

Hurdles to The Speed of Express Cargo Industry A Case Study of Gati Corporation Ltd.

Dr. G.V. Satya Sekhar*

Abstract

Overtime, in addition to convenience, companies started looking at speed and reliability, and it was then that the industry became more organized and private air express companies entered in India. In earlier days express companies were used for only time sensitive documents. As companies became organized and started catering to far off markets the timely delivery of goods to their target markets became increasingly necessary. Thus in addition to documents, lightweight trade samples and emergency shipments were also being sent through air express companies. The small industrialists, in their efforts to escape tax restrictions, looked out for third party services, and thus the Angadias were born. These took full responsibility for transport/transfer of almost anything from anywhere.

Objectives of the Study:

1. To make a brief overview of literature on various issues relating to cargo industry.
2. To understand present scenario of cargo industry in India, in general.
3. To examine a detailed case study of the activities of GATI Ltd, which is one of the leading express cargo unit.

Keywords: Express Cargo, domestic and international cargo, documentation and packing

1. Introduction

The birth of the air express industry was just the right kind of tonic that the Indian industry needed. In the mid-eighties, the express industry in India witnessed a steady growth of about 30-35 per cent per annum. The decade also saw the entry of some major express companies like Blue Dart, Elbee and Skypak. International air express companies like Federal Express (FedEx) and United Parcel Service (UPS) also ventured into the Indian market through tie-ups with Blue Dart and Elbee, respectively. During the period 1991-96, after the opening up of the Indian economy, the express industry continued to grow at 30-35 per cent annually. During this period, major service providers like DHL, Blue Dart and Elbee and GATI consolidated their position in the Indian market. The Semi-organized and intra-city service providers further exploited the Indian market. This led to demarcation of the Indian express market into premium, moderate and low-priced segments.

International business accounts for approximately 40 per cent of the revenues of the express industry. Almost all of the international business is done through the organized sector and to some extent by EMS Speed Post. The consignments handled by express companies can be broadly classified into two types:

documents and packages (non-documents). Documents are any material comprising paper such as correspondence, bills/invoices, brochures, catalogues, manuals, books etc., which generally do not have any commercial value and are non-dutiable. Packages are items that do not satisfy the conditions of documents. Typically non-documents are items that may or may not have commercial value, such as samples, CKD units, machinery, electronic parts/goods, spare parts etc. All the international consignments carried by larger express companies are shipped by air. They use either their own aircraft or commercial flights out of India. Use of commercial flights out of India is beneficial as this gives one the flexibility to choose from a variety of airlines. In 1979 DHL World wide express was the first to enter the Indian market through a tie-up with Airfreight Ltd (now known as A-FL Ltd). The first corporate house in India, which started using their express service was ONGC. This in a real sense was the beginning of the express industry in India.

This paper is organized in to three sections, i.e. Section-I focuses on literature review of express cargo industry. Section-II deals with overview of express cargo industry and section –III deals with case study of GATI.

Section - I

2. Review of Literature

Christopher (2001) Air Mobility Command (AMC) has historically focused on the movement of air cargo via whole aircraft loads. The process for moving these loads has been roughly similar for either organic (military or gray tail) aircraft or commercial augmentation. Cargo is aggregated at the aerial ports and consolidated onto aircraft as required. However, this has occasionally created "orphan cargo," the single pallet destined for a location not serviced often by AMC. The third party logistics business model has gained tremendous ground in the past several years. Companies all over the world have taken advantage of outsourced shipping, packing, door-to-door services, and the like, creating a multi-billion dollar freight forwarding/cargo handling industry which very often deals in less than full aircraft movements.

Petr Cech(2004) study is to understand better how access to air cargo services affects local economies, and more specifically, what are the catalytic effects of regional access to air cargo services. This study goes beyond traditional I/O measures of direct, indirect and induced economic impacts, and focuses on the qualitative advantage of the accessibility to air cargo services for businesses in an airport catchment area.

