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THE UK LOGISTICS CONFIDENCE INDEX 2022

CHANGING PACE

Volatility tests the confidence of a resilient sector

IDEAS | PEOPLE | TRUST

BDO

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EXECUTIVE SUMMARY

OPERATORS TAKE A PRAGMATIC VIEW IN THE FACE OF ECONOMIC AND OTHER CHALLENGES ON THE HORIZON.

A REALIGNMENT OF CONFIDENCE

Ten years after the launch of our Logistics Confidence Index, this year's overall result has slipped to 50.4 from last year's highly optimistic score of 62.5, reflecting a sense of realism in the sector as it readjusts to the challenges of high inflation, soaring energy prices and a more uncertain economic landscape.

In fact, our 2022 index figure is now marginally below what we recorded a decade ago, but remains higher than the last pre-pandemic result in 2019.

It's fair to say that there are still reasons for optimism, despite the gathering clouds on the economic horizon and ongoing concerns around skills shortages and the labour market.

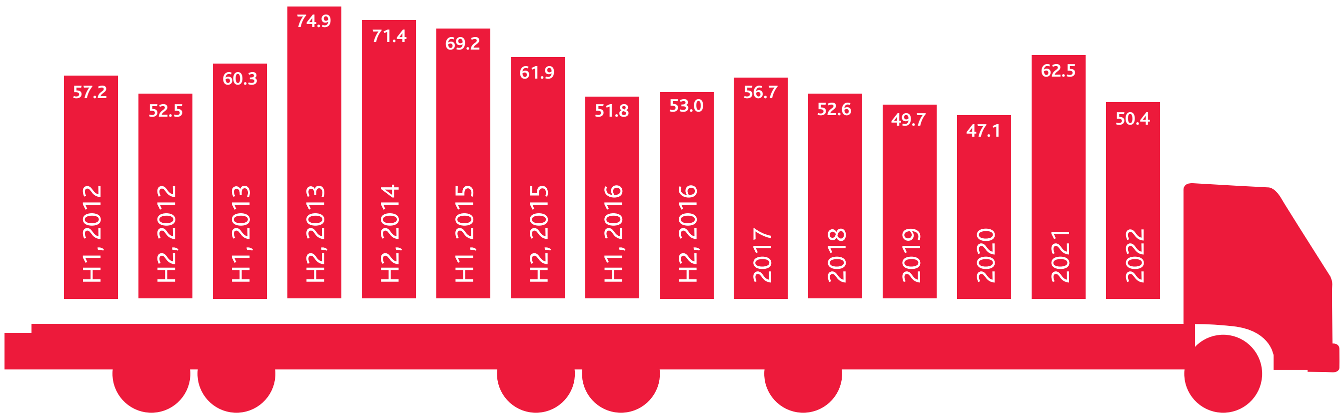
There is currently still growth in the UK logistics market with some areas of very strong demand, with many operators well positioned to take advantage of this.

According to our research, three-fifths (61%) acknowledge business conditions are tougher than a year ago – although 18% fewer think they are "much more" difficult than thought this last year – and over a fifth (22%) say they're more favourable.

Significantly, the majority of businesses (60%) feel confident about increased turnover in the next year – a result of price inflation but also high expectations around M&A opportunities – while the appetite for capital expenditure also remains positive, if slightly down on last year, with four-fifths of companies (81%) anticipating making significant expenditure over the next 12 months.

Profitability expectations are slightly less positive, with only 45% expecting to see increased profits, while 31% expect to see a fall and only half (51%) expect to see any headcount growth, compared to 63% last year.

While many global companies are reporting strong performance, many others are already feeling the squeeze on their margins, indicating that operators' outlook and resilience for the coming year may be heavily influenced by their size and key markets.



CELEBRATING TEN YEARS OF RESEARCH ON THE UK LOGISTICS SECTOR

Barclays and BDO, in conjunction with specialist sector research agency Analytiqa, have undertaken the latest in our series of surveys to assess confidence and expectations in the UK logistics sector.

More than 100 senior decision-makers – including chief executive officers, managing directors and chief financial officers – provided their views and insights for this survey, conducted during July-September 2022.

The participants come from a wide range of logistics businesses, from family-owned haulage operators, to publicly-listed companies and the UK subsidiaries of the world's biggest full service multi-modal 3PLs, representing total UK revenues of approximately £19.5bn. Their responses have been compiled to create the UK Logistics Confidence Index 2022. We are extremely grateful for the insights provided by our respondents for this, the tenth anniversary of our survey.

NEW CHALLENGES EMERGE

Somewhat predictably, labour shortages, higher employment costs, and rocketing fuel and energy costs presented the major business challenges over the past 12 months, according to our respondents.

However, several other issues are gaining importance – including customer pricing pressures which have already had an impact on 43% of companies this year and are anticipated as a challenge by 64% in the next 12 months. The prospect of customer bad debts in a faltering economy is growing as a concern, with nearly 40% anticipating this as a major challenge in the year ahead.

Tackling the industry's skills gap remains a key strategic issue, despite the sector's efforts to address it. Nine out of ten companies have improved pay and conditions, and there's a growing focus on apprenticeships and providing better training, while almost a third of firms are now making flexible working a priority.

Eight out of ten respondents expect labour shortages will have a major impact on their businesses in the coming months, driven by a long-standing shortage of drivers and warehouse employees. A shortfall in office-based staff has emerged as the third biggest employment-related priority, possibly linked to a relative lack of flexible working opportunities in the sector.

There's some evidence operators have adapted to high fuel costs and 'priced them in', but almost three-quarters say fuel and energy costs will still have an ongoing impact on business. Concerns about customs processes, tariffs and international freight capacity are easing, indicating the industry has found ways of coping, while concerns about access to temporary and seasonal workers have also declined.

FOCUS ON EXISTING CUSTOMERS AND ACQUISITIONS TO DRIVE GROWTH

The vast majority of operators (75%) say they'll be targeting their current customer base in the year ahead, while winning customers from other operators was the biggest source of new business for half (50%) over the past 12 months.

Extending their service offerings is seen by almost a third (31%) of operators as a key way to drive more business from current and new customers. They report that 77% of customers who switched to them in the last year did so to access value-added services or an improved service offering – up from 63% last year.

A growing number, well over half (58%), will focus on controls and efficiencies to bring down costs and drive up profits, and nearly half will be investing in technology to achieve this aim.

Against the backdrop of a more gloomy economic outlook, acquisition expectations are at an all-time high. Nearly half (45%) plan to make an acquisition in the next 12 months, primarily to achieve economies of scale and expand their service offering, continuing the increasing trend for consolation in what remains a fragmented industry.

TECH AND ESG INVESTMENT

Tech investment is undeniably playing an increasingly important role in improving efficiency and driving down costs, including robotics, automation and cloud services, among other possibilities. But upgrading existing technology remains the single biggest area of investment targeted by operators over the next three years. Notably, the next most important driver of tech investment is to support sustainability and environmental ambitions, followed by electrification and decarbonisation of fleets.

This drive to support sustainability-focused measures also reflects the industry's intensifying focus on environmental, social and governance (ESG) issues and their impact on businesses from both a commercial and reputational perspective. Despite the financial challenges ahead, our research shows the proportion of companies that aren't investing in ESG initiatives within the next 12 months (14%) fell for the third year running, while supporting employee health and wellbeing was identified as the single biggest driver of ESG investment.

AND FINALLY...

To mark the tenth anniversary of the index, in this report we also look back at what has changed over the past decade, asking respondents to identify the biggest impact on the sector over that time and to predict what changes to expect over the next ten years.

As ever, we are indebted to the senior decision makers who took part in our survey for their support and insights.

We trust that you will find this report informative.

SECTOR CONFIDENCE

THE BOUNCE BACK IN SECTOR CONFIDENCE SEEN LAST YEAR HAS STALLED.

The Logistics Confidence Index has slipped to 50.4 from the 62.5 recorded in 2021. This significant downturn in sector confidence is unsurprising when viewed against the backdrop of the mounting economic challenges we are experiencing. The ongoing cost of living crisis, soaring energy prices, high inflation and talk of recession have added to concerns about wider geopolitical turmoil.

In fact, the index is now lower than it was a decade ago, when it stood at 52.5 in H2 2012. Later in this report we compare the economic situation then and now, and reflect on our ten years of research into the sector's trends and changes.

However, this sizeable fall in confidence since last year needs to be put into context. On reflection, the uptick in the index last year was effectively a false dawn – a reaction to the alleviation of the severe effects of the pandemic and more certainty around the effects of Brexit.

Our annual barometer of logistics sector sentiment now captures a marked sense of realism and readjustment that has set in among our respondents in anticipation of more difficult market conditions to come.

Given any index figure over 50 is an indicator of optimism, logistics operators are still, just about, feeling more optimistic than pessimistic overall, despite the gloomy economic outlook. And while this year's figure may be the third lowest we've recorded in the past decade, it is still higher than the last pre-pandemic result of 49.7 in 2019.

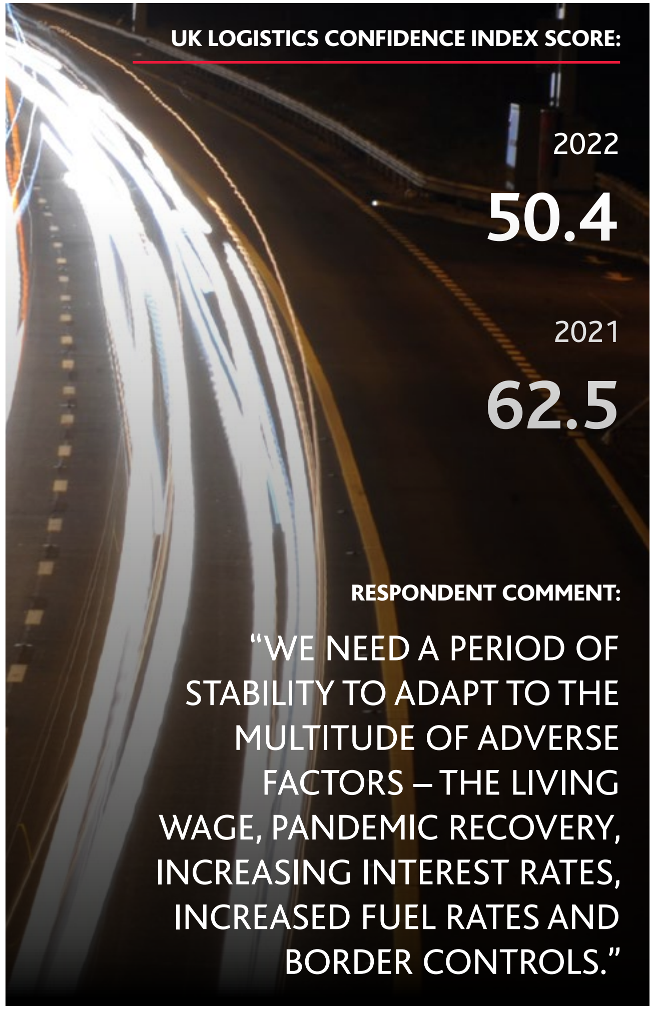
Interestingly, while clearly concerned about future conditions, many operators remain relatively bullish about their ability to manage the expected volatility ahead and to seize the growth opportunities that do exist, with higher volumes and increasing demand in many markets.

As ever, the degree of confidence will depend on many factors, such as the nature and size of the company, its service mix and customer base. Significantly, the majority (60%) are still anticipating a growth in turnover and, certainly, some of the major listed logistics companies have been reporting strong financial results. Smaller operators more reliant on consumer goods, discretionary spend business or subcontracting from the larger players on tight margins, are typically the first to feel any fall in demand and volumes. However, when considering company size, there is only a marginal difference between the 50.2 index figure recorded for those with a turnover of £50m or less, and 50.5 for those with a turnover exceeding £50m.

The above being said, the confidence index figures for businesses offering traditional contract logistics (50.0) and road haulage services (50.5) is lower than the 51.9 recorded for those incorporating courier/express/e-fulfilment/last mile e-commerce services. There is more confidence in the asset-light side of the industry and areas aligned with the rise in e-commerce and the trend to value-added services – where profit margins are typically higher – reflecting the expectation of continued growth in those areas of the market.

Continuing the trend we have seen in our research results over the past few years, operators in the North seem more optimistic than those in the South, generating index numbers of 53.7 and 46.4 respectively.

