Moving with confidence

Confidence bounces back as the sector looks to the future

The UK Logistics Confidence Index 2021

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Executive summary

Despite significant obstacles, operators are more confident about the future.

Dramatic return of confidence
Demonstrating significant levels of renewed optimism, our Logistics Confidence Index has risen to 62.5, its highest level since H1 2015.

The dramatic rise in sector positivity – larger than any previous single increase since our research began in 2012 – might seem counterintuitive in the light of recent media headlines about a supply chain crisis. Indeed, 60% of respondents in our research say business conditions are more difficult now than 12 months ago. However, despite recognising obstacles that include global trade imbalances and an exacerbated shortage of drivers, logistics operators are much more confident about the future.

Looking ahead to the next 12 months, 40% of operators do foresee business conditions getting more difficult, but an encouraging share of respondents, 60%, expect conditions to stay the same or be more favourable. According to our research, more than three quarters (76%) of operators expect their turnover to increase in the next 12 months. The outlook for profitability is just as optimistic with almost two thirds (62%) of companies expecting to increase profits, up 13% on 2020.

Our latest research on the 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 and August 2021.

The companies in our survey represent total revenues of approximately £15.5bn. Their responses have been compiled to create the UK Logistics Confidence Index 2021. We are extremely grateful for the insights provided by our survey respondents at what has been a very challenging time for the sector.

The strength of the Index recovery may, to some extent, simply reflect operators' relief that the worst of the pandemic seems to be over and that, whatever its limitations, a Brexit deal was finally concluded. However, our research also suggests many logistics operators feel the acceleration in e-commerce growth is creating new opportunities and those serving leisure and hospitality are now seeing their markets revive.

Some operators are certainly benefiting from current high freight rates, and increased prices across the global supply chain may turn out to be permanent, particularly with increased labour costs due to shortages of drivers and other staff. It remains to be seen whether such increases are sustainable in the long term.

Underlining the renewed confidence, our research reveals 85% of companies are likely to make significant capital expenditure over the next 12 months, and almost two thirds (63%) expect an increase in headcount in 12 months' time.

Bearing in mind the shortage of drivers and other key logistics workers, a factor which operators rank as having the biggest negative impact on their business performance, finding the personnel to implement recruitment plans is likely to prove very challenging.

Opportunities for growth

Operators are positive about opportunities for growth in the next year, with most (81%) focused on their existing customers and, in line with a broader economic recovery, more than a quarter say their biggest source of new business is current customers expanding. This is a result of what appear to be irreversible changes to economic and consumer trends and the subsequent move by the industry toward added value services.

However, our research also shows that 39% of operators expect Brexit to mean they will do less business with EU customers in the next 12 months, largely because of the new red tape burdens involved. As a result, half of companies predict they will do more business in the UK, implying an increasingly competitive domestic marketplace.

Yet while logistics operators foresee warehouse and transport capacity to be ongoing concerns in the next 12 months, they're generally more optimistic about freight rates stabilising, and supply chain disruption and post-Brexit customs difficulties improving. They also anticipate continued customer price pressure, changing service level expectations, and changing levels of demand in end markets being significant challenges in the year ahead.

The shortage of drivers and key logistics workers

Operators rank this factor as having the biggest negative impact on their business performance.

39%

of operators expect to do less business with the EU in the next 12 months.

Of course, the existing competitiveness of the logistics market means a major source of new business in the last 12 months was new customers switching from other service providers. Continuing a trend seen in previous reports, the key reason for switching is to find logistics suppliers that provide value-added services.

An all-time high of 42% of respondents say they are likely to make acquisitions over the next 12 months, ahead of the previous highest result of 39% from our 2020 report. This reflects expectations for continued consolidation within the logistics sector driven by operators seeking to achieve economies of scale, expand their service offering and move into new geographical markets.

More than half (58%) of respondents cite greater use of or investment in technology as a way to boost profits, and, according to our research, where companies have introduced automation over the last two years, half say this has made the way they work more efficient, while a quarter are seeing increased customer satisfaction.

Despite this, automation isn't top of the 'shopping list' for most companies over the next three years; the highest proportion (22%) will instead spend on upgrading their current TMS/WMS/ERP and fleet solutions.

Staff shortages the biggest challenge

Predictably, almost every company involved in our research (96%) pointed to shortages of staff as their greatest business challenge in the next year and almost as many are worried about the increased labour costs that are being widely reported in the press. The same is reported in the US and other developed economies.

Our research reveals that to meet the staffing challenge, 96% of businesses say they have had to improve pay and conditions in the last 12 months, while 67% are investing more in recruitment or HR and 66% are working with younger people or introducing apprenticeship schemes.

Not surprisingly, logistics operators want to see the government and trade organisations addressing the worker shortage, particularly the lack of drivers. Those who believe that part of the solution lies in speeding up the time it takes to get an HGV licence will be encouraged by the government's recent pledge to streamline the testing process.

The Department of Transport's announcement that it will issue 5,000 temporary visas to overseas lorry drivers should also help, but in the long term more must be done domestically to attract people to the industry.

We trust that you will find this report informative and helpful.

Sector confidence

Our Logistics Confidence Index has risen to its highest level since H1 2015.

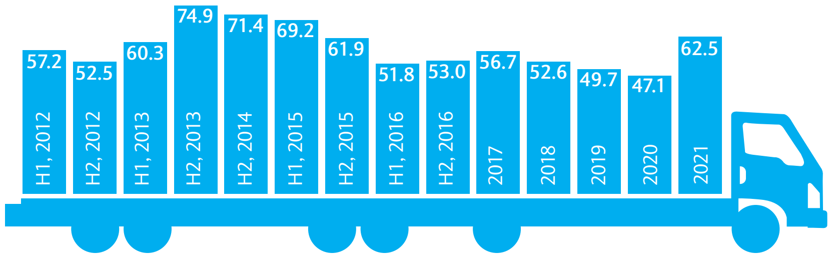
A significant bounce back in sector positivity – larger than any previous single increase since our research began in 2012 – means the Logistics Confidence Index has risen to 62.5, its highest level since H1 2015, according to these latest results.

This fairly dramatic uptick, from 47.1 in our last report in 2020, brings to an end a downward trend that began in 2017 and demonstrates significant levels of renewed optimism among logistics operators, despite continuing challenges.

The extent of this renewed confidence is perhaps surprising amid current talk of a supply chain crisis, with widespread shortages of food and other products as a result of dwindling driver numbers and the disruption caused by the Covid-19 pandemic and Brexit.

But despite recognising that the current outlook remains challenging, looking ahead, our research shows that logistics operators are much more positive about their business prospects than they were this time last year.