Lama Moussawi and Metin (2005) study formulates a two-dimensional cargo overbooking problem with a profit maximization objective. It provides a detailed formulation where the revenues are computed individually cargo by cargo. An aggregate formulation, requiring much less data to obtain, is shown to provide a lower bound for the detailed formulation. The aggregate formulation is solved under infinite and finite booking requests and is shown to yield the same optimal overbooking curve under both cases. Moreover, the optimal curve is a "box" defined by only two numbers. Another easy-to-solve formulation is devised to construct an upper bound for the problem.

Yuri Levin and Mikhail Nediak (2008) considered a problem faced by an airline that operates a number of parallel flights to transport cargo between a particular origin destination pair. The airline can sell its cargo capacity either through allotment contracts or on the spot market where customers exhibit choice behavior between different flights. The goal is to simultaneously select allotment contracts among available bids and find a booking control policy for the spot market so as to maximize the sum of the profit from the allotments and the total expected profit from the spot market.

Geloso Grosso et al (2009) study aims at assessing the link between a more liberal air cargo regime and increased bilateral merchandise trade in the Asia Pacific region, under the auspices of APEC. Using the gravity model and employing the Air Liberalisation Index (ALI) developed by the WTO Secretariat. The results also show that air transport policy matters more for some sectors than for others. A particularly strong relationship is found between bilateral liberalisation and trade in manufactured goods, time sensitive products, and parts and components.

Massimo Geloso Grosso (2010) aims at assessing the link between a more liberal air cargo regime and increased bilateral merchandise trade in the Asia Pacific region, under the auspices of APEC. Using the gravity model and employing the Air Liberalisation Index (ALI) developed by the WTO Secretariat. The results also show that air transport policy matters more for some sectors than for others. A particularly strong relationship is found between bilateral liberalisation and trade in manufactured goods, time sensitive products, and parts and components.

Section - II

3. A Brief Note on Express Cargo Industry in India

In the domestic sector, Blue Dart and Elbee have their own aircraft to transfer their consignments. However, Elbee has discontinued its air operations. Other express companies use services of regular commercial airlines like Indian Airlines, Jet Airways, Sahara Airlines. Blue Dart has one of the widest reaches in the domestic market, with services to over 1,100 destinations in India. The company has a tie-up with Federal Express (FedEx) for international operations, according to which Blue Dart provides pickup, transportation, customs clearance and delivery of FedEx's International consignments. Through this tie-up, Blue Dart has reach of 212 countries worldwide, which are catered to by FedEx. FedEx has also established its own office in India for catering to international markets. Apart from the business generated through this tie-up, FedEx also generates business by co-loading the consignments from the smaller courier express companies as well as cargo handling.

Elbee Services is the second largest express company in India in the domestic segment. In 1989, Elbee tied up with United parcel Service Co. (UPS), the largest express company in the world, to make a foray in the international segment. Together with UPS, Elbee provides services to more than 210 countries and territories worldwide. In India, Elbee services more than 1,200 locations covering all important business centers. First Flight Countries Ltd., Skypak Services Specialists Ltd., Overnite Express Ltd., Prakash Airfreight Ltd., and Desk-To-Desk Courier & Cargo are the other large players in the domestic market. For International

consignments, these companies rely on bigger international operators and/or other agents. TNT Express Worldwide Ltd., is one of the major international express companies operating in India (apart from HDL, FedEx and UPS). With a reach to 200 countries worldwide, it has offices in about 20 cities in India, and handles only international consignments. In India, EMS Speed Post has a widespread network with services to 76 domestic locations. Since its inception in 1987-88, the Speed Post revenues in India have increased manifold every year, from just Rs.31.7 million during 1987-88 to nearly Rs.700 million during 1996-97. During 1997-98, Speed Post accounted for about 6 per cent share of the express market in India, with revenues of nearly Rs.800 million. Out of this, domestic business accounted for some 85 per cent of revenues, whereas the rest was accounted for by international business. Since most of the customers using EMS are individuals, the consignments handled by EMS are generally documents.