Looking at the bigger picture, the unpredictability and volatility of the economy and the labour market is clearly creating some tricky and potentially long-term challenges for operators.



CHANGING BUSINESS CONDITIONS

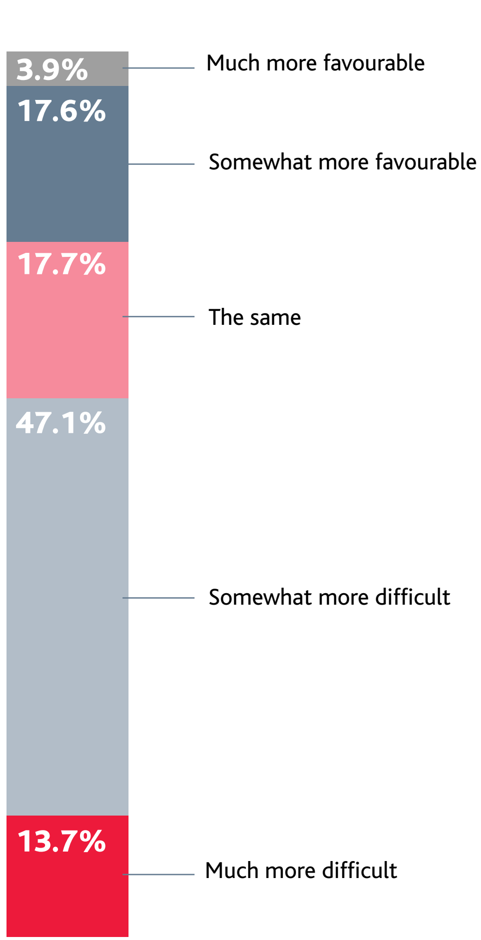
The overall view of current business conditions among our research respondents is more pessimistic than last year, which is hardly surprising given the relentlessly negative media reports on the economic situation and wider geopolitical troubles globally.

At the same time, operators are still relatively optimistic about their turnover and profit prospects for the next year.

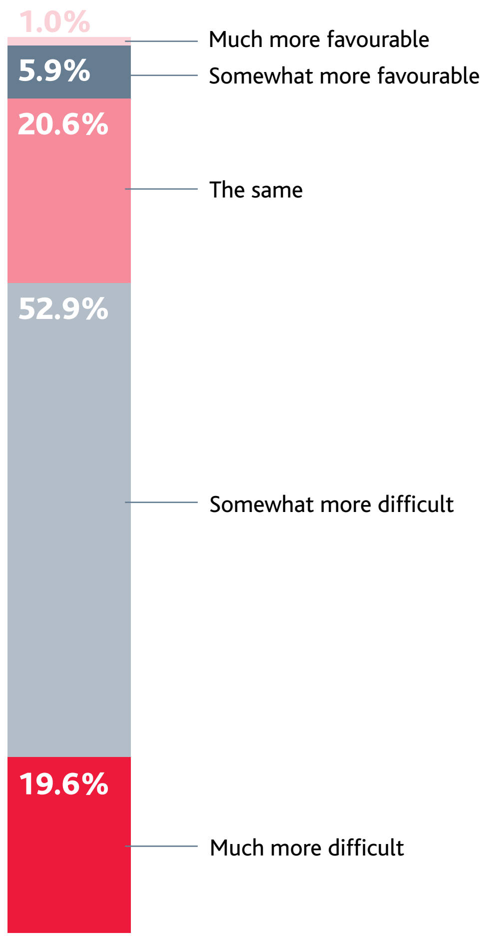
Our research shows that more than half (61%) feel business conditions are more difficult now than a year ago, while around a fifth (22%) say they are more favourable, and 18% report they are the same. This falls broadly in line with the pre-pandemic findings in our 2019 report and indicates a shift towards more moderate 'middle ground' views regarding business conditions over the past 12 months.

Looking towards the next 12 months however, we see indications as to why the overall Confidence Index has fallen, with seven out of ten (73%) saying business conditions are going to be more difficult in the year ahead, while only 7% believe they will be more favourable.

HOW DO YOU VIEW BUSINESS CONDITIONS VS 12 MONTHS AGO?



HOW DO YOU SEE BUSINESS CONDITIONS TO BE IN 12 MONTHS' TIME?



RESPONDENT COMMENT:

"AS USUAL OUR INDUSTRY HAS ADAPTED INCREDIBLY WELL TO A VOLATILE MARKET."

TURNOVER AND PROFITABILITY EXPECTATIONS

Despite the fall in the overall Confidence Index figure, a relatively high proportion of logistics businesses are confident their turnover will increase during the next 12 months, with three out of five (60%) expecting it to go up, versus a quarter (25%) anticipating it will fall. Although the proportion of companies predicting increased turnover is lower than in 2021, and more expect turnover to fall this year, we think this is a relatively upbeat response when viewed against the persistent 'background noise' of negative news.

There seem to be many operators who see growth in the market and feel ready to take advantage, despite more difficult trading conditions, although any feelings of optimism appear ultimately dependent on the operator's end market.

Interest in M&A activity in the logistics industry remains strong (see page 15). Many trade players are seeking growth through consolidation, while certain areas of the industry are being targeted by institutional investors, seeing good growth potential for their capital.

Revenues are also being driven up naturally by higher prices – for example, where businesses are able to pass on rising fuel charges to customers. And where ocean freight rates have been higher than in 2021, companies involved in international supply chains have also seen a significant boost in turnover. It seems that some businesses are able to raise prices where cost increases are well understood by customers, even in a competitive market.

Turning to profitability, there's a slightly less optimistic picture, with 45% of companies predicting a rise in profits over the next 12 months – a 17% downward shift from last year – while approaching a third (31%) are anticipating a fall, 11% more than in 2021.

This growing divide in profitability expectations is linked in part to the sector and transport mode the company operates in and also its size, with some smaller, UK-focused firms seeing severe pressure on margins.

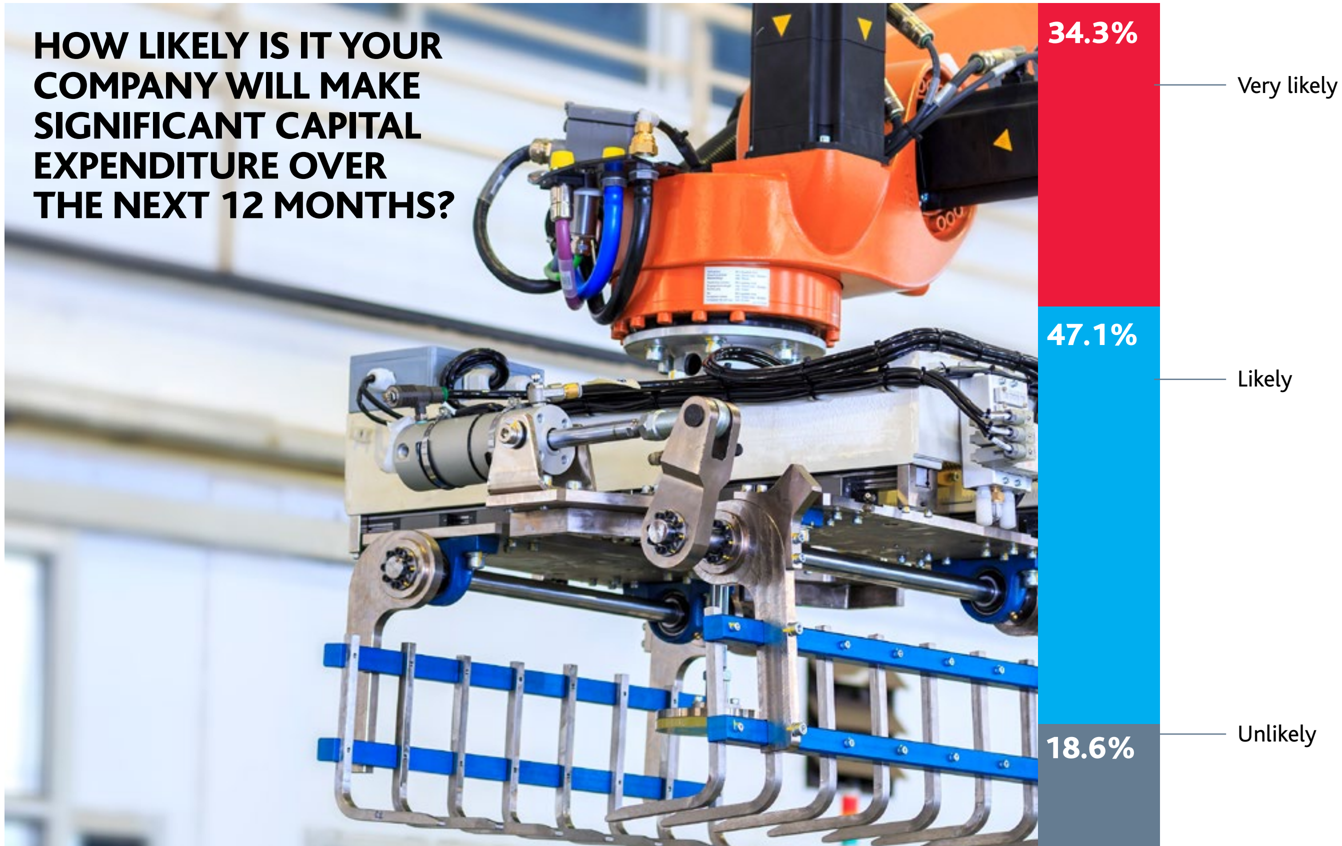
CAP-EX PICTURE REMAINS BUOYANT

The forecast for capital expenditure amongst our respondents remains buoyant even if less upbeat than last year, reflecting a natural tailing off of investment in a more challenging market, despite government tax relief incentives.

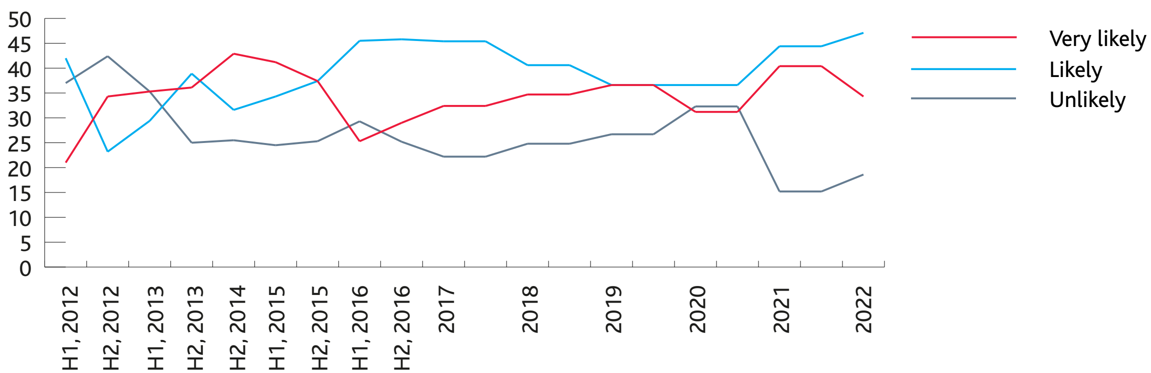
Four-fifths (81%) of operators still anticipate significant capital expenditure over the next 12 months compared to 85% in 2021, while the number who are "very likely" to invest has fallen by 6%.

While the sector as a whole appears well-funded and has built up a healthy balance sheet, given that reduced profit expectations are likely to make operators more cautious and selective around capital investment at present, a slight downturn in capital expenditure is not unreasonable.

It is interesting, however, to note that over the ten years of our survey, there has been an increasing trend in expectation of significant capital expenditure over the next 12 months.