Our 2020 research clearly came at an incredibly difficult time for the sector, with the index slipping into negative territory below 50 for only the second time since 2012. These latest results may therefore represent something of a collective sigh of relief that the sector is through the worst of the last 18 months. They may also reflect the fact that – for all its challenges – this is the first time for three years that logistics companies have been able to plan for the future with Brexit behind them.



Rising levels of confidence

These latest results may represent something of a collective sigh of relief that the sector is through the worst of the last 18 months.

Positive indicators

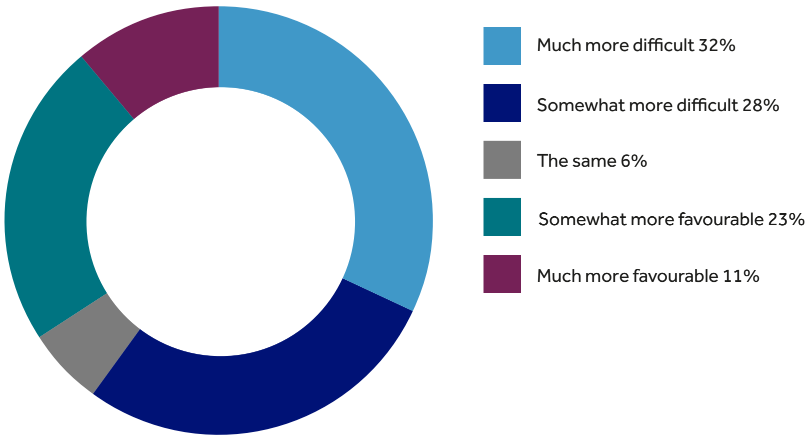
Increased sector confidence certainly chimes with greater optimism about the wider UK economy, which grew 4.8% in Q2 2021 as consumers' spending bounced back following the easing of coronavirus restrictions.[1] ONS figures show retail sales volumes were up by 5.2% in the three months to July.[2]

And our research results are also in line with the latest his Markit/CIPS UK Manufacturing PMI, which stood at 60.3 for August.[3] While supply chain constraints may have led to slower growth in production, almost 66% of manufacturing companies indicated that they expect output to rise over the coming year.

Interestingly, our research shows a slight difference in the Confidence Index number between the North and South of the UK, with the North slightly more optimistic than the South, as it was in both 2020 and 2019. While the index number for operators in the South jumped from 45.8 last year to 60.6 this year, for respondents in the North it rose from 48.2 to 64.3.

But across the UK, our research suggests that many operators feel that the changes brought about by the pandemic, notably the acceleration in e-commerce growth, are creating new opportunities. And at the same time, businesses that have been badly hit by the pandemic, such as those serving leisure and hospitality, are now seeing their markets revive.

How do you view current business conditions vs 12 months ago?



Challenges behind the positivity
Respondents to our research clearly recognise, however, the challenges of recovering from the pandemic, adjusting to the UK's new trading relationship with the EU and worker shortages. Some 60% of respondents say business conditions have become tougher in the past 12 months, although this is down 8% compared to 2020, and just over a third (34%) say they are more favourable, up 11%, compared to 2020.

While the sector may be moving beyond the worst of the pandemic impact of 2020, it is facing new obstacles from global trade imbalances and an exacerbated driver shortage.

Looking ahead to the next 12 months, 40% of operators foresee business conditions getting more difficult, but an encouraging share of respondents, 60%, expect conditions to stay the same or be more favourable. And, again, sentiment is moving in a more positive direction – for example, there has been a 11% fall in the number of respondents who see a more difficult next 12 months, compared to 2020.

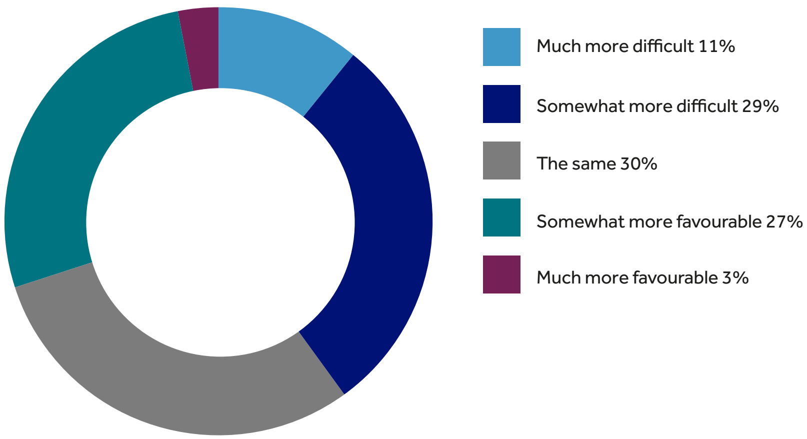
High hopes for turnover and profitability
According to our research, more than three quarters (76%) of operators expect their turnover to increase in the next 12 months, with close to a third (32%) saying their turnover will rise by more than 8%.

The businesses in our research have always tended to be optimistic about future turnover, but these results are particularly encouraging, with the number of operators that expect better turnover up 26% compared to 2020 and even up 13% compared to our last pre-Covid research in 2019. Just 16% expect turnover to decrease, a fall of 27% compared to the number who felt the same way in 2020.

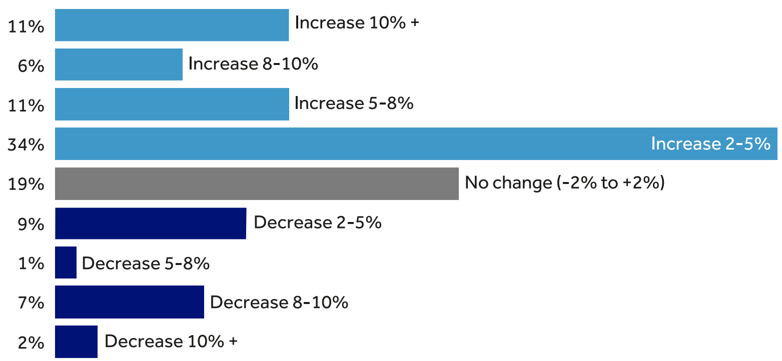
The outlook for profitability is just as optimistic, with almost two thirds (62%) of companies expecting to increase profits in the next year, up 13% on 2020. Just under one in five companies (19%) predict lower profits, down 19% compared to our 2020 results.

These results indicate that those companies that thrived in the pandemic conditions of 2020 expect to perform even better this year, with e-commerce activity in particular set to see continued growth. The results also suggest that those operators serving traditional bricks and mortar retail, and the hospitality and leisure industry, expect more business to come their way too, as the worst effects of the pandemic recede.

How do you foresee business conditions to be in 12 months' time?