Branding of Service: With increased globalisation, organizations tended to source from one market. Thus the air express business evolved from a documents-led to a packages-led business. That gave birth to a revolutionary product the "Jumbo Box"- the first branded product in the air express industry introduced by DHL. This brown box changed the way people perceived airfreight the world over. Instead of running around for airport formalities or transportation or supervising the packing of the shipment, the shipper could now use his time to develop his business needs. Subsequently a similar product was introduced by Blue Dart in the domestic market. In today's world where response times have come down drastically, it is imperative to have information on status of your shipment just at the press of a button.

Automatic Call Distribution System (ACDS): This system helps connecting among customers. With telephone lines and a large team of customer service executives available to service customers, it is now much easier for users to reach their express company. The ACDS, further improves service quality by routing customer calls to the first available customer service executive, while ensuring that calls are distributed evenly between available executives. Information retrieval technology has always been a strong feature of all the major express companies the industry. Improvements in system architecture and the addition of new, and more powerful minicomputer based systems at the new Air Express Centres ensure that India now compares fully with the most advanced computer networks within the global system. Internet based tracking gives the customer the option of tracking his shipment from anywhere in the world. A shipper can log onto the web and trace the status/location of his shipment on real time basis.

E-Track: It is the easiest way to track a package on e-mail anytime of the day or night. E-Track is a most exciting innovation that gives complete control over tracking of international shipments from anywhere in the world, 24 hours a day. The customers of express parcel services have been more and more demanding for faster transit times. While only a few years ago a two or three day delivery service was the best that could be achieved, today many operators offer a worldwide 24 hour delivery service. Over the years, competition has driven the reduction in air freight costs. This has forced the business to have a more professional approach in the identification of new businesses.

Section - III

4. A Case Study of Gati Express Cargo

In 1989 GATI started functioning with its head office at Secunderabad. Within a span of eight years GATI with its new ideas, innovations and creativity became the pioneer and market leader in the express cargo industry with a network of 170 branches covering 650 locations across the country. Being a market leader GATI tied up with Indian Airlines to fly the cargo to different parts of the sub-continent.

1. **TCI Finance Ltd:** TCI finance, a highly successful finance company which provides effective services to its clients in the form of lease & hire purchase, corporate finance, bill discounting, merchant banking and corporate advisory services through its 13 branch locations all over the country.
2. **TCI Shipping:** TCI shipping, established in 1984 consists of a fleet of two ships named Bhoruka I and Bhoruka II to float the cargo to places inaccessible by road.

GATI serves its customers by providing some unique features such as:

- Cash on Delivery (COD)
- Freight on Delivery (FOD)
- Containerized Truck Load (CTL)
- Home Movers
- Cold Rush
- One Time Lock (OTL)
- Stock Express
- Money Back Guarantee
- Business Logistic Services

Cash on delivery is a process of doing risk free business i.e. cargo will be delivered after collection of the invoice value whereas freight on delivery is to collect the freight amount after delivery of the consignment. CTL is to ensure no pilferage of the cargo due to bad weather. Home movers are shifting the household items from one place to another right from packaging to unloading and even till removing the packing garbage's.

Cold Rush is a special service consisting of refrigerated containers with controlled temperature for movement of perishable cargo. One time lock is to ensure safety & security to the consignments. Under money back guarantee the freight amount can be refunded to the consignor if the material is delivered after the committed date. Wisdom that has time traveled over centuries is the CEO's most potent tool for leaping to world-class standards today. It is on the surface, a disarmingly uncomplicated concept; to improve one has to set his sights on a standard of attainment far above itself. The gap has to be measured, and then it has to be bridged.

GATI provides entire logistic services to its customers starting from transportation to ware housing, packaging, distribution, supply of raw materials and Information technology networking. GATI has always been emphasizing on the fifth "M" of management 'Minute' (TIME). It insists the consignments to be delivered ON TIME and INTACT to set a benchmark.