RESULTS OVER TEN YEARS



SLOWDOWN IN HEADCOUNT GROWTH

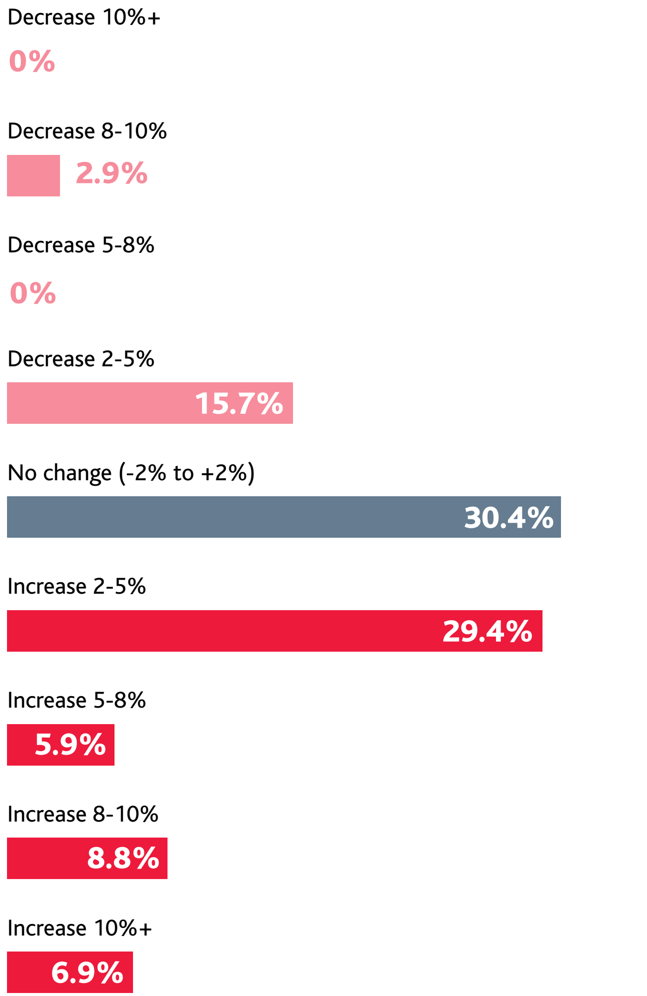
When it comes to increasing headcount over the next year, our respondents are generally looking to grow, with just over half (51%) predicting an increase in their workforce. However, overall the industry has become more conservative in its expectations than in 2021, when 63% were predicting a rise, while a fifth (19%) expect to reduce headcount this year, up by 3% versus 2021.

In fact, the number of companies predicting a fall in headcount has shifted back to pre-pandemic levels seen between H2 2015 and 2019.

With many operators still facing the challenge of severe shortages of drivers and warehouse operatives in particular (see page 12) reduced headcount growth may in part be down to difficulties in recruiting and retaining employees. One respondent calls for firms to "train new drivers and offer opportunities to non-skilled, out of work personnel", reflecting the efforts needed to source new staff.

Some operators may simply be looking to increase productivity from the smaller employee bases resulting from pandemic-induced restructuring or through investment in technology.

DO YOU EXPECT A DECREASE OR INCREASE IN HEADCOUNT IN 12 MONTHS' TIME?



KEY CHALLENGES

LABOUR SHORTAGES AND RISING FUEL COSTS REMAIN TOP CONCERNS, BUT OTHER ISSUES ARE RAPIDLY GAINING IN IMPORTANCE.

When it comes to identifying the biggest challenges facing the logistics industry, it's no surprise that staff shortages and increased labour costs, along with fuel and energy charges, are seen as having the biggest impact by some margin. These issues are also expected to remain the biggest challenges for the sector over the next 12 months.

More than three-quarters of respondents (78%) identify lack of staff as a major business challenge over the past 12 months, and 80% see it continuing to be a major issue to overcome in the coming 12 months. Once again it is the highest ranked issue negatively impacting performance amongst our respondents, albeit reported by fewer than last year. There is also justifiable anxiety that the inflationary environment will drive demands for higher pay.

Almost three-quarters of operators (73%) say rising fuel and energy costs impacted them significantly in the past year. In fact, that figure is slightly lower than in 2021, and even fewer identify it as an issue over the next 12 months. This suggests logistics companies are now learning to live with higher fuel costs, and have effectively 'priced it in' as a known unknown in their business planning. Even so, many of our respondents have commented that some form of fuel rebate scheme needs to be introduced for the industry. Energy costs are a different matter, and our respondents have called on the government to support businesses facing spiralling energy costs.

Notably, managing supply chain disruption and geopolitical events have declined in importance to respondents this year, as have increased customs processes and/or tariffs and international freight capacity and costs. This indicates that the industry has adapted to these challenges, and in some cases respondents have reported that overcoming these issues has created significant positive opportunities.

Concern over cashflow and availability of finance has nonetheless risen over the past year, albeit impacting a smaller share of our respondents, with one in ten (11%) citing this as one of their biggest challenges in the year ahead. The prospect of customer bad debts in a faltering economy is growing as a concern, with nearly 40% anticipating this as a major challenge in the year ahead compared to only 10% who cited it as having a significant impact in 2021.

RESPONDENT COMMENT:

"ALMOST EVERY DAY THERE IS SOMETHING NEW TO CONTEND WITH."

EMERGING CHALLENGES

Several other areas of concern are emerging this year, both in terms of the negative impact on businesses over the past year and the challenges they are expected to present over the next 12 months.

Customer pricing pressure has grown considerably in importance for respondents, with 43% saying it has impacted their businesses over the past year, more than double the 21% who listed it in 2021.

Logistics businesses are clearly being forced to price more keenly in an increasingly cost-focused commercial environment. This issue looks set to loom even larger in operators' minds in the year ahead, with nearly two-thirds (64%) identifying it as one of the major challenges they will face, given it will almost certainly result in difficult price negotiations as they seek to pass on higher costs.

Changing levels of demand or volumes have also had a major negative impact over the past 12 months according to more than a third (36%) of respondents. Yet this is largely counterbalanced by the quarter (24%) of respondents, who say changing demand has had a positive impact, again suggesting a divergence between winners and losers largely based on the industry sectors they serve.

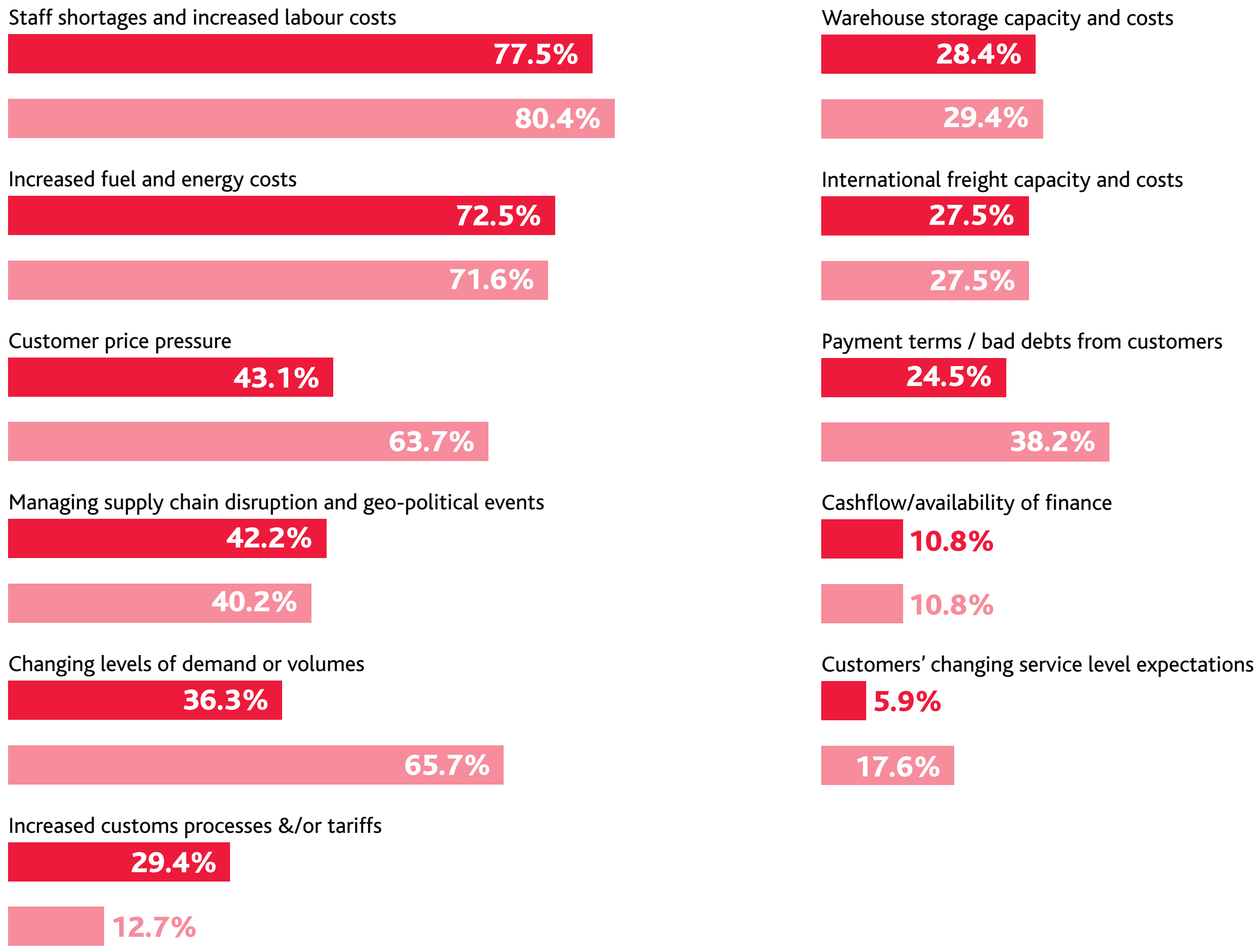
There is clearly a perception among some respondents that growing inflationary pressures have been pushing down demand and reducing volumes. Many operators fear the situation will worsen as we move forward, with changing levels of demand and volume identified as one of the major challenges to be faced in the coming 12 months by two-thirds (66%) of respondents.

Growing worries about warehouse storage capacity and costs have also become increasingly pressing issues over the past 12 months, identified by 28% of respondents compared to 21% in 2021.

There is no doubt that affordable warehouse space is becoming both increasingly hard to find and costly, with little sign of the situation changing, and 29% see this continuing as a major challenge over the coming year.

TO WHAT EXTENT ARE THE FOLLOWING CURRENTLY HAVING A SIGNIFICANT NEGATIVE IMPACT ON YOUR COMPANY'S PERFORMANCE?

WHERE IN YOUR BUSINESS DO YOU SEE YOUR GREATEST CHALLENGES OVER THE NEXT 12 MONTHS?



Share of respondents selecting each category. Answers will not add up to 100%.

SKILLS GAPS STILL A CONCERN

Looking at employment-related challenges, and continuing the trend of recent years, driver and warehouse staff shortages remain primary issues and are ranked by respondents as their first and second most pressing staffing issues respectively.

A shortage of office and admin staff is now the third most important employment-related priority, having moved up from sixth place in 2021. This may well be linked to employees' growing preference for hybrid working, which has perhaps not been adopted as widely across the industry as some other sectors, which may be due to the practical operational difficulties of adopting remote working in transport and logistics.

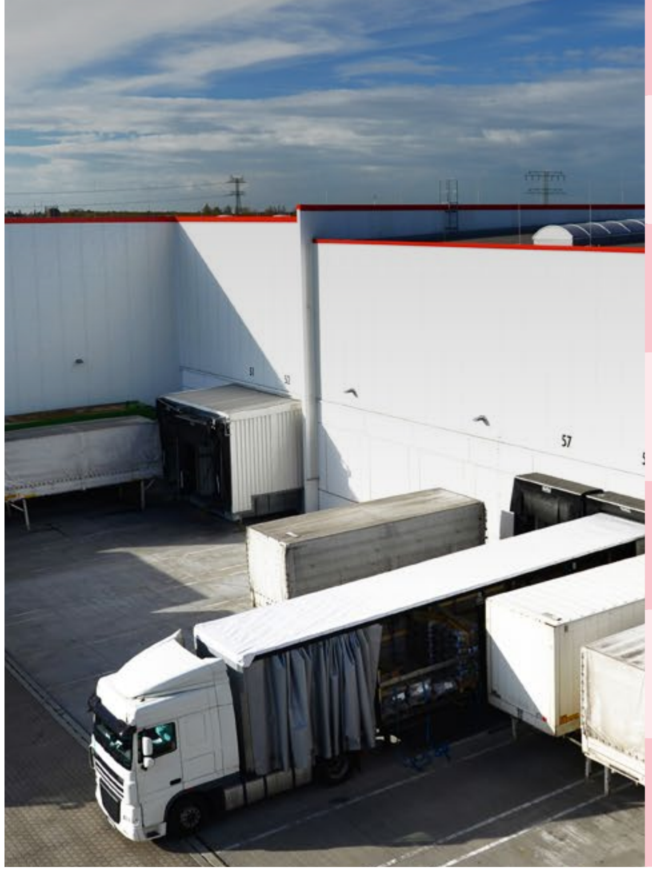
Meanwhile, concerns about lack of temporary and seasonal workers seem to have lessened somewhat, and are now in seventh place compared to third last year, which may simply reflect a growing sense of acceptance of the industry's reduced access to seasonal workers from Europe. This is despite calls from many of our respondents for temporary visas for EU workers to fill the gap, similar to those awarded to overseas lorry drivers.