Do you expect an increase or decrease in profit in 12 months' time?



Mixed picture on freight rates
Some operators, especially freight forwarders, clearly have opportunities to boost turnover and profit by capitalising on the sky-high freight rates currently being seen in the market, as a result of disruption to both sea and air freight routes, and to changed consumer habits during the pandemic – in particular, demand for consumer products largely manufactured in Asia. The recent half-year results from a number of global 3PLs have revealed significant increases in revenue – for example, Maersk's revenue jumped almost 60% in Q2 compared to the same period in 2020.[4]

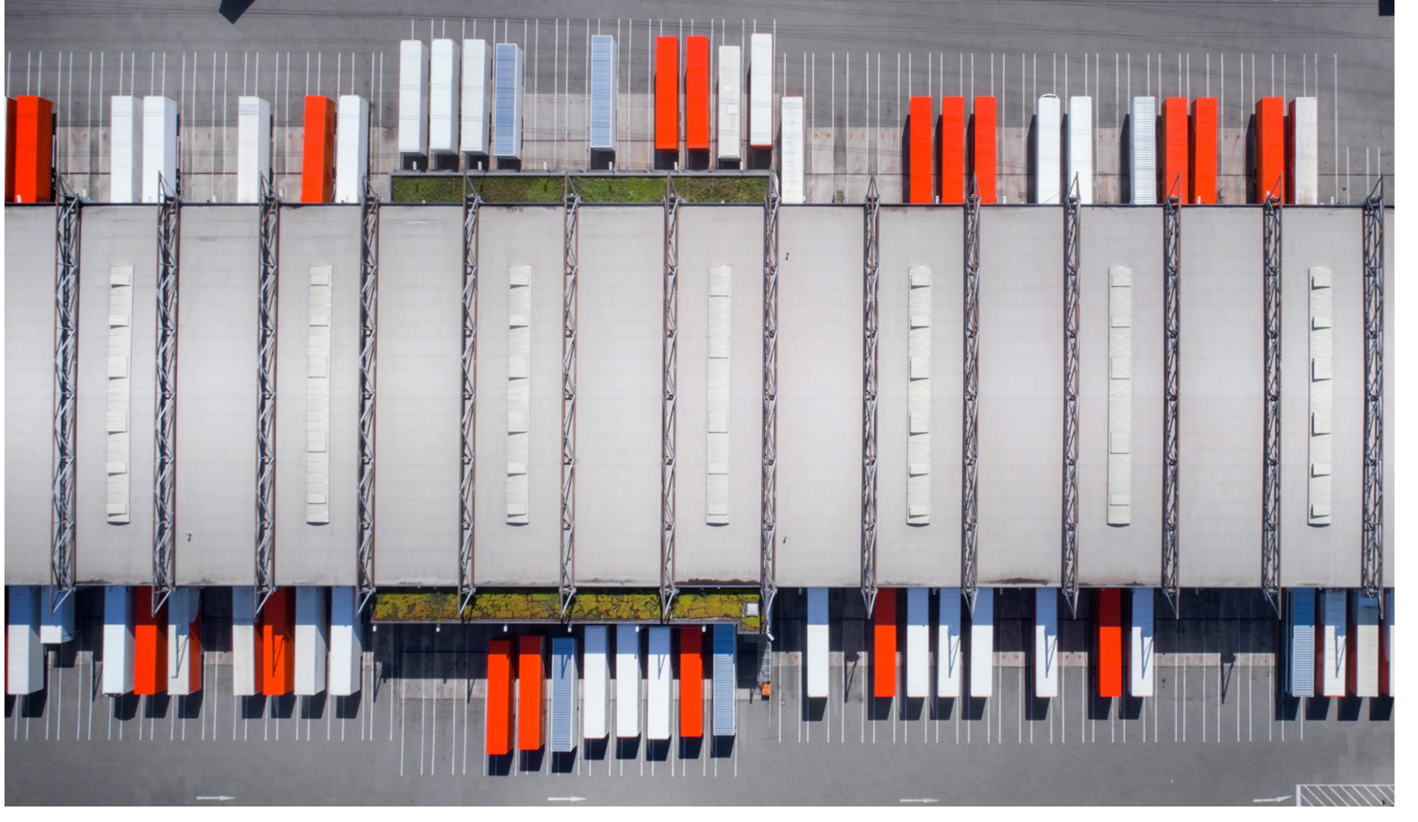
While freight rates should eventually stabilise, some industry observers believe higher prices could remain in place until at least the end of Q1 2022. Indeed, some in the logistics sector suspect there will be a permanent upwards repricing of the logistics process across the global supply chain, particularly with increased labour costs.

However, it appears that, for the time being at least, operators are focusing primarily on the revenue opportunities and the prospect of better margins, rather than on likely future cost pressures.

In an environment where supply chain issues are very visible, there is perhaps more opportunity for operators to successfully negotiate price increases with clients; however, it remains to be seen whether such increases are achievable and sustainable in the long term and whether more traditional hauliers come under increasing price pressure from their customers and larger competitors.

Increased freight rates

While freight rates should eventually stabilise, some industry observers believe higher prices could remain until at least the end of Q1 2022.



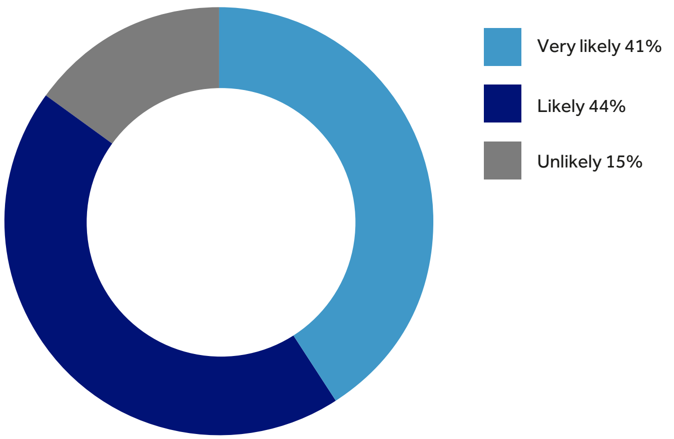
Positive outlook for cap ex and headcount
When it comes to forecasting capital expenditure, our research again reveals a very positive message, with 85% of companies confident enough to say they are likely to make significant expenditure over the next 12 months. Those who think spending is 'very likely' is up 9% compared to 2020 and those who think it is 'likely' is up 8% compared to 2020.

This could be due to companies investing to take advantage of new market opportunities following pandemic-induced shifts in consumer behaviours or to companies that have benefited from the unique dynamics of current global supply chains taking the chance to reinvest increased profits. It could also be in part due to capital expenditure being put on hold last year during the worst of the pandemic. Although not a major motivation cited for investment by respondents, the enhanced capital allowances provision announced in the Chancellor's 2021 Budget is an added bonus for businesses that decide to spend.