Benchmarking, in the precision-engineered algorithm is, as the formal definition states “the process of identifying, understanding and adopting outstanding practices from organizations anywhere in the world to help the organization improve its performance.” One shouldn’t be lured by the lucidity into believing that it is a well-greased process that once begun cruises on autopilot until it delivers the gigantic improvement that it is supposed to. For successful benchmarking begin in the mind, with the acceptance of being a pupil - not a master. The practice of being humble enough to admit that someone else is better at something and wise enough to learn how to match and even surpass the at it. This is doubly important for India’s corporate culture precisely because it offers a way to vault into the global quality league. Time has come to recognize that it’s a great tool to sharpen the competitive edge.

Logistics is an organized process of managing the flow of merchandise from the source of supply, through internal processing functions like warehousing & transportation, until the merchandise is sold & delivered to the end customer. Logistics Management aims at reducing Inventory holding costs & improving Profits, while enhancing customer satisfaction. Anything can now be ordered on-line, but everything has to be delivered in tangible form. Therein lies the symbiotic power of Commerce & Logistics & e-commerce & e-logistics. Logistics would probably emerge as the fastest growing business in the next 20 years. The Company –GATI – is well positioned & is undoubtedly going to emerge as one of the key players, given the thoughtful determination that is visible in its institutionalization, by a determined team, able led.

There are four factors that will strengthen the company & generate increasing shareholders value & customer value.

1. **People Resource** - Knowledgeable, highly trained, efficient, effective, motivated, well paid, empowered, committed to customer & shareholders value creation and able led.
2. **Products** - e.g. GATI Express, GATI Priority, GATISuvidha, Refrigerated Cargo, Containerised cargo, GATI Coast-to-Coast, GATI3PL.
3. **Information Technology** - for customer & product connectivity, speed of response & symbiosis between company people & products.
4. **Brand Building** - for capturing people mind and value add.

Exchange of Share Certificates: The members who have not done so till date are requested to surrender their old certificates (issued by the then Transport Corporation of India Ltd., now known as TCI Industries Limited - the transferor company under the scheme of arrangement) to M/s. Shweta Computers Limited, Secunderabad as requested by the said company vide their letter dated 25-10-1998 and reminder letter of 13-04-1999 and obtain new share certificates of 4 companies including GATI Corporation Ltd.

GATI ties up with NIIT to offer real time services. The New economy has arrived and the new mantra in the world of business is ‘real time’ services. To facilities the GATI Cargo Management Services tied up with NIIT the leading IT solutions provided in India and abroad together they build and deploy a well integrated end-to-end Enterprise wide integrated information system that can leverage the Web. Besides GATI is

investing Rs.15 crores in this calendar year to upgrade its technology. This will include state of the art hardware, wide area network, automation, messaging system, ERP, and other software applications. The new project will be implemented jointly by GATI Intellects software and consulting arm of GATI and NIIT. It will include implementation of ERP and CRM products from Oracle and custom-built applications using the latest tools and architecture. Once the system is deployed, GATI will be able to serve its customers and partners on a real-time basis in terms of cargo movement, ginventory and warehouse management. This new system of logistics management will give GATI a distinct edge over the competition and set new standards in customer delight in the new millennium.

Coast To Coast Expands Its Fleet With M.V.Gati-I : GATI Coast to Coast, a division of GATI Corporation Limited, has acquired a new vessel. M.V.GATI-I, it is a highly sophisticated vessel with a capacity of 4,800 DWT and can carry upto 100 containers per voyage. M.V.GATI-I will be the largest vessel plying on the Chennai-Port Blair sector and is designed to carry Reffer Containers. It is twin dickered, which will enable it to load different types of break bulk cargo. GATI Coast to Coast’s relationship with Andaman Islands dates back to 1986.