While operators have undoubtedly been working hard to address labour shortage issues across the sector and have made some progress, our respondents remain very concerned about the potential long-term impact on the industry – and the wider UK economy – if the skills gap is not resolved.

As one respondent says: "Employee shortages – particularly drivers as well as warehouse staff – continue to have a major adverse impact on the industry. Structural changes are still needed to prevent the major issues experienced in Q4 2021 repeating in Q4 2022. Allowing access to EU labour could assist to dampen the impact."

Another adds: "If there is no change in labour availability then there is undoubtably going to be an increase in labour costs for the sector, which will have a knock on effect with costs to our customers across multiple sectors. This in turn will have to be passed on to consumers, which will continue to drive inflation."

RANK IN ORDER OF IMPORTANCE THE AREAS WHERE THE INDUSTRY'S TALENT / SKILLS SHORTAGE IS HAVING AN IMPACT ON YOUR BUSINESS



	2019	2020	2021	2022
Drivers	1	1	1	1
Warehouse staff	4	2	2	2
Office-based roles	6	7	6	3
Junior / middle management	2	4	4	4
IT-related staff	4	5	7	5
Senior management / leadership	2	3	5	6
Temporary / seasonal based roles	7	6	3	7
Customs agents	N/A	N/A	8	8

(Rank 1 = biggest impact, 8 = least impact)

STRATEGIC OPPORTUNITIES

A FOCUS ON ADDING VALUE FOR CUSTOMERS IS HELPING TO WIN BUSINESS AND DRIVE PROFITABILITY, AMID A CONTINUING TREND FOR CONSOLIDATION.

FOCUSING ON EXISTING CUSTOMERS TO DRIVE PROFITABILITY

For the vast majority of logistics companies, working to increase business through their existing customers provides them with an opportunity for profit growth, according to our research.

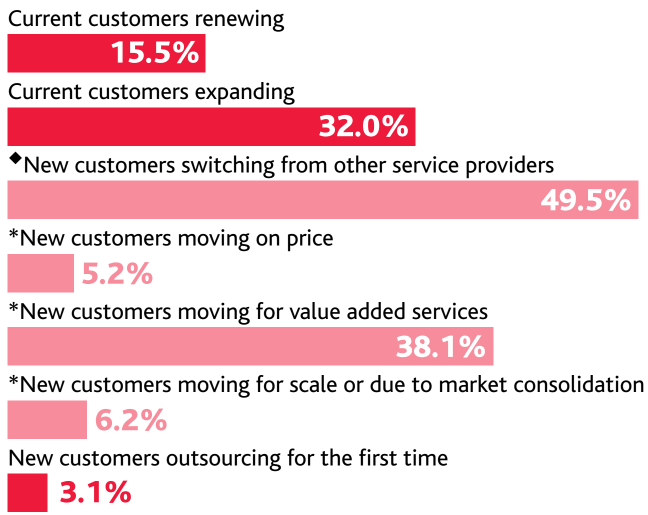
Approaching half of respondents (48%) report that the single main source of additional business income in the past 12 months has been from current customers, either by renewing existing contracts or expanding the work undertaken – a combined uplift of nearly 8% since 2021. Working closely with customers through the extraordinary challenges of the pandemic may have strengthened business relationships for many.

Three-quarters of respondents (75%) say they will be pursuing this as a means of maximising profit in the next 12 months, albeit this is lower than last year's figure of 81%.

Enhancing cost control and efficiency provides the next biggest opportunity to drive up profits in the next 12 months. Nearly three-fifths (58%) say this is the case – 5% more than in 2021 – reflecting the high-cost landscape the sector finds itself in.

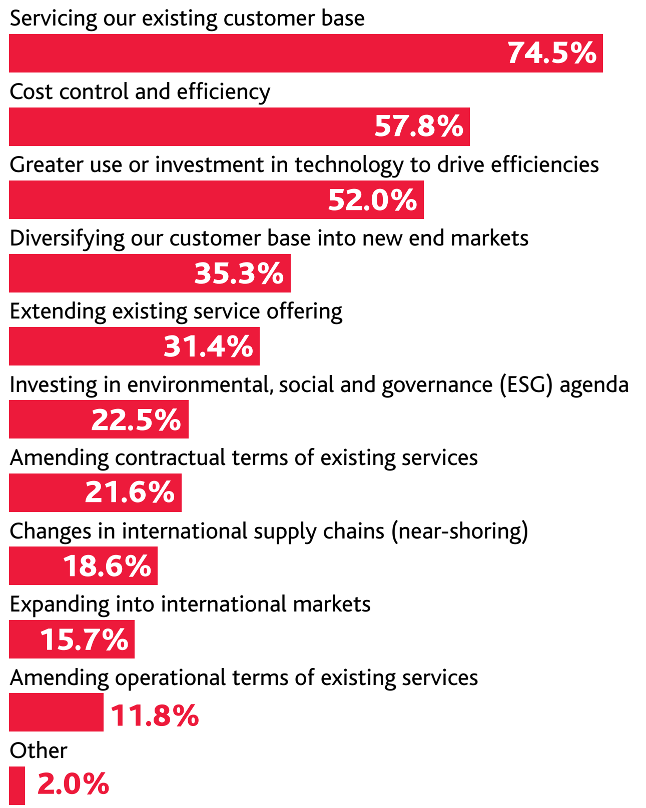
Notably, over half of operators (52%) are making greater use of investment in technology to drive efficiencies, increase productivity and, to some extent, overcome challenges in labour markets. The current dynamics of rising operating costs, uncertainty around future staffing levels and the availability of more affordable tech makes automation a prudent investment.

WHAT HAS BEEN THE SINGLE MAIN SOURCE OF NEW BUSINESS IN THE LAST 12 MONTHS?



◆ This percentage represents the sum of the three different reasons for switching service providers, marked with asterisks

WHERE DO YOU SEE OPPORTUNITIES FOR PROFIT GROWTH IN THE NEXT 12 MONTHS?



Share of respondents selecting each category. Answers will not add up to 100%.

Attempts to enhance profitability by diversifying into new end-customer markets has declined in importance by 8% compared to 2021, perhaps as a result of the relaxation of pandemic-driven market uncertainties. However, it is still seen as an important course of action by over a third (35%) of respondents.

Interestingly, more respondents this year have expressed interest in expanding into international markets than previously, possibly looking further afield for customers as European business has become more challenging, or alternatively to benefit from new ways of operating in Europe post-Brexit.

COMPETING FOR NEW BUSINESS

Extending service offerings through value-added activities is enabling operators to differentiate themselves, and is key to success in winning and retaining business from competitors.

Half (50%) of our respondents say customers switching to them from another operator has been their single largest source of new business over the past 12 months. And they report that 77% of customers that are switching to them do so to access value-added services or an improved service offering – up from 63% last year.

Almost a third of respondents (31%) also identify extending service offerings as key to driving profits over the next year.

It seems offering a wider range of better quality, value-added services – such as improved digital capabilities and visibility, outsourced e-fulfilment or 're-commerce' services for manufacturers and web-based retailers – has a significant impact on attracting customers and supporting the retention of existing ones.

Additionally, some logistics businesses have benefitted from expanding their customs clearance services to help customers deal with added post-Brexit complexity, with this value-added service typically generating higher margins.

By comparison, respondents say only 10% of customers that switch providers are driven by price, broadly consistent with our 2021 figures, while those saying customers are changing operators for reasons of scale or due to market consolidation fell to 13% from 23% in the previous 12 months.

RESPONDENT COMMENT:

"THE MARKET IS GETTING SMALLER DUE TO CONSOLIDATION AND ACQUISITION AND THERE IS MUCH MORE COLLABORATION IN THE SECTOR WHICH IS COMMENDABLE."

ANOTHER ALL-TIME HIGH FOR ACQUISITIONS

Mergers and acquisitions continue to be a strategic priority for logistics companies looking to expand their operations, and become both more competitive and resilient in today's volatile market.

Notably, 45% of our respondents say they are likely to make an acquisition in the next 12 months, the highest figure ever recorded since our research began ten years ago and marking an all-time high for the second year running.

This positive outlook is reflected in BDO's quarterly logistics M&A report for Q2 in 2022, which indicates significant domestic and international deal activity is continuing across the sector, with trade looking to consolidate and investors seeking out opportunities to fund those consolidation growth plans.

Of those looking to acquire, 42% say the main driver is to achieve economies of scale, 40% to expand their service offering, and 7% to achieve higher margins.

Pursuing M&A to gain access to specific customers or as a route to enter a new sector has declined by 13% and 8% respectively compared to last year, providing further evidence that diversifying into new markets may be less of a priority than at the height of the pandemic.

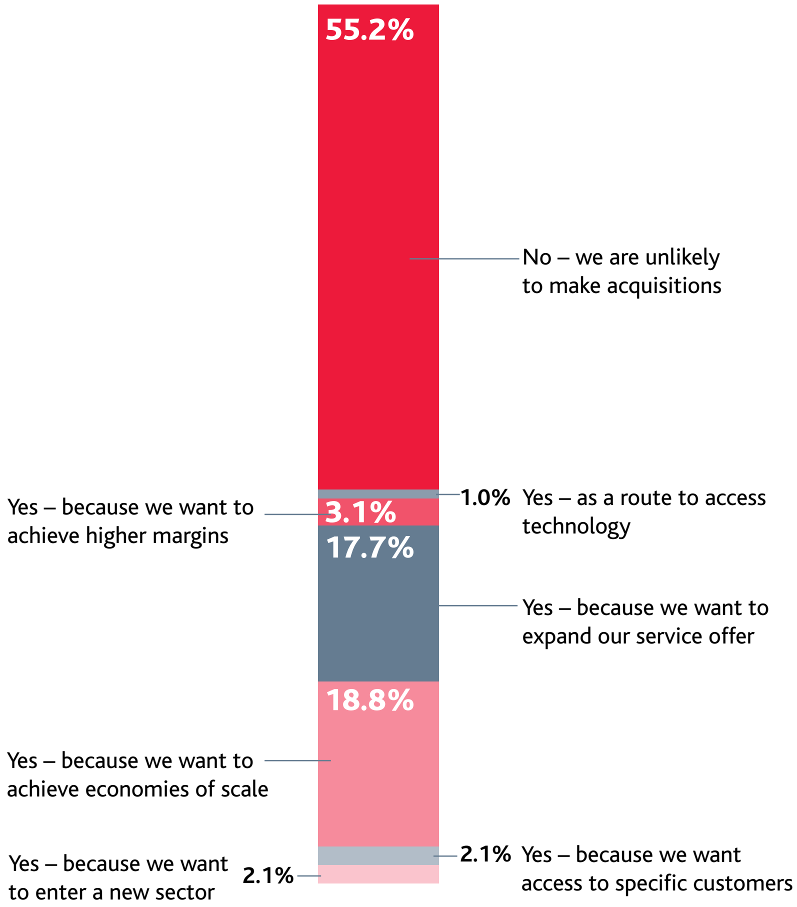
However, it appears the consolidation trend we've already seen across this highly fragmented sector over the past ten years is set to continue. With plenty of dry powder among potential financial investors and with exceptionally strong balance sheets across both large international logistics companies and mid-market operators, many are keen to acquire businesses in growing areas of the industry.

With the industry seemingly destined to become dominated by fewer, bigger businesses, some firms without the operational scale may struggle more with challenging economic conditions and suffer a reduced ability to compete. This may be compounded by a need to invest in new low-carbon road fleets and other sustainability-focused technology. One respondent points out that as companies consolidate, merge and invest, smaller businesses will need to stay competitive and increase their value proposition to clients in order to survive.

RESPONDENT COMMENT:

"LARGER LOGISTICS COMPANIES WILL CONSOLIDATE THEIR POSITION WITH SMALLER LOGISTICS PROVIDERS REDUCING THEIR MARKET SHARE AND SPECIALISING IN NICHE AREAS".

ARE YOU LIKELY TO MAKE ANY ACQUISITIONS OVER THE NEXT 12 MONTHS AND IF SO WHAT IS THE DRIVER BEHIND THIS?