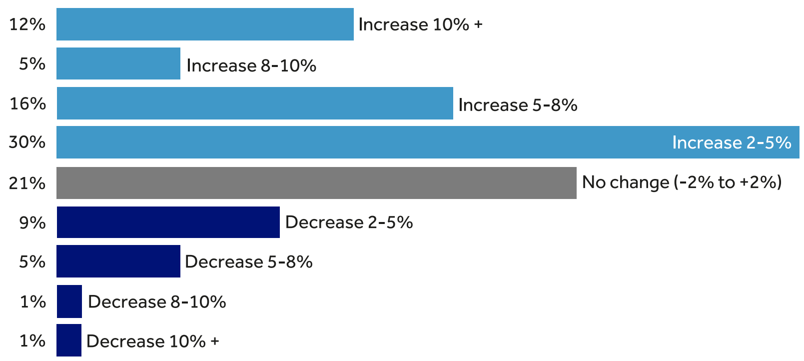
Our findings show almost two thirds (63%) of companies expect an increase in headcount in 12 months' time, a rise of 33% from this time last year, and still significantly more (28%) than in our pre-Covid report of 2019.

However, bearing in mind the shortage of drivers and other key logistics workers, finding the personnel to follow through on these plans could present a major challenge for many, with competition for staff in the run-up to the peak Christmas period already intense across the sector and widespread talk of drivers being 'poached' by other operators offering higher salaries and even sign-on bonuses. In these circumstances, employee retention will be just as critical as increasing headcount.

How likely is it that your company will make significant capital expenditure over the next 12 months?



Do you expect an increase or decrease in headcount in 12 months' time?



Business outlook

Concern about staff shortages but added value services present chance to win new business.

When asked to rank the factors currently having a significant impact on their company performance, operators see staff shortages and increased labour costs as easily the biggest issues they face.

Respondents say transport capacity is the next most important negative factor, with a significant minority mentioning warehouse/ storage capacity as having a damaging impact. Managing supply chain disruption is another concern and, even though some operators may be benefiting financially from higher prices, 38% of respondents say the high cost of international freight is having an unwanted impact on performance.

Companies with HQs in the South see warehouse capacity as having more of a negative impact on their current performance than those in the Midlands and the North. Looking ahead at challenges over the next 12 months, that sentiment is reversed, but only with a marginal difference between the two.

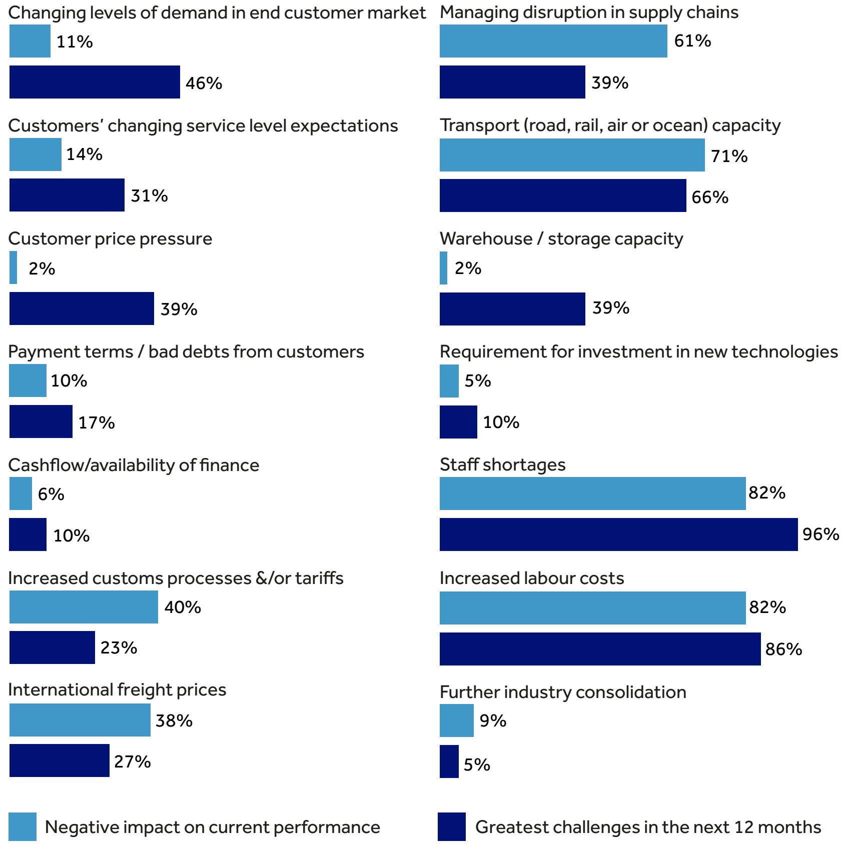
While larger international 3PLs may be able to react to these various negative factors by passing on higher costs, particularly while the reasons behind those price increases are so visible in the media, it appears that many traditional hauliers are struggling to do so, further tightening their margins.

On a more positive note, the most significant positive factor affecting current performance, say our respondents, is changing levels of demand in operators' end customer market. And in line with a broader economic recovery, more than a quarter (26%) of operators say their biggest source of new business is current customers expanding, a 7% rise on the results from our pre-pandemic report in 2019.

Looking ahead, it's clear logistics operators expect staff shortages to be even more of a challenge in the next 12 months, with warehouse and transport capacity also ongoing concerns.

Numbers show percentage of respondents giving these answers. Answers will not add up to 100%.

Factors negatively impacting current company performance. Where do you see the greatest challenges for the next 12 months?



Companies downbeat about EU business
It's perhaps not surprising that increased customs processes and tariffs are having a significant negative impact on performance, according to our research, as operators struggle with new arrangements for export and import of goods between the UK and the EU.

The research results show that most operators (39%) expect Brexit to mean they will do less business with EU customers in the next 12 months.

Interestingly, just 11% of companies told our 2020 report, before the new EU trading arrangements had been finalised, that they expected to lose EU business if a trade deal was agreed between the UK and EU. The contrast in the results for this year shows business leaders had high hopes before the Brexit deal was concluded but are more negative about the reality of border checks, increased paperwork and VAT arrangements that was eventually agreed.