It has the largest fleet among Coastal Ship Owners and offers more frequent and time-bound services from the mainland to the islands. In recognition of these services, GATI Coast to Coast was awarded the transport contract of Andaman & Nicobar Islands Integrated Development Corporation (ANIIDCO) for their steel and liquor requirements. Today, GATI Cost to Coast carries all the project cargo, building materials, essential commodities and luxury items from the mainland. Through the inter island services, it largely caters to the raw material requirements of timber industries, such as Kitply, Jayashree Timber products, Andaman Timber Industries and Asia Timber products. GATI Costs to Coast’s future plans include introduction of new services from Calcutta to Port Blair in the near future. It is being run by a group of professionals under the excellent leadership of Mr. Mahendra Agarwal, its Managing Director, and is looking forward to become an active player in coastal trade in the future.

GATI Enters The Himalayan Kingdom Of Bhutan: The urge to scale new heights in Cargo and Courier Services has led GATI to the Himalayan Kingdom of Bhutan. GATI has tied up with Bhutan Post, an autonomous body of the Royal Bhutan Government Services as part of its expansion drive into SAARC countries. This will enable its customers to transact with their Bhutanese clientele, backed by the GATI assurance of time-bound delivery and an extensive network. GATI’s new service association with Bhutan Post will offer its customers in India unhindered access to 25 destinations in Bhutan. This includes the two major commercial towns of Phuntsholing and Sandrup Jongkhar, besides 23 other destinations.

5. Opprotunities and Threats

Opportunities

- **Logistics** - The cargo and logistics companies have identified opportunities to take up integrated logistics solutions for clients. This outsourcing would enable manufacturing companies to concentrate on their primary activities viz. production and marketing. Outsourcing

inventory management will help the customers to have lower capital tie-up, thus reducing the associated risks.

- Creativity and flexibility help differentiate products for new economy companies. GATI will have a head start with its initiatives.
- **Value added services** - In an industry where differentiation is easily replicated, the cargo companies need to new techniques to attract customers. In this endeavor, they add value to the core product to differentiate themselves from their competitors.
- **Backward Integration** - The express cargo companies now cease to rely on others for their services. There is a trend towards backward integration.
- **High growth industry** - The need for reliability is shifting customers from the huge price sensitive unorganized sector to the branded, committed cargo movement companies like GATI. The market has just begun.
- New Technology state-of -the-art technology is to providing the best possible service. Today things like tracking and tracing are fairly common and have become norms in the retail express industry. Service providers like GATI are moving with the times and equipping themselves to the changing needs and improving technologies.

Threats

All-India cargo companies face threat from local players who act as niche players at state and zonal level. Because of lack of regulations, the industry is crowded with too many players, which have led to unhealthy price cutting, discounts, etc. On the other hand, the entry of MNCs has added another dimension. They enjoy the patronage of MNC customers, better equipped as they are with the latest technology and skilled and trained manpower. There is always the threat of the industry being affected by the economic slowdown. However, with the expected revival of the economy, implementation of WTO guidelines, the industry is expected to show better performance.

6. Risks and Concerns

There are potential risks that concern the company:

- Entry of large multinationals, way of joint ventures and/or through 100% subsidiaries.
- Large share of unorganized and semi-organized and semi-organized segment.
- Sensitivity of economy-this industry is highly dependent on the overall economic scenario. In the mid 80's, the industry grew at a rapid pace at 30-35%. This growth rate was sustained in the 90's. But due to the general slowdown of the world economy and of the Asian economy in particular, there was a slowdown in this industry as well, and the growth rate was sluggish and 10-15%

7. Out Looks

GATI has drawn plants to

- Consolidate its activates relating to logistics and to create a strong base of operations
- Devise strategies to bring operational efficiency, cost effective services and to face economic slowdown and competition.
- Exploit Information Technology. It proposed that all locations will be updated with the latest versions of

information technology thereby improving the operational efficiency.

- Implement ERP and CRM, which will result in better MIS, which in turn would help in improved and precise decision-making.
- Find tune the operating structure, and improve the customer focus and increase the Company's competitive advantage. The new structure usher an era of efficiency and growth.