TACKLING THE TALENT CRISIS

Addressing the high-profile and widely-acknowledged issue around the logistics industry's staffing crisis continues to be a strategic priority for the sector, and operators have continued to take action in this area.

Asked to name the three most important measures they have taken to address the talent and skills shortage over the past 12 months, nine out of ten (91%) say they have improved pay and conditions. The industry's workforce certainly appears to be generally better paid across the board, which may have helped to address the skills gap to some extent. According to Logistics UK, HGV driver wages, for example, have increased, with advertised salaries for those qualified to drive the heaviest vehicles increasing by an average of 25% in Q1 2022 compared with a year ago. And the potential introduction of upgraded rest stop facilities for HGV drivers, like those being introduced by some operators at Felixstowe and Dover, is a good example of how working conditions can be changed for the better.

Working with younger people to bring new blood into the sector has also been a high priority, and approaching half of our respondents (46%) say they have launched apprenticeships or other measures to facilitate this, a welcome move. Almost a fifth (19%) of respondents say they have increased measures for diversity and inclusion, which will help them attract the broadest possible talent base to their companies.

More than four out of ten (45%) respondents prioritise enhancing the volume and quality of their training and over a third (34%) say they have encouraged wider opportunities for career development, all of which should help with staff retention. Additionally, 35% have highlighted investment in HR and recruitment.

Naturally, many operators face challenges in facilitating flexible working, given a large proportion of their staff may be on the road and not working in offices. But even so, almost a third of respondents (31%) say their companies see the introduction of more flexible working as a top three priority.

WHAT ARE THE MOST IMPORTANT MEASURES YOU HAVE TAKEN IN THE LAST 12 MONTHS TO ADDRESS TALENT/SKILLS SHORTAGES IN YOUR BUSINESS?

Share of respondents selecting each category. Answers will not add up to 100%.

EFFICIENCY AND COMPETITION DRIVING TECH INVESTMENT

Supply chain technology is, of course, playing an increasingly important role within logistics businesses, whether it be reducing costs and enhancing efficiencies through robotics, automation and cloud services, or using applications to support environmental and sustainability objectives.

When we asked respondents to name the three supply chain technologies they plan to invest in over the next three years, the top three for 2022 were: upgrades to existing technology (22%), sustainability and environmental applications (18%), and cloud services (15%) – all broadly in line with last year's findings.

Slightly more surprising, given the current focus on sustainability and the UK's net zero ambitions, was the 3% fall in investment in sustainability and environmental applications. This highlights a potential conflict between operators aiming to 'do the right thing' while facing growing pressure on margins that may, in the short-term, see them investing in technologies more focused on driving profitability.

Many operators have nonetheless invested in new platforms to record and report their energy usage and environmental impacts, not just for their own purposes but to meet growing demands from customers, many of whom increasingly require suppliers to provide this data as part of bidding processes or tender applications. In terms of funding investment, sustainability-linked loans are becoming an increasingly popular option.

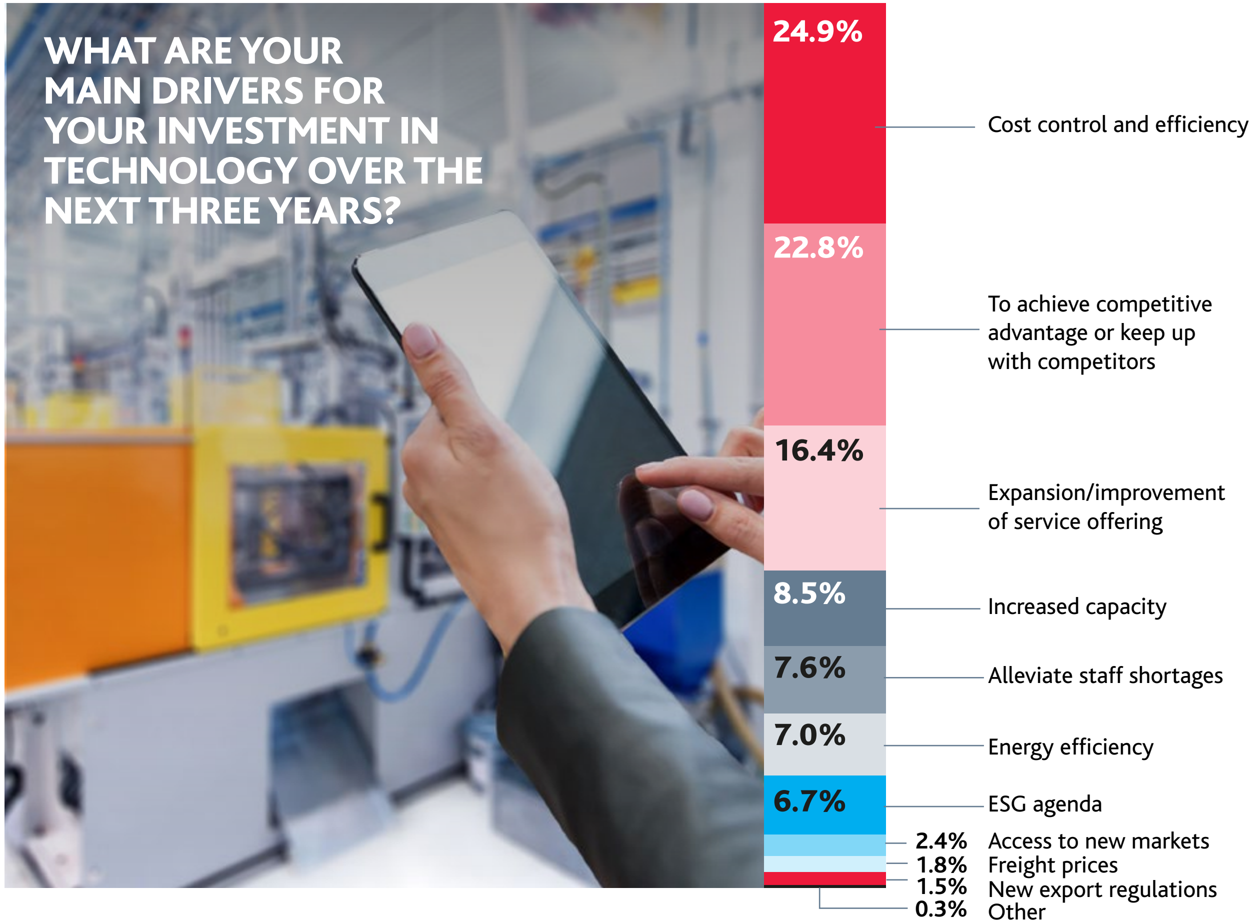
One respondent highlights the fact that tech investment is a necessity to help operators meet increasing data demands, including prompt payment requirements from the government.

Operators have become more interested in using tech to leverage the collaborative and sharing economy and customer platforms – for example, multiple shippers bundling volumes to fill the same transport to save money and reduce their carbon output. Evidencing this growing trend, it was named by 10% as an investment priority, twice as many as in 2021.

Asked to select the top three drivers for investing in tech, a quarter (25%) of respondents name delivering improved cost control and efficiencies, 23% cite achieving a competitive advantage over rivals, or keeping up with them, and 16% of respondents chose extending and improving their service offerings to win new business and support customer retention.

Interestingly, only 7% said they were investing in tech to specifically meet the ESG agenda, although of course, ESG considerations are also supported by other areas of tech investment such as improving energy efficiency.

It's clear that operators see investment in tech as key to managing their cost bases, improving efficiency and remaining competitive. For example, as one respondent comments, firms are "using technology to increase supply chain visibility and reduce order lead-time and waste."



RESPONDENT COMMENT:

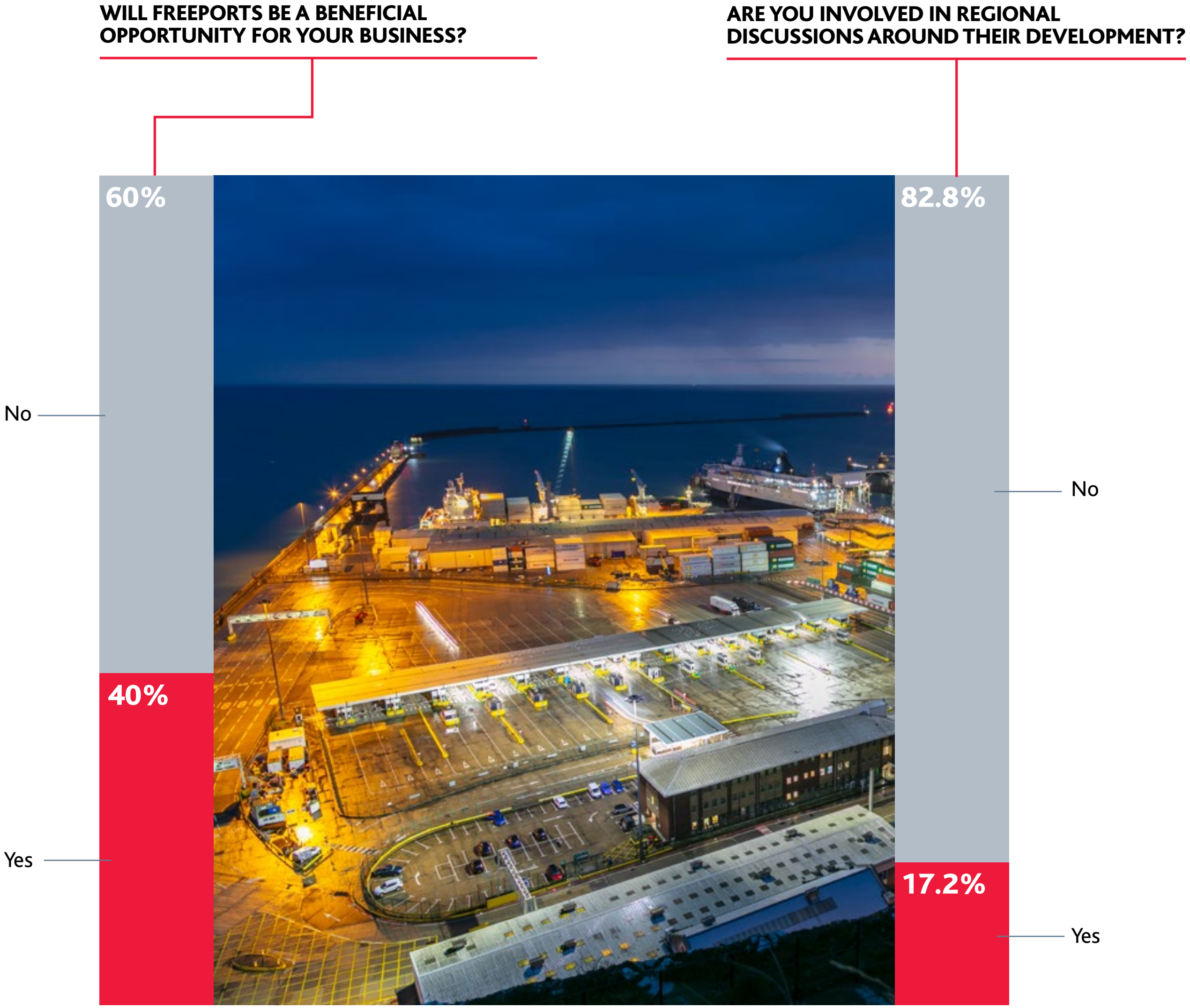
"INVESTMENT IN TECHNOLOGY HAS UNLOCKED A HIGHER LEVEL OF EFFICIENCY IN THE WAY WE OPERATE ON A DAY-TO-DAY BASIS."

INTEREST IN FREEPORTS REMAINS LUKEWARM

Our research suggests that for the logistics sector the jury is still out over the government's planned introduction of eight new freeports in England, which may in the future have potential to exempt overseas goods from tariffs.

While 40% of respondents think freeports will present a beneficial opportunity for their business, only 17% are involved in regional discussions around their development. However, it's encouraging to see that a reasonably sizeable proportion of respondents see potential opportunities from freeports at this early stage of their introduction.

Interest in the freeports is inevitably dependent on a business' location and size, and the fact that 83% say they are not involved in any regional discussions indicates that companies may take a watching brief and see how freeports evolve for now.



ESG CONSIDERATIONS

OPERATORS INCREASINGLY SEE THE COMMERCIAL AND REPUTATIONAL VALUE OF ESG INITIATIVES AND A GROWING FOCUS ON STAFF WELLBEING.