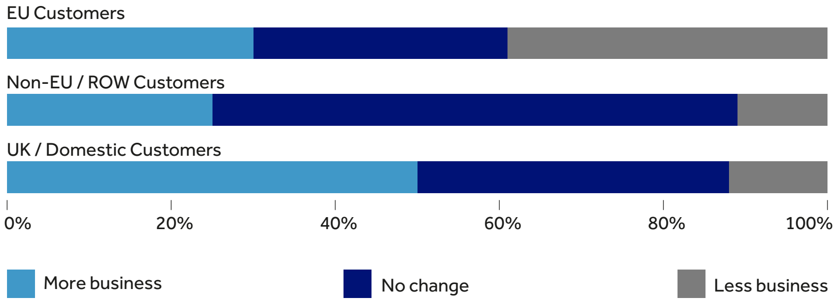
This is a particular concern given the prospect of additional red tape, with the introduction of checks on imports of food and animal origin products from the EU in January and July 2022.[5]

Our research heard from many respondents that moving goods to and from the EU is proving onerous and they are considering setting up subsidiaries in one of the EU member states or acquiring an EU-based business to mitigate the risks.

Unsurprisingly in the circumstances, our research suggests that many operators are focusing more on the domestic market, with half of companies expecting to do more business with domestic customers in the UK. Just 29% felt this way in our 2020 report. This will no doubt add more competitive pressure to what is already a highly competitive market.

Our research does however suggest that some operators expect high freight prices to stabilise and supply chain disruption and post-Brexit customs difficulties to improve over the next 12 months. Meanwhile, they do also see continued customer price pressure, changing service level expectations, and changing levels of demand in end markets as growing challenges in the year ahead.

Brexit: what will be the impact on your customer base over the next 12 months?

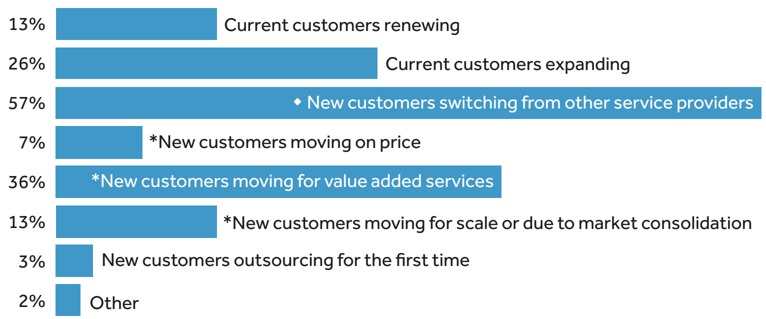


Value-added services key to new business
Emphasising the intensely competitive nature of the logistics market, the main source of new business in the last 12 months for more than half (57%) of companies in our research was new customers switching from other service providers.

Respondents believe the key reason that customers switch is to find logistics suppliers that provide value-added services – well ahead of price and scale considerations as motives.

This highlights the growing importance of value-added services such as aspects of e-fulfilment and so-called re-commerce as manufacturers and web-based retailers look to outsource services where they lack the expertise or resources in-house, as well as the growing importance of specialist customs advisory services as customers grapple with the complexities of dealing with EU imports and exports.

What has been the main source of new business won in the last 12 months?



♦This percentage represents the sum of the three different reasons for switching service providers, marked with asterisks (percentages rounded to the nearest whole number)

Respondent comment:
"Our customer activity has increased dramatically on European road freight for both import and export due to additional customs services required by our customers since Brexit."

Strategic priorities

Operators see growth opportunities and appetite for acquisitions is at an all-time high.

Operators see plenty of opportunities for growth in the next year and most (81%) are primarily focused on serving their existing customer base. Clearly, many companies are prioritising holding on to the business they already have and building from that base.

Respondent comment:
"Environment and digital are at the forefront [as opportunities for profit growth] as well as changing global trading trends."

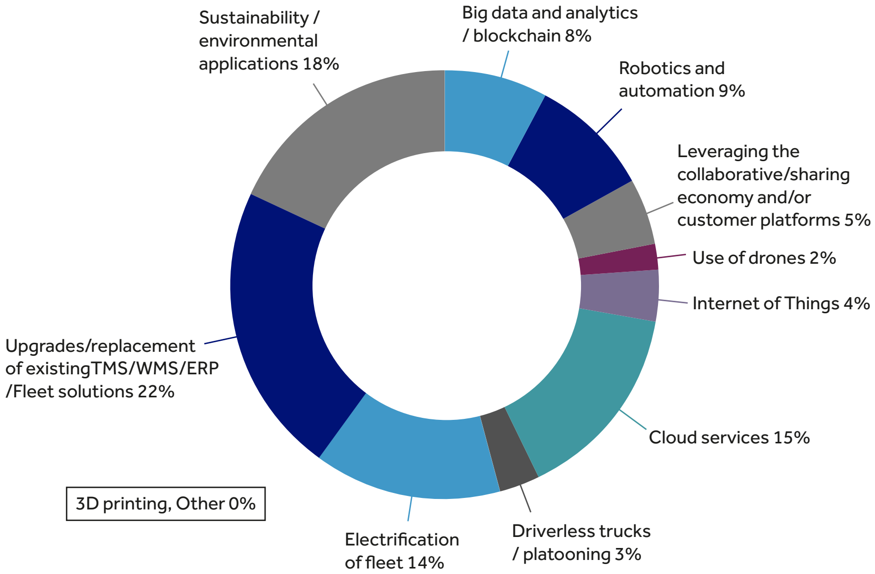
Where do you see opportunities for profit growth in the next 12 months?

Numbers show percentage of respondents giving these answers. Answers will not add up to 100%.

Investing in technology
More than half (58%) of respondents cite greater use of or investment in technology as a way to boost profits, while almost as many (53%) say they see opportunity in cost control and efficiency.

With measures such as installing LED lighting potentially generating significant cost savings, it's likely that costs are at least a part of the reason why almost one quarter (24%) of companies say they will invest in the sustainability agenda, while some may feel customers will be happy to pay more for greener solutions.

Which supply chain technology applications are you looking to invest in over the next three years?



A role for automation
Forty five per cent of respondents say they haven't invested in automation in the last two years; however, where companies have invested, 30% of respondents say this has brought operational efficiencies to the way they work, 15% are seeing increased customer satisfaction and 13% say they have won new business as a result.

