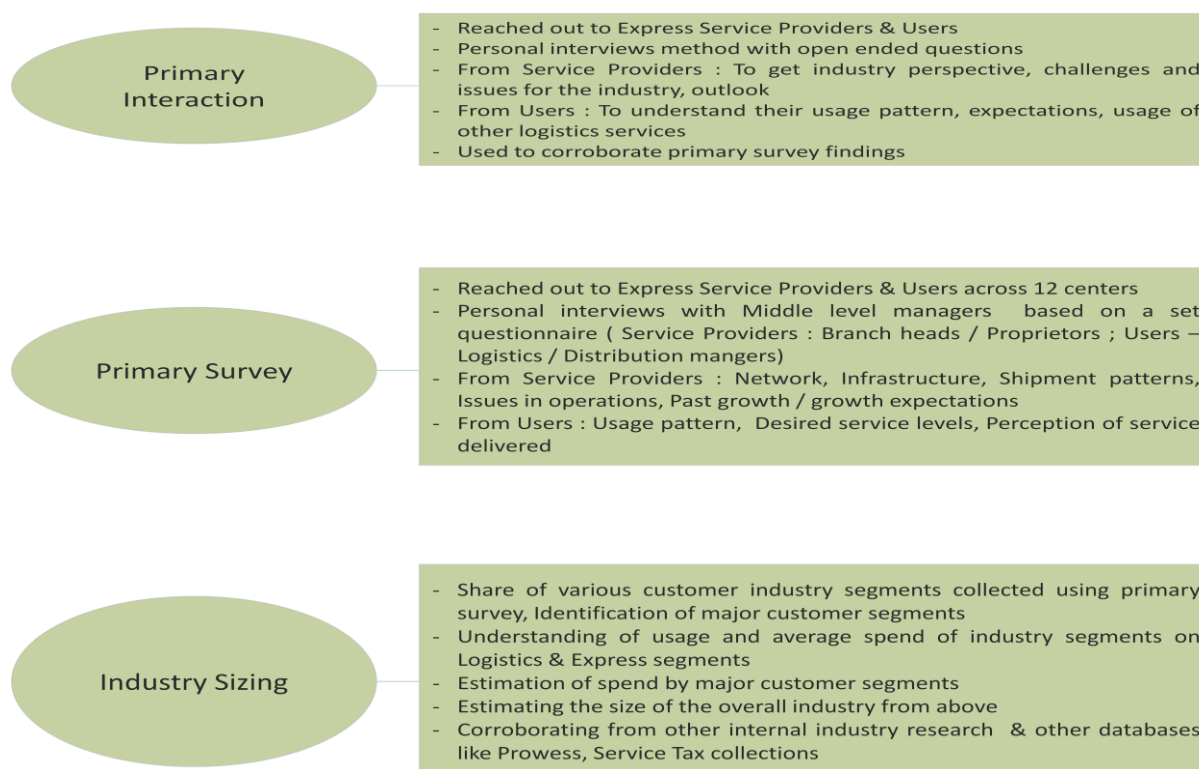
In order to identify issues, understand their impact and relevance, three broad approaches were used- primary interaction with service providers and users, primary survey of service providers and users and secondary research. Through these activities, a diagnostics evaluation was carried out, the outcomes evaluated and then projection for the future made. A representation of the approach is shown below.



The coverage of the aspects forming part of the approach was as follows

- As part of the primary survey, 75 Express Service companies & 310 user companies were reached through Market Research Agency
- In addition, 30 persons from the industry and user groups were reached as part of primary interactions
- Internal and external industry database was utilized for secondary research

The methodology of the study is presented in the table below



Employee base

- Used primary survey to understand the average employee base and its composition across direct and indirect
- Used data from primary survey to estimate the average employee base (total) for different revenue size
- Used the above estimate to estimate the total employee base of the Industry

The survey was carried out across 12 cities with the top six cities (Delhi, Mumbai, Kolkata, Chennai, Hyderabad & Bangalore) accounting for 60% of respondents and rest coming from the other cities (Pune, Kanpur, Surat, Baroda, Coimbatore & Ludhiana).

For the user survey, the industries covered were as follows:

| Users – industry covered | |
|------------------------------|------------------------|
| Automobile / Auto components | Insurance |
| Advertising | IT & ITES |
| Banking | IT Components |
| Chemicals | Other Financial Sector |
| Consultancy | Pharmaceutical |
| Engineering | Retail |
| Handicrafts | Telecom |



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Disclaimer

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CRISIL Infrastructure Advisory is India's premier advisor focusing on policy issues, as well as commercial and contractual issues in the areas of transport, energy and urban infrastructure. We also provide support to international firms planning investments in India. Over a period of time, CRISIL Infrastructure Advisory has built a unique position for itself in these domains and is considered the preferred consultant by governments, multilateral agencies and private-sector clients. We have extended our operations beyond India and are present in other emerging markets in Africa, Middle East and South Asia.