This year's research clearly demonstrates that pursuing ESG-related objectives is increasingly being seen as a business imperative in the logistics sector, with a tangible impact on a company's profits and reputation.

The proportion of respondents who won't be investing in ESG has continued to fall over recent years, from 28% in 2020 to 14% this year, indicating the growing importance operators attach to ESG considerations.

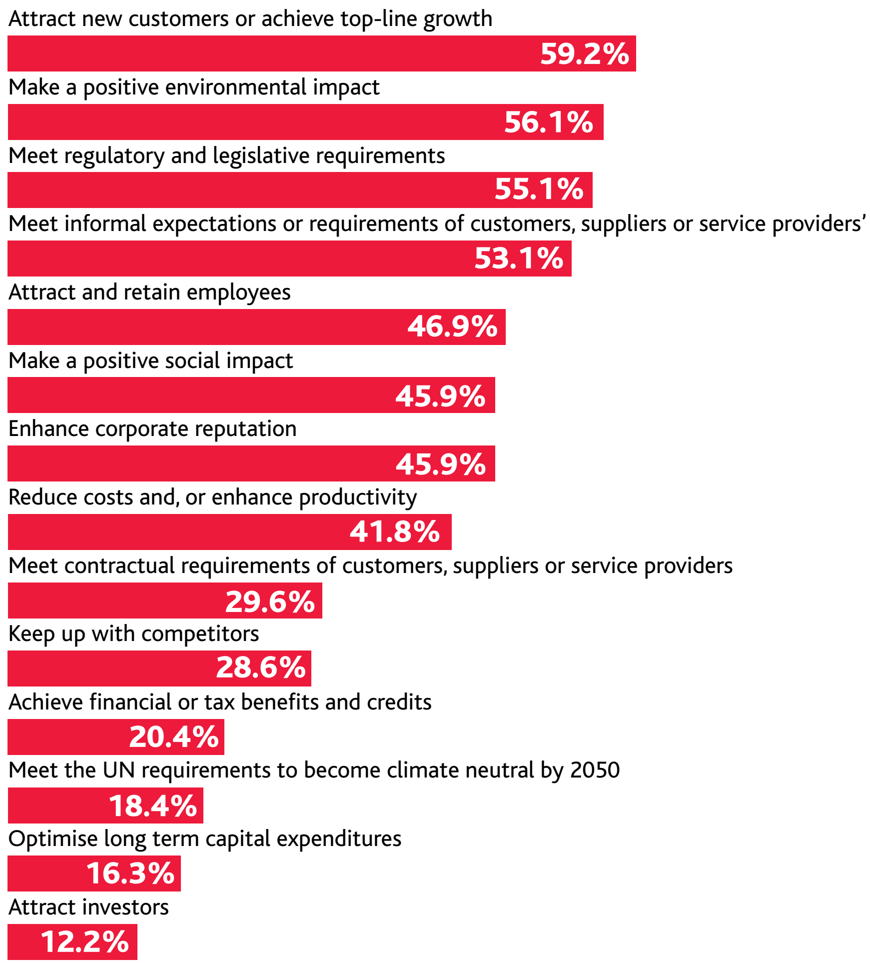
The drive to protect the environment and tackle the climate crisis is leading to a growing sense of urgency among many businesses to embrace the environmental aspects of ESG, and take action to operate as sustainably as possible.

ESG is, of course, a broad concept that also encompasses the important areas of supporting wider society and local communities, as well as strengthening corporate governance. Bearing this in mind, we asked our respondents to identify the key areas of ESG activity they will be focusing on over the next 12 months and what is driving it.

WHICH ARE THE KEY FOCUS AREAS IN THE NEXT 12 MONTHS FOR YOUR COMPANY'S ENVIRONMENTAL INITIATIVES?

Employee welfare and staff wellness	52.5%
Optimising fuel of existing fleet	51.5%
Warehouse initiatives (lighting, power etc)	44.4%
Introducing / expanding number of alternative energy vehicles	40.4%
Recycling initiatives	34.3%
Procurement initiatives	28.3%
Community, charitable and social projects	27.3%
Utilising technology to drive environmental objectives	24.2%
Corporate governance	23.2%
Extending environmental initiatives to suppliers / sub-contractors	17.2%
Packaging / pallet use initiatives	16.2%
Improving transparency/reliability of financial systems	15.2%
Not investing, one for another year	14.1%
Other	2.0%

WHAT ARE THE KEY FACTORS DRIVING ESG ACTIVITY IN YOUR BUSINESS?



Share of respondents selecting each category. Answers will not add up to 100%.

EMPLOYEE WELLBEING THE KEY PRIORITY

The most important area of ESG activity operators intend to pursue is clear cut, with more than half (53%) focusing on employee welfare and staff wellness.

Recognising the importance of taking responsibility for the wellbeing of staff is of course not limited to the logistics industry and reflects an economy-wide trend.

It also reflects well-documented industry concerns over skills shortages and a growing recognition that focusing on employee wellbeing is an essential part of attracting and retaining talent.

Turning to environmental concerns, optimising the fuel of existing fleets is highlighted as a key ESG issue by over half (52%) of respondents, although this has declined in relative importance over the past two years, when it was considered the primary ESG objective by some margin. Four out of ten (40%) view introducing and/or expanding the number of alternative fuel vehicles as a priority. Warehouse initiatives, such as introducing more energy-efficient lighting and power supplies, is the third major area of focus, named by 44%.

These actions can provide a double-positive for operators, by bringing both environmental benefits and helping to manage rising energy costs.

Moving away from environmental issues, more than a quarter (27%) of respondents want to focus on community, charitable and social projects, while just under a quarter (23%) name corporate governance as a key issue, reflecting increasing regulation and the need for greater visibility of their operations.

COMMERCIAL AND REPUTATIONAL DRIVERS

In terms of the key drivers of ESG activity within logistics companies, commercial considerations are top of the agenda, with environmental concerns hot on their heels.

Asked to identify the three key factors driving ESG initiatives in their organisation, nearly six out of ten (59%) respondents say it is to attract new customers or achieve top-line growth.

Following closely behind is the desire to make a positive environmental impact (56%) and well over half of respondents (53%) say their focus on ESG is linked to meeting the expectations or requirements of customers, suppliers and service providers. In reality, our research suggests that, with customers increasingly driving the ESG agenda, investment in ESG initiatives is as much about gaining a competitive edge to win and retain business as 'doing the right thing'.

Just under half (47%) say attracting and retaining employees is a key factor behind their ESG initiatives, acknowledging people are increasingly choosing to work for companies with strong ESG credentials, and a similar proportion (46%) say their ESG activity is centred around delivering a positive social impact.

For hard-pressed operators, ESG investment has to work within the parameters of increasing cost and commercial reality – however, the parameters are rapidly changing. Logistics customers are now required to meet environmental and sustainability expectations increasingly demanded by their end-consumers. This commercial pressure in turn informs the nature and level of ESG investment that logistics companies are required to undertake.

Yet for a significant number of our respondents, the focus is on compliance – more than half (55%) of respondents are driven by the need to meet regulatory and legislative requirements. Larger operators are, of course, generally better placed to make these investments for commercial and reputational advantages, while smaller companies can be at a disadvantage in this area. As one respondent says: "With the demand for environmental improvements [occurring] at the same time as [the need for] reducing operating costs, I fear for the smaller operator who will not have the ability or desire to invest in this marketplace."

LOGISTICS 2012-2022: A DECADE OF CHANGE

A LOOK BACK AT THE INDUSTRY'S HIGHS AND LOWS SINCE THE LAUNCH OF THE LOGISTICS CONFIDENCE INDEX.

This year marks the tenth anniversary of the launch of the Logistics Confidence Index and it has been fascinating to reflect on how the logistics industry has fared and evolved over the past decade.

As demonstrated in our research over the past ten years, we've seen how the meteoric rise of technology and the e-commerce boom have impacted the sector, together with the persistence of critical labour shortages, seemingly inexorable consolidation and, more recently, the growing influence of the sustainability agenda and ESG.

As we all know, the industry has proved time and time again its ability to turn a crisis into an opportunity. Having successfully battled with Brexit, and then Covid-19, we're now in the throes of dealing with the effects of rampant inflation and wider geo-political instability.

Our Logistics Confidence Index results over the years themselves reflect the sector's long-term resilience and agility, ranging from the record high of 74.9 in H2 2013 to the all-time low of 47.1 in 2020 when the Covid-19 pandemic struck.

Last year, even as the pandemic continued, the industry delivered an impressive bounce-back with the highest index result since 2016 as it started to see an end to political uncertainty and significant supply chain disruption. Ironically, this year's index score of 50.4 sees us almost back were we started, being just a few points shy of the 52.5 recorded in H2 2012.

KEY INDUSTRY THEMES FOR THE PAST DECADE

Skills gap
Driver shortage
Supply chain disruption
Sustainability
Covid-19
Value-added services
Innovation
Brexit
Resilience
Technology
Customer expectations
E-commerce
Consolidation
Climate change

CHANGING ECONOMIC LANDSCAPE

The economic landscape the sector operates in has seen many dramatic shifts over the last ten years. Back in 2012, the key concerns were the ongoing Eurozone debt crisis, the UK's declining GDP and falling manufacturing output, and a sluggish economy after a temporary summer uptick linked to the 2012 Olympics.[1] Today we are still dealing with the aftermath of Brexit and the pandemic, and now the rising cost of living, labour shortages, the economic fallout from the war in Ukraine, soaring energy costs, and the climate emergency.

In terms of the numbers, ten years ago, UK annual GDP growth stood at 1.5% and is now 3.2%.[2] However, the standout difference is undoubtedly inflation, which was running at just 2.8% in 2012 compared to 9.9% in September 2022.[3] The Bank of England base rate was a mere 0.5% in 2012 and is up to 2.25% today.[4] The unemployment rate has fallen from 8% to 3.6%[5], while the working population is similar to what it was a decade ago at 32.7m[6], despite growth in the UK's population.

KEY ECONOMIC STATS 2012 V 2022

	2012	2022
GDP GROWTH	1.5%	3.2%
CPI INFLATION	2.8%	9.9%
BANK BASE RATE	0.5%	2.25%
UNEMPLOYMENT	8.0%	3.6%
WORKFORCE	29.7M	32.7M

SOURCES

1 https://www.bbc.co.uk/news/business-21193525 report from 2012 based on ONS stats

2 https://commonslibrary.parliament.uk/research-briefings/sn02784/

3 https://www.bankofengland.co.uk/knowledgebank/what-are-interest-rates

4 https://www.bankofengland.co.uk/knowledgebank/what-are-interest-rates

5 https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment

6 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/september2022

KEY THEMES OF CHANGE: THE RESPONDENTS' VIEWPOINT

For this year's report, we asked our respondents to share their views on what they regard as the most significant changes in the logistics sector over the past ten years. Here we summarise their responses.

TECHNOLOGY

Significant changes have of course been delivered through technology across core business systems, warehousing and transport, which is a huge benefit in terms of managing costs and has provided far greater visibility of deliveries for customers. It is also enabling fleets to become more energy-efficient through the introduction of electric vehicles (EVs) and a switch to cleaner alternative fuels.

"The speed of technology and innovation has had a huge impact on the industry over the last ten years. Route planning optimisation, big data optimisation, battery-powered vehicles, and warehouse automation are but a few notable examples. The industry, and the environment, can only benefit in the long term from the continued rate of change and positive customer experience this can deliver."

IMPACT OF STAFF SHORTAGES AND RISING FUEL COSTS

The headline-grabbing staff shortages and rising fuel prices that have impacted the sector in recent years have led to industry calls for government intervention to make it easier to employ overseas staff, and to improve training levels and training funding to fill skills gaps – for example, by optimising use of the apprenticeship levy. Many operators also call for fuel duty to be subsidised for essential industry users.

"Labour shortage and fuel pricing has changed cost dynamics."

CHANGING CUSTOMER EXPECTATIONS

Operators say that their customers' expectations have also evolved significantly, largely due to the dramatic changes in consumer shopping habits linked with e-commerce. Many of our respondents highlight how e-commerce has pushed up warehousing costs, with a big financial impact on smaller businesses. This has spurred consumers to expect a seamless delivery experience including visibility, faster end delivery, and a greater choice of delivery locations.

"There's been a change in customer expectations which have tightened the timescales on deliveries, ultimately pushing the cost to serve upwards."