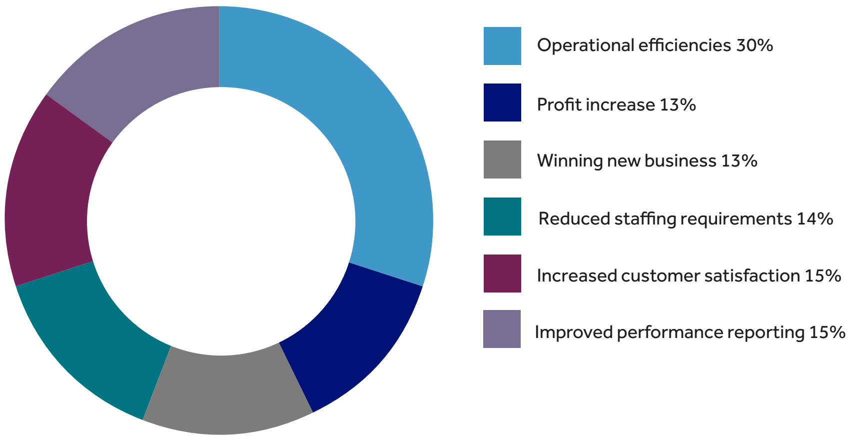
Automation clearly has the potential for broad application in areas such as warehouse operations, last-mile delivery and customs clearance but, for the time being, it seems automation may be the preserve of warehouse operators working at significant scale or niche operators in specialist sectors such as pharmaceuticals.

For many smaller companies, the added value services that are key to retaining and winning business, such as assembly, picking, packing and presentation often still require considerable manual input, especially on a small scale.

The level of investment in automation is perhaps put into context when companies are asked about which supply chain technology applications they plan to invest in over the next three years. Just 9% of respondents say they will invest in automation or robotics, while the highest proportion (22%) will spend on upgrading their current TMS/WMS/ERP and fleet solutions.

Sustainability and environmental applications are the second most common choice at 18%, followed by investment in cloud services (15%) and electrification of fleets (14%).

If you have you invested in automation over the last two years, what has been the impact on the business of this investment?



Appetite for acquisitions at an all-time high
An all-time high 42% of respondents say they are likely to make acquisitions over the next 12 months, ahead of the previous highest result of 39% from our 2020 report.

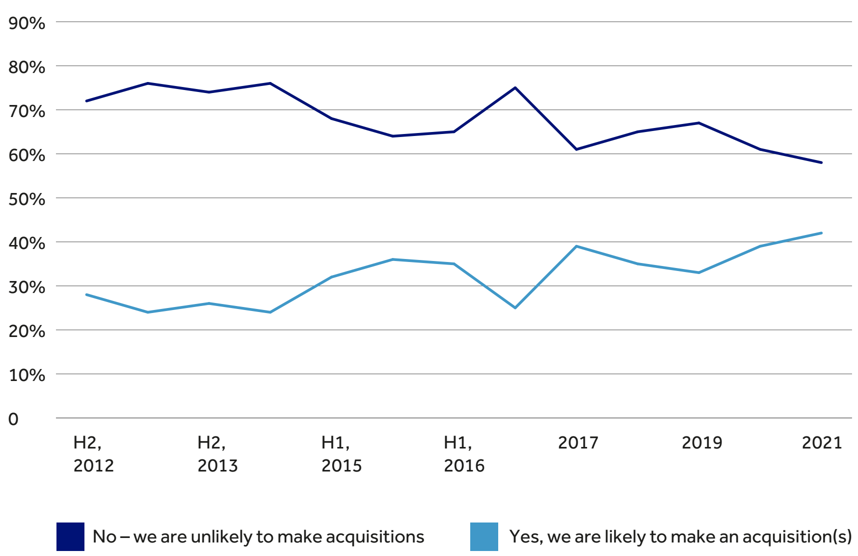
This reflects a general global upturn in merger and acquisition activity across many industry sectors, as well as expectations for continued consolidation within the logistics sector, driven by operators seeking to achieve economies of scale, expand their service offering and move into new geographical markets.

Support for this expectation also comes from BDO's quarterly logistics M&A report, which continues to show significant activity and competitive demand from investors in the sector, maintaining valuations at a high level.

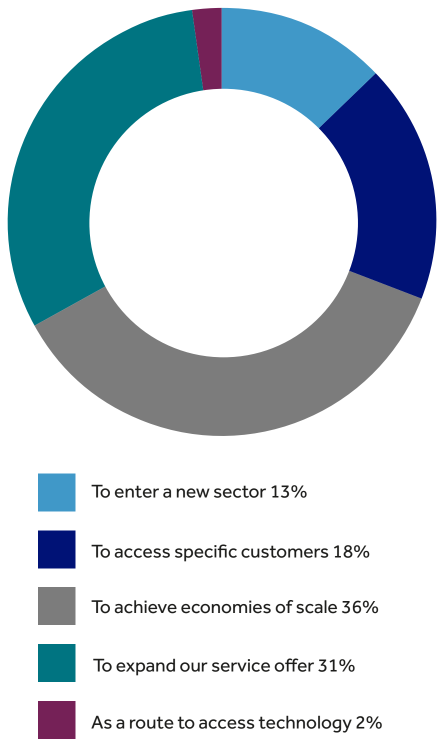
This is perhaps to be expected in a very competitive, low-margin environment with many companies facing increasing cost pressures. And for those companies that can't grow fast enough organically to meet demand, or that need to access new markets, a merger or acquisition is often the likely route.

Our research findings show that of those logistics companies that say they are likely to make acquisitions, more than a third (36%) say this is because they want to achieve economies of scale, 10% more than said this in 2020, while the next most common answer at 31% is because operators want to expand their service offer.

Are you likely to make any acquisition(s) over the next 12 months?



For those companies likely to make acquisitions, why are they doing so?



Stepping up on sustainability

With the ever-increasing focus on protecting our environment, particularly ahead of the UK hosting the UN climate summit, COP26, this year, our research asked logistics operators about their key environmental initiatives in the next 12 months.

As in 2020, this year's results reveal that optimising fleet fuel usage is the most popular measure among respondents (63%), followed by warehouse initiatives, including lighting and power.

While 31% of companies say their 'green' activity is driven by the need to meet customer-enforced targets, just 19% of respondents say they won't be investing at all in environmental initiatives, compared to 28% in 2020.

These results suggest that few companies have a sustainability 'grand plan' and that many are instead looking to make incremental, step-by-step changes. This is reflected in a comment by one survey respondent, who says: "[We are] just renewing items on a like for like [basis] which are also 'reasonably' green".

Which are the key focus areas in the next 12 months for your company's environmental initiatives?

Numbers show percentage of respondents giving these answers. Answers will not add up to 100%.