8. Internal Control System and Their Adequacy

The company has an internal control system commensurate with its size and nature of business and to meet the following objectives.

- Efficient utilization and protection of resources.
- Compliance of statutory and internal policies and procedures.
- Completeness, accuracy, promptness of the reports generated for all the transactions in the Company

Well-documented internal control system is already in place. In addition, corporate audited department conducts extensive audit by inspection at all the locations across the country and regular and exceptional reports are made. Monitoring of the compliance of audit observations are followed up. On quarterly basis a detailed report is discussed with the audit Committee and suggestions/ instructions by the Committee are strictly complied with and an action taken report is placed before the next Audit Committee meeting

9. Information Technology

GATI has drawn the detailed Information Technology road map for the next 3 to 5 years. The road map covers total revamping of software, networking, bar code scanners and hardware.

The end object of total revamping is to provide committed service to the customer. The project titled GATI@web was started last year and due to re-organization as well as sheer size of the project, the implementation schedule has been revised to end this financial year.

GATI website was also totally revamped and has been launched during the year. The new website has the state-of-the-art-technology and is comparable to any international corporate website.

The company is now in the process of upgrading the Quality Management System to comply with ISO 9001:2000 standards. The documentation has been completed and has been cleared for implementation. The Company expects to get the certification as per the new standards.

10. Social Responsibilities

- GATI always believes that organizational growth objective is always linked with the overall development of the society and the community at large.
- GATI social welfare and community development initiatives focus on the key areas of education, healthcare

and the overall development of the community in which it operates.

- GATI is contributing towards re-construction of a Govt. School for down trodden children and is working along with the State Government of Andhra Pradesh.
- GATI has taken a Drives Group Accident Policy to cover all the drivers of vehicles attached to the Company. This is a goodwill gesture to insure them in case of any unforeseen

event, is being undertaken as part of the corporate social responsibility.

- GATI has also contributed a large amount to Nandamuri Basava Taraka Rama Rao Memorial Cancer Foundation, Hyderabad. N.T.Ramarao Memorial Cancer Foundations involved in clinical research having a social bearing. Over and above the company is contribution to other institutions and hospitals for social cause.

Financial Highlights

Particulars	2009-10	2008-09	2007-08
Sales Rs / Lakhs	74,472	61,808	55,207
Total Income Rs / Lakhs	75,141	63,033	57,551
Gross Profit Before Interest, Rs / Lakhs	8,611	4,466	5,574
Depreciation & Tax			
Interest (Net) Rs / Lakhs	4,309	3,541	973
Depreciation Rs / Lakhs	2,387	2,301	1,457
Profit / (Loss) Before Tax Rs / Lakhs	1,915	(1,376)	3,144
Income Tax Rs / Lakhs	404	129	766
Profit / (Loss) After Tax Rs / Lakhs	1,511	(1,506)	2,378

11. References

1. Christopher N. Omdal (2001), *Air Cargo Tenders: Theater Express For The World*. Graduate research paper, Graduate School of Engineering and Management, Air Force Institute of Technology, Air University, USA.
2. Petr Cech(2004), *The Catalytic Effect of The Accessibility To Air Cargo Services*, Master of Business Administration Instituto de Empresa Business School, Madrid, Spain and UNC Kenan-Flagler Business School at Chapel Hill, N.
3. Lama Moussawi and Metin (2005), *Profit Maximization in Air Cargo Overbooking*, School of Management, University of Texas at Dallas.
4. Yuri Levin and Mikhail Nediak (2008) *Cargo Capacity Management with Allotments and Spot Market Demand*, Operations Research, OPRE-2008-08-420.R2.
5. Massimo Geloso Grosso and Ben Shepherd (2009), *LIBERALISING AIR CARGO SERVICES IN APEC*.
6. Massimo Geloso Grosso and Ben Shepherd (2010), *Air Cargo Transport In Apec: Regulation And Effects On Merchandise Trade*, November.