BREXIT AND THE PANDEMIC

For many, Brexit and Covid-19 have been the main drivers of change. Many respondents have highlighted that these events have changed the landscape for labour availability and created cross-border trade challenges. This has, in turn, affected the services and infrastructure available for UK logistics companies.

However, others view the effects of Brexit more positively, suggesting it has made the industry more flexible and resilient.

Despite recalling the mass disruption the pandemic brought to the UK including global supply chain issues, labour supply and increased costs, many respondents also acknowledge the significant role Covid-19 played in raising the industry's profile.

"I said that it [Brexit] would sift out the wheat from the chaff, and it has. Those who had a glass half full approach, and were prepared to invest in training and technology, would come through this with a positive outcome."

"The driver shortage caused customers to understand just how vital logistics is and Covid-19 showed the UK public the same! Until then, we were a commodity sector, now we are a critical sector."

SO WHERE ARE WE NOW?

Some things haven't changed – for example there are still growth opportunities in the market. There is also still huge pressure to cut costs for operators to remain competitive and viable, which continues to drive the trend for consolidation in the industry. But as our first report in 2012 stated: "It is important to consider the wider interest of having a sustainable logistics sector in the long term."

The momentum for the shift to e-commerce and its new focus on delivery as a customer service was initially influenced by the rise of Amazon but accelerated during the pandemic – as did awareness of the critically important economic and societal role played by the UK logistics sector and its vital key workers.

While e-commerce has dramatically changed consumer expectations for the long term, it represents a massive opportunity for the sector by opening up scope for the further introduction of value-added services.

But perhaps the most significant change of all that we've seen over the past decade is that logistics is no longer seen as merely a cost-sink or necessary overhead, but as a service-led, value-proposition.

Most of the operators who took part in this year's research are convinced that the standing of the industry has grown over the past ten years, alongside its capabilities. They point out that efficiency has evolved to support high demand, shorter lead times and higher productivity and that thinking outside the box has been, and always will be, part of the industry's psyche.

INDUSTRY INSIGHT: CLIPPER

COLLABORATION IS KEY TO RETAIL LOGISTICS SUCCESS STORY.

Clipper CEO Tony Mannix talks about helping customers understand the benefits of shared resources, tackling the skills shortage and the huge opportunities in dealing with customer returns.

A determined belief in building relationships and the benefit of collaboration is "at the heart" of the way retail logistics provider Clipper does things.

It's an approach that's proved successful for the Leeds-based business, which has around 50 locations across the UK and Europe, employs around 12,000 people and was acquired this year by US company GXO for £965m.

Looking at the outlook for the logistics sector, Tony Mannix, Clipper's Group Chief Executive Officer, says: "I do think there's a period of challenge ahead, but ours is the type of business that's always looking for solutions to problems."

Tony is confident that Clipper can find those solutions because "building relationships with people, being accessible and helping people understand how they can benefit from collaboration is at the heart of how we operate".

SHARING RESOURCES IN TIMES OF ADVERSITY

The value of collaboration has been proven, says Tony, in previous times of adversity, such as when Clipper offered shared logistics resources to under-pressure retail customers following the 2008 financial crisis.

Now, as then, retailers facing economic uncertainties can choose Clipper's shared facilities, which allow them to scale logistics resources up or down as needed and benefit from economies of scale and shared overheads. Tony says: "Years ago I was told retailers wouldn't share anything so it's interesting that collaboration is now a really sexy term."

Tony also points to the Clicklink™ transport network Clipper set up in partnership with John Lewis as another example of effective collaboration. "The click and collect service we created is now shared by 40 other retailers and brands."

Clipper's collaborative approach was particularly important during the Covid pandemic. Tony explains: "During the first lockdown we helped customers cut their logistics costs by helping to move resources they weren't using – transport or warehousing capacity – to someone who did need them."

Feedback from grateful customers was "phenomenal", Clipper's workforce bucked the trend by increasing and the company's involvement in creating a PPE supply chain helped to raise its public profile.

LOOKING FOR NEW SOURCES OF TALENT

Tony sees the ongoing skills shortage – exacerbated by Brexit and the post-Covid 'great retirement' – as one of the logistics sector's main challenges and Clipper's solution is to look for pockets of talent that have previously been overlooked.

The company's Fresh Start programme – which is supported by charities working with ex-offenders, ex-military personnel and people with mental and physical disabilities – has contributed to around 1,500 new faces joining Clipper through what Tony calls "non-standard" recruitment routes.

Clipper is also working with schools and colleges to raise awareness of careers in logistics: "Most people fall into logistics by accident rather than choosing it," says Tony. Clipper also has a driver apprenticeship programme and has created a successful logistics degree course at Sheffield Hallam University – with over 100 apprentices on the programme.

RETURNS A HUGE GROWTH OPPORTUNITY

Brexit's other problematic legacy is of course cross-border red tape. Clipper not only continues to support customers through its operations in Poland, Germany, Netherlands and Dublin, but is also seeing the benefits of dealing with UK customers' returns in mainland Europe rather than bringing them back into the UK.

In fact, returns in general are a huge growth area for Clipper. For some of its customers, including John Lewis, ASOS and Panasonic, Clipper also makes returned inventory fit for resale, which can involve anything from sewing buttons back onto clothes to repairing TVs.

Tony adds: "Returns can be good for the planet too – making sure products are used rather than going to landfill is important as everyone's more conscious of the potential impact on the environment."

As environmental, social, and governance (ESG) issues become more influential, Clipper understands the pressure to decarbonise. While the technology is not yet fully developed for long-range large electric vehicles, it is working with Volta Trucks to use electric trucks for short journeys in London as part of its Regent Street Consolidation Scheme. At the same time, Clipper is pursuing a strategy of reviewing its property portfolio from both an operational and sustainability perspective and is working with its landlord partners to create sustainability improvements.

THE E-COMMERCE TRANSFORMATION

Looking back over the ten years since the first Logistics Confidence Index report, Tony points to the adoption and increased use of e-commerce by retailers, which has transformed their logistics requirements.

"Of course, it's also transformed retail itself. Online technology means anyone can use social media to start marketing and selling products from their bedroom. We want to stay relevant to these entrepreneurs so, for example, we work with Drapers and have jointly created a portal called Guide to Growth that gives advice about how they can scale up that bedroom business to the next level."

In the warehouse, Tony sees a future where people are complemented by robotic and automation technology that takes on the more repetitive physical tasks, allowing employees to be more productive.

Away from the topic of technology, he believes the government's new freeports initiative "has a lot of merit" to boost trade, but believes many businesses still lack understanding of how freeports will operate and their potential benefits. "People's eyes tend to glaze over when you try to explain it, so it needs demystifying."

Finally, he predicts that concern about climate change will mean the popularity of retailers dealing in second-hand goods will continue to rise, and also speculates that attempts to achieve ESG goals could shift some manufacturing from places like China back to the UK. "Shorter supply chains lessen the impact on the environment but are also more secure – who knew until recently that one ship stuck in the Suez Canal could cause such problems or that Ukraine was so important to feeding the world."

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INDUSTRY INSIGHT: PC HOWARD

OVERCOMING THE CHALLENGES OF AN ECONOMIC SLOWDOWN.

Managing Director Andrew Howard says the family-owned business will keep investing in integrated solutions to win new customers and counter the impact of the coming downturn.

As well as managing the lingering effects of Brexit and Covid, the ongoing driver shortage and the rising cost of living, the logistics industry is now facing a significant downturn in demand for its services as economic activity slows.

This is dominating the immediate outlook for the sector, according to Andrew Howard, Managing Director of family-owned distribution and warehousing business PC Howard, which operates more than 100 vehicles and 150 trailers, combined with over 250,000 sq ft of warehousing.

"As a business we're finding ways to get over the other hurdles but now there appears to be a significant downturn in activity ahead of us. Despite reassurance from government, it's been quite clear since autumn last year that this was coming. None of us know the extent of it but it seems similar to the 2009 aftermath to the 2008 financial crisis."

DEMAND INDICATORS

The drop-off in activity follows a "buoyant" first half of 2022 for PC Howard. "Supply chain disruption meant customers were short of materials and many were restocking," Andrew explains. "Now, stock levels are back up but there's less demand for those goods and I'm seeing full warehouses."

Andrew points to examples of customers who would normally need hundreds of pallets of stock moved every day but by July were moving just a handful.

He adds that PC Howard, which has ambitions to be a £25m turnover business, saw pallet volumes in July down 3% on 2019, down 9% on 2020 and down 10% on 2021. "This isn't just us. From what I've seen and from the people I've spoken to, there is a widespread downturn in activity."

Andrew says that, working with partners in mainland Europe, PC Howard used to provide a European service for 30-40 customers – but post-Brexit numbers are now down to "just a few" with many customers having given up moving goods into the European Union (EU) because of increased bureaucracy.

"As an industry that carries the wealth of the country on the backs of its vehicles, we're one of the first to see the impacts of economic downturn," says Andrew. "If the vehicles start slowing down, then something is happening to the wealth of the country."

Andrew highlights the different causes to those of previous downturns, citing inflation, rising energy costs and shortages of some goods as the main reasons why consumers have stopped spending.

PC Howard itself has, of course, also seen a rise in its energy costs. With margins typically tight across the logistics sector it can't absorb those increases and will have to pass them on to customers through existing fuel escalator agreements.

Andrew says: "My challenge is to steer us through this and ensure the business can absorb the impact. Who knows, there's uncertainty now but as we approach the end of the year things may start to change and confidence might return."

INVESTING FOR SUCCESS

It's a challenge Andrew is confident PC Howard can meet because of the company's diverse customer base in palletised goods and its continuing ability to win new contracts.

He says: "We're able to pick up new business because of continuing investment in developing our expertise and enhancing our service. We're very much focused on integrated solutions for our customers and ensuring our service team can go the extra mile so goods are delivered on time and in full."

Investment in training has helped PC Howard tackle the shortage of HGV drivers, while higher industry-wide driver wages has helped to both keep people behind the wheel and encouraged others to think of driving as a career.

However, Andrew believes the driver shortage could be eased further if the promised relaxation of regulations post-Brexit becomes a reality: "Various EU rules, in the shape of tests and licences, have created a barrier to entry for driving the larger vehicles because people just don't want to jump through all those hoops.

"If we're really benefiting from Brexit and taking back control of regulation, we should be taking down some of the barriers put up by the EU – but our industry hasn't seen any changes."

TECHNOLOGY TREND SET TO CONTINUE

One of the big changes in logistics over the past ten years has of course been the increased importance of IT and Andrew is confident that trend will continue in the next decade. "Bizarrely, it's some of the larger companies' use of paper-based systems that is holding us back, but I think they will eventually have to engage more with technology to meet consumer needs and to remain competitive with the rest of the industry."

He continues: "I don't see any other really transformational changes except the potential move away from diesel to electric vehicles, especially for shorter journeys, but widespread adoption seems a way off at the moment because most customers are not prepared to pay the extra costs that involves."

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PC HOWARD LTD
DISTRIBUTION & WAREHOUSING

INDUSTRY INSIGHT: SIMARCO

SUSTAINABILITY: CHALLENGES AND OPPORTUNITIES.

Simon Reed, CEO at Simarco, accepts that going 'green' isn't easy but points to the potential benefits and argues climate change is a threat that can no longer be ignored.

Sustainability's growing importance may often mean additional business costs in an already challenging marketplace – but it can also represent a big opportunity for logistics operators.

That's the view of Simarco's Chief Executive Officer Simon Reed, who believes extreme weather events like this summer's 40°C heatwave are persuading business leaders that now is the time for action.

However, Simon accepts it's tough for operators to charge customers more for sustainability measures, especially in the context of gloomy economic forecasts.

AGILITY KEY TO MANAGING UNCERTAINTY

Despite the possibility of difficulties ahead, Simon is bullish. "Simarco offers the full range of logistics solutions, but 70% of our business is European road freight and in freight we live with uncertainty. With Covid and Brexit we've had the worst couple of examples in living memory yet look how the sector coped. The key is to plan for the worst-case scenario and be as agile as you can, and work in partnership with your customers and, equally importantly, your suppliers too."

An example of Simarco's agility is its expansion of warehousing in Europe in response to supply chain issues created by Brexit and the shortage of storage capacity in the UK. Simon adds: "For us, decisions like that can be relatively quick as we have a small, close and very experienced management team, whereas for other businesses the decision chain can be considerably longer."