63%

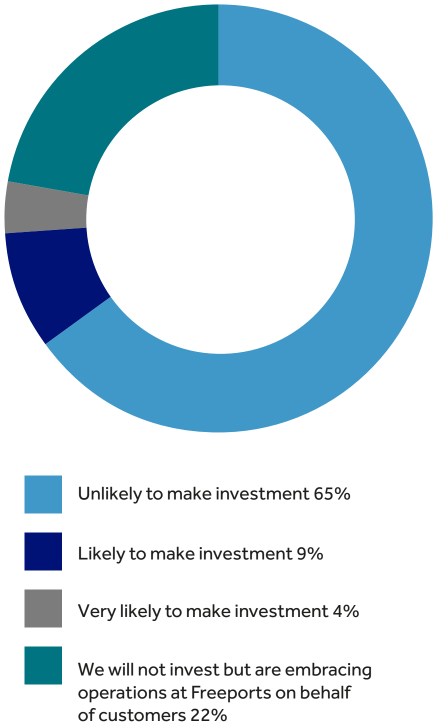
of respondents say that optimising fleet fuel usage is the most key environmental initiative in the next 12 months

Freeports not making an impact
Operators appear to be showing little interest in plans to create the eight new freeports in England designed to exempt overseas goods from tariffs. Almost two thirds (65%) of companies say they are unlikely to make an investment in the freeports and just 13% say they are likely or very likely to invest.

However, with freeports potentially proving attractive to manufacturing companies bringing in products for assembly, it's perhaps no surprise that 22% of logistics companies say that while they won't invest in freeports, they will embrace them on behalf of their customers.

It's clear from these findings that logistics operators don't see freeports as a major opportunity for the sector, likely because many already benefit from the use of bonded warehouses. One of our respondents was particularly dismissive, saying: "I am scratching my head to understand what they are about, any benefit from a freeport can be gained by understanding and implementing current customs reliefs."

Do you see the identified Freeports in the UK as an opportunity to invest in or establish your business there?



Respondent comment:
"I am scratching my head to understand what they are about. Any benefit from a freeport can be gained by understanding and implementing current customs reliefs."

Addressing the staffing crisis

Wage inflation fears as companies call for measures to boost driver numbers.

It's no surprise that almost every company we spoke to (96%) is of the opinion that a shortage of staff is one of the greatest business challenges they face over the next 12 months.

It is perhaps equally predictable that increased labour costs are seen as a significant challenge by 86% of respondents. Logistics companies are worried that the recruitment struggle, particularly for drivers and warehouse staff, will lead to rising costs due to wage inflation, which they may not be able to pass on to customers.

When asked to pinpoint the single most important issue facing their business in the next year, the result was overwhelmingly focused on anxiety about the lack of drivers in particular and the sector's skills gap in general. Operators clearly feel that these key challenges are here to stay for some time yet.

Extensive media coverage has highlighted how on-the-road driver conditions – like access to basic facilities for rest and comfort breaks – remain challenging. Improvements will be vital to attracting new and more diverse drivers.

Respondent comment:
"Driver shortage is impacting revenue and services levels as well as restricting growth plans."

Key skills gaps

Asked to rank in order of importance the areas where the industry's long-established shortage of talent and skills is having an impact on their business, a lack of drivers comes easily top of the list.

A number of respondents to our research reference recent Logistics UK findings of a 90,000 shortfall of drivers in the UK. One respondent warns: "The current driver crisis will continue to have severe impact as there is no silver bullet to fix the issue in the short to medium term." Another adds that the shortage is impacting revenue and services levels as well as restricting growth plans.

Operators are trying to address the issue by stepping up recruitment, but their efforts aren't always reaping the anticipated rewards. As one respondent says: "The shortage of HGV drivers is serious. We have a full-time recruitment manager who is working very closely with our partners to ensure our job adverts are seen by our target audience. Whilst we are getting some applications, these are reducing significantly week on week."

For the second year running, a shortage of warehouse staff is ranked second in terms of skills shortages but placed in third position this year is the availability of temporary or seasonal staff, a big increase on past research. This reflects industry concerns about the available labour pool of overseas workers post-Brexit, and how logistics companies are going to manage demand during peak periods.

The availability of customs agents, a new category of skills shortage in our research this year, also appears to be a growing issue, with some companies ranking it in their top two concerns. For freight forwarders and other operators doing business with the EU, this will clearly be a key challenge going forward, with customs processing capacity issues increasingly coming to the fore, and exacerbated by the requirement for supplementary declarations, as easements brought in to ease the transition for the first six months of the year come to an end.

Rank in order of importance the areas where the industry's talent / skills shortage is having an impact on your business

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

Addressing the talent shortage

In the face of the worsening talent and skills shortage, we asked businesses what they are doing about it and, again, almost every company we spoke to (96%) say they have had to improve pay and conditions in the last 12 months.

Two thirds of respondents say they are investing more in recruitment or HR (67%) and working with younger people or introducing apprenticeship schemes (66%). More than half (59%) of operators say a measure they've taken to address the shortage is to enhance the volume and quality of training.

More than any other challenge facing the sector, logistics operators would like help from the government and trade organisations to address the worker shortage.

The many respondents who argue that this could be done by changing immigration visa rules will presumably be pleased by the Department of Transport's announcement it will issue 5,000 temporary visas to overseas lorry drivers in the run-up to Christmas.

Looking closer to home for solutions, and echoing comments from many of our respondents, one suggestion is that the UK needs to offer incentives for people to cross-train as HGV drivers and provide greater resources behind HGV training centres.

Another respondent points to the need to attract a more diverse demographic into the haulage sector – more younger recruits and female drivers. It's certainly clear that the introduction of new driver training programmes, particularly for younger people, is a popular idea among respondents. Several would like to see the training funded by something similar to student loans or the apprenticeship levy.

Operators who want to see a speeding up of the time it takes to get an HGV licence will be pleased to see that up to 50,000 more HGV driving tests will be made available each year, thanks to government action to streamline the testing process.[6]

What measures have you taken in the last 12 months to address the talent and skills shortage in your business?

Numbers show percentage of respondents giving these answers. Answers will not add up to 100%.

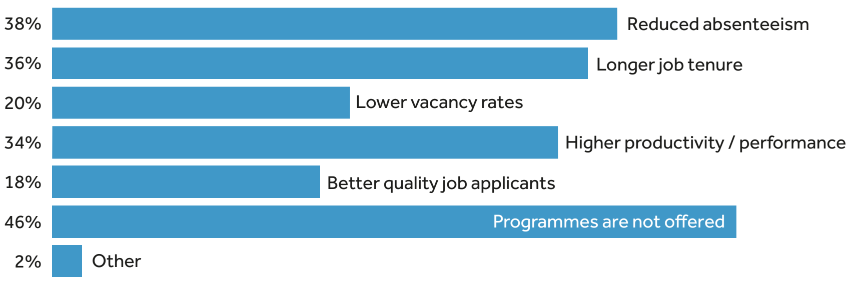
Respondent comment:
"[We need] Visa access for overseas drivers to address [the] short-term issue while we embed long-term strategies."