Acquisitions are a key part of Simarco's strategy too, with a buy-out that should complete in 2023 set to boost its market share and increase turnover to £100m. Simarco has also employed extra staff to administer post-Brexit customs clearance along with extra warehousing capacity established in Continental Europe.

In addition to this, there has also been an investment in HMRC-approved External Temporary Storage Facilities across all its UK warehouses.

For companies like Simarco that transport goods across the European Union (EU), Simon warns that exports and imports could be impacted this autumn if the UK goes ahead with its plans to switch to the long-awaited new customs clearance system.

All logistics companies, whether they operate in the EU or not, are of course already dealing with a major headache in the shape of mounting inflationary pressure. "At the same time as logistics providers' costs are going up," says Simon, "customers are looking at falling demand for their products, so getting them to consider higher charges, including paying for sustainability measures, isn't easy."

CHANGING THE FLEET FOOTPRINT

Notwithstanding this, Simarco is in the process of converting 25% of its largest lorries to hydrotreated vegetable oil (HVO) and is installing a huge HVO tank at one of its bases so it has its own in-house supply. Minimal adaptation of the lorries is required, but Simon says the HVO lorries are 40% more efficient and able to reduce CO_2 emissions by up to 90%.

However, the price of HVO generally tracks at a rate that's between 7% and 9% higher than diesel – meaning that there is a cost to this for Simarco, but the ability for Simarco to work with customers with their own sustainability programmes will bring benefits, as well as simply being the right thing to do for the environment.

"It's not perfect but we have to keep moving in the right direction on our own and hope the government will make it a level playing field by making sustainability mandatory for everyone," says Simon.

Against the backdrop of the sector's continuing skills shortage, Simon is convinced Simarco's sustainability policies are a factor in helping the company to retain staff. "Price has for many years been the key driver of many logistics decisions and will no doubt continue to be one of the top considerations. However, it is our firm belief that as the climate continues to change, the sustainability of logistics will be an increasingly important consideration and Simarco intends to be in the vanguard of logistics providers in this regard."

Simon believes that environmental concerns are also an increasing consideration for staff. "More and more the issue of sustainability is something our staff are raising with us through our employee engagement mechanisms. Quite rightly they are pushing Simarco's management to look for sustainable solutions which they recognise are affecting themselves and their families and our focus on these items is one area that supports our strong staff retention."

A focus on staff wellbeing is also a big part of Simarco's approach: "With drivers in particular we've worked hard to hold on to them, which means making sure they've got state-of-the-art trucks, are treated as a key factor in the business, feel empowered to make decisions and that they feel appreciated."

The greater availability of remote working has proved an advantage, Simon says, as it's opened up opportunities to recruit people to administrative roles who wouldn't have been considered before. However, finding warehousing staff remains a challenge.

GLOBAL SUPPLY CHAIN CONCERNS

While recruitment is still problematic for the sector, Simon believes ongoing concerns about trans-global supply chains is a significant opportunity for operators like Simarco. "We've seen how fragile the global system can be when one ship gets stuck in the Suez Canal, and you can't ship goods from China and claim that's not having an environmental impact."

He sees a future shift towards working with markets closer to home, like mainland Europe. "Besides the environmental aspect, people and businesses don't want to wait for goods, so there will be this balancing act between it being more expensive to produce something closer to home but getting it quicker.

"The UK is a big consumer market and I think it's inevitable that friction between Europe and the UK will be reduced, which will put companies like ours in a stronger position."

RETAINING THE HUMAN TOUCH

Looking back on the decade since the first Logistics Confidence Index report, Simon echoes many of our survey respondents in highlighting how technology has transformed logistics, but stresses: "Ultimately for us, if something goes wrong for the customer, they will pick up the phone and want a human response."

He predicts continued consolidation in the sector in the next decade but is in no doubt that climate change is "the seismic issue". He says: "At the moment, climate protection is too easily sacrificed for more immediate issues; it is down to governments to protect and progress these initiatives above everything else."

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THE FUTURE OF LOGISTICS

OUR RESPONDENTS SHARE THEIR THOUGHTS ON THE CHANGES THEY EXPECT TO IMPACT THE INDUSTRY OVER THE NEXT TEN YEARS.

The past decade has been a tumultuous one for logistics, with the last three years in particular seeing accelerated changes in consumer trends emerging and a more complicated European market to navigate.

But what could be the most significant changes we're likely to see in the next ten years?

That was the difficult question we put to leaders of the UK's logistics sector, and below is a summary of their views. While hard to predict the future of the industry with any degree of certainty, our respondents' observations paint a relatively optimistic picture demonstrating once again the sector's readiness to adapt and change.

AUTOMATION, AI AND TRANSPORT TECH TO THE FORE

The impact of continued developments in technology emerges as a major theme for the future, mostly centred around increased adoption of warehouse automation and new transport innovations.

Respondents feel that the arrival of autonomous delivery vehicles is inevitable at some point, although they don't think they will replace human drivers for the foreseeable future, at least not for long distances. More likely, they will play an increasing role in last-mile delivery, along with a fast-evolving use of drones.

As the industry begins to move towards hydrogen or electric vehicle fleets, respondents highlight the critical importance of essential infrastructure and battery technologies to be in place. More immediately, subject to market conditions, respondents predict a rapid shift to the use of alternative fuels and the updating of fleets optimised to use them.

The views of industry leaders suggest greater use of automated guided vehicles (AGVs) as part of a wider growth in automated and robotic warehousing solutions – and, again, they expect to see greater use of drones in warehouses.

AI is expected to be increasingly deployed to enable businesses to improve their transport planning and administration to continue to deliver greater supply chain efficiencies, as well as the continued roll-out of tech to improve visibility and transparency.

ESG AGENDA A MAJOR DRIVER

As the global move towards decarbonisation increases in importance and scope, respondents predict a lot of big changes centring around the ESG agenda, which they expect to be increasingly driven by new environmental legislation and regulations.

Clearly some of the tech developments relating to logistics fleets will at the same time address environmental issues in terms of reducing emissions and environmental impact.

It's essential that new networks and infrastructure emerge to supply hydrogen and sustainable alternative fuels, like hydrogenated vegetable oil, from garage forecourts in the same convenient way that diesel and petrol are today.

The move to increased collaboration and co-operation between users is a common theme as pressures grow on infrastructure and resources – we are already seeing the development of regional hubs for global manufacturers. Predictions include the emergence of huge numbers of unbranded vans making deliveries for multiple parcel carriers in a world where online retailing has moved to using returnable transit packaging, as well as more data sharing.

KEY INDUSTRY THEMES FOR THE NEXT DECADE

Operators will likely need to work more collaboratively within a new 'sharing' type of energy and resources ecosystem due to increasing pressure on available resources and infrastructure. With logistics space already in short supply this could add a new dynamic.

The trend to shorter supply chains is also mentioned, triggered by recent experience of supply chain disruption as well as environmental considerations. One respondent predicts UK operators could benefit from a shift to more regional manufacturing and production, utilising localised delivery systems to reduce energy usage and carbon output, while another mentions the rise of 3D printing.

EXPECT MORE CONSOLIDATION

Some respondents express fears that the UK will be less competitive than Europe, creating price pressure and ultimately resulting in less business flowing through the UK.

In the face of this, and with rising costs driving needs for economies of scale, most of the companies in our research agree that the pace of consolidation in the sector will accelerate, particularly given that the sector still includes large numbers of smaller players.

Greater consolidation of operators may see a corresponding consolidation of shipments too, and the expansion of the major shipping lines into all areas of the supply chain is already happening.

Smaller businesses may need to diversify or specialise in niche markets to thrive, and some respondents think many of them won't make it through the next ten years. Many predict this will both reduce choice for customers and ultimately push up costs.

CONTINUING DEMAND FOR SKILLS

Despite the often repeated claim that robotics and automation will replace people in logistics roles, some respondents feel this has been somewhat over-exaggerated – and the sector will still need people, with warehouse workers transitioning to higher value roles. Some predict shorter working hours and higher pay, to some extent negating the impact of tech, particularly robotics, on employment in the sector.

Respondents assume that driver shortages will continue to plague the sector for some time, particularly given the ageing profile of drivers, and driverless vehicle technologies remain some way off being a practical solution.

CONCLUSION

Judging from these predictions it seems the sector has an exciting decade to look forward to. It will be interesting to see whether the recent rise in the profile of the logistics sector, the introduction of modern technology and the wider scope of its service-led proposition will affect its ability to attract workers and raise revenues. It is now clear how valuable it is to have an efficient and effective logistics service, and we look forward to seeing how it continues to evolve and adapt to meet rapidly changing consumer expectations, ESG demands, economic conditions and other challenges to come.

We'd like to thank all our respondents for sharing their invaluable insights on the industry's future.

OUR PARTICIPANTS...

...on AI:

"Greater IT integration, efficiencies in routing, pricing and delivery [through] smarter algorithms."

...on the ESG agenda:

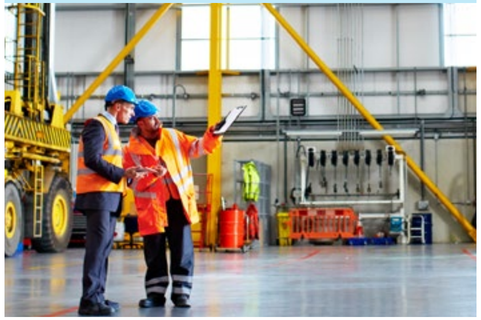
"The ESG agenda will drive development and the pace of change. The world is starting to see the impact of climate change first hand, and I think this will lead to an acceleration in pressures to cut emissions far more quickly and much stronger corporate governance."

...on consolidation:

"More M&A! The big will get bigger, smaller hauliers will get swallowed up or disappear [through] consolidation."

...on skills demand:

"We need to rethink how we attract people into the sector and continue to raise its profile."



KEY TAKEAWAYS

Our Logistics Confidence Index has fallen to

50.4

a significant drop from

62.5

last year and the third lowest figure of the past ten years, but higher than the last pre-pandemic figure in 2019.

More than 7/10

operators predict business conditions will be tougher in the year ahead, with just 7% foreseeing them getting better.

Three-fifths of operators are predicting they will experience a rise in turnover in the next 12 months, but are a little less optimistic about profitability, with

45%

anticipating a rise in profits in the next year.

75%

of companies think winning business from existing customers will be the key focus for driving profit growth in the next 12 months.

81%

of respondents remain upbeat about capital expenditure over the next 12 months, anticipating significant spend in this area.

Nearly half (45%)

of respondents expect to make an acquisition in the next year – the second all-time high in a row – with the main drivers being achieving economies of scale and expanding service offerings.

53%

of respondents named employee welfare as a major priority, and the key ESG activity they intend to pursue in the next 12 months.

2x

as many operators are now intending to use tech platforms to collaborate with other companies to cut operating costs and reduce their carbon footprint, with 10% naming it as one of their tech investment priorities in the next year.

9/10

say they have improved pay and conditions to address skills gaps in the past 12 months, but a growing shortage of office-based staff has become operators' biggest staffing challenge after lack of drivers and warehouse people.

Commercial considerations are the key drivers of ESG activity, with nearly

6/10

respondents saying it is to attract new customers or achieve top-line growth

50%

of operators say the single largest source of new business in the last year was from customers choosing to switch to them from other operators, with accessing value added services the key driver for switching.

Staff shortages, increasing labour costs and rising fuel prices continue to be companies' biggest challenges but other issues are coming to the fore over the next 12 months.

2/3

of respondents named falling demand and volumes and increased customer pricing pressure as major challenges.

ABOUT THIS REPORT

All figures and data relating to the UK Logistics Confidence Index within this report have been researched by Analytiqa. The index calculation is based on the proportion of respondents reporting either an improvement, no change or deterioration within the sector, scored from 0 to 100. Therefore, a number over 50 indicates an improvement, while below 50 suggests a decline. The further away from 50 the index is, the stronger the change over the period.

Analytiqa

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Jason is a Partner in BDO's Corporate Finance advisory team and has extensive experience across the logistics and supply chain management sector. With more than 20 years' experience leading corporate finance transactions, he has a successful track record in completing numerous mid-market deals. He has worked with a broad client base, both UK-based and global, across a wide range of logistics sector businesses, including road haulage, warehousing, fulfilment, palletised freight, freight forwarding, courier transport, and logistics technology and automation. Jason produces regular M&A updates and reports on the sector, providing analysis of the key trends that are driving value in the market.

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