Staff wellness programmes
Our research shows that where companies offer staff wellness programmes – such as support with nutrition, physical activity, stress reduction, access to services and so on – they see direct benefits in terms of reduced absenteeism, improved employee retention and better productivity.

However, 46% of our respondents' companies do not currently offer such programmes, perhaps a reflection of the high numbers of temporary and freelance staff in the sector. Given the worker shortages in the sector, these findings are nonetheless surprising, particularly as ensuring staff wellness – not least helping to deal with the pressures and health concerns caused by the Covid-19 pandemic – could aid employers in holding on to existing staff and attracting new recruits.

This apparent lack of focus on employee wellness appears to be at odds with the trend in many other industry sectors. While there is clearly a big difference between the cultures of largely office-based firms and working as a driver or in a warehouse, perhaps this is an area upon which logistics companies should reflect in the context of the struggle to attract staff.

If a staff wellness programme is provided, what are the main benefits of this investment?



Numbers show percentage of respondents giving these answers. Answers will not add up to 100%.

Many companies don't offer programmes

This apparent lack of focus on employee wellness appears to be at odds with the trend in many other industry sectors.

XPEDIATOR PLC

Industry insight: Xpediator

Embracing post-pandemic and Brexit opportunities

How one agile logistics business is pursuing growth by pivoting towards the explosive growth in direct-to-consumer fulfilment.

Recognising the shift towards a digital economy, accelerated by the pandemic, integrated freight management company Xpediator has demonstrated its agility and resilience by increasingly pivoting from primarily business-to-business (B2B) operations to those more focused on the business-to-consumer (B2C) market.

Offering freight forwarding, fulfilment and logistics solutions, the business operates across diverse sectors from 34 centres in the UK and Central and Eastern Europe. CEO Robert Ross believes its continued success and future growth in e-commerce lies in adopting new technology to improve efficiency, while expanding market-reach through strategic, affordable acquisitions.

"The pandemic has moved the industry forward five years in terms of e-commerce," he explains.

"There's been a huge shift in the logistics market, where more of our customers are focusing on their interactions with consumers, realising they need to be more astute about providing value-added services. Increasingly, they want us to provide B2C – or business-to-Amazon – fulfilment in smaller but more regular volumes than before.

"The digital economy has already changed how we work in the UK. Our warehouses are increasingly becoming more organised and ready to deliver directly to consumers, rather than sending bulk shrink-wrapped pallets to retailers.

"Consequently, we've increased our focus on digitalisation and providing good electronic interfaces for customers."

Rob argues the industry cannot continually pass on costs to customers and consumers and, instead, must do its part by being more cost-effective and efficient through digitalisation.

> *"The industry has to move away from the idea of simply providing quotes to customers and expecting them to make contact to find out where their consignments are."*

"The industry has to move away from the idea of simply providing quotes to customers and expecting them to make contact to find out where their consignments are.

"Instead, tech should be used to create a paperless environment with minimal human involvement – possibly even none – enabling salespeople to sell services and offer customers convenience and peace of mind. Customers should be able to simply click to order, buy and arrange for pallets to be collected, and receive meaningful notifications about their location, with digital proof of delivery."

Bearing this in mind, Xpediator is considering the role of apps in enabling customers' freight managers to book and track international transportation remotely via their mobiles.

"Tech solutions like this should work well for most customers, however, for larger businesses we think it will still be important to provide dedicated account managers."

Growth aspirations

Having already grown by more than 20% in the first half of 2021, the company plans to expand both organically and through acquisition, with aspirations of doubling its £250m annual turnover to £500m over the next few years.

"We'll still continue to invest in all our locations and will also make strategic acquisitions in the UK and Central and Eastern Europe to maximise the potential of the expanding B2C market," he says.

The company has a strong operational presence in Central and Eastern Europe, with Lithuania currently its fastest growing market, and aims to move into new, rapidly expanding markets in the region, such as Poland, Slovakia and the Czech Republic.

In the UK Rob says Xpediator will look to acquire specific businesses that are the right size, a good strategic and cultural fit that it can neatly 'drop' into its organisation, making it easier to retain and integrate people, while minimising the number of physical locations needed.

"It's easy to make a mess of acquisitions, so we take a great deal of care to target and buy the right ones, quickly and without overpaying – we're not prepared to chase over-valued targets. Given that we're a UK headquartered business it's easier to acquire a UK business due to cultural familiarity – especially with the increasing use of video meetings – whereas purchasing overseas businesses is often a longer process."

He adds: "That said, with more certainty around Brexit today and stronger growth rates in Central and Eastern Europe, we have a greater appetite for acquisitions and are considering acquiring businesses in the EU more favourably than we did two years ago."

Untangling the red tape

Nevertheless, post-Brexit and Covid-related red tape around customs clearance has caused a monumental amount of disruption. The company now employs 40 more people – many of them in Lithuania and Romania – with customs clearance experience and specialist knowledge to assist customers with their customs challenges.

"Having dedicated people providing these services and the sudden increase in demand for these types of people, has led to some wage inflation in the UK-based team, but overall it's a positive for us because it's valued by customers and we're winning business on the back of it," says Rob.

Other challenges

Rob stresses the importance of ensuring the business has sufficient working capital available to cover rising costs and remain competitive.

"For example, if you're looking to secure sea-freight space for your customers you really need to be sure you can pay people on time, or even early. So, good cash management is important."

Acknowledging another well-publicised industry issue – talent shortages – Rob believes ad-hoc pay increases or introducing temporary work visas for overseas employees may help, but are not long-term solutions.

"Taking a broader view, we think it's important to attract and retain people by making sure they feel suitably valued. That means providing good working conditions in pleasant facilities and clean offices and ensuring employees are well managed and encouraged to develop and grow so they can see a career with us.

"With the small number of drivers we have, we try to see they're fairly paid, have good, modern vehicles to drive, and don't have unreasonable expectations placed on them.

"Ultimately it's a supply and demand issue and it would be helpful to see a government incentive scheme introduced to encourage more people to become drivers."

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Industry insight: Trans Global

Focusing on service quality and retaining the personal touch

Despite tough operating conditions the freight forwarding company has weathered the storm by focusing on what it does best.

While some operators have been battling for survival amid the unpredictable global markets and uncertain social and economic conditions of the past 18 months, others have thrived under the pressure.

TransGlobal, the largest independent UK-based freight forwarder and cargo consolidator, has continued to flourish despite the challenges thrown at it.

Group Finance Director Barry Ruck says Brexit has had only a fairly minimal on the company, whose key markets are the Middle East, Australasia and the US, with traffic from Europe accounting for only 5% of its business.

"Nothing much has changed for us operationally due to Brexit, other than we now have to carry out additional customs clearance for a small proportion of our business, and even that has provided an opportunity for us through our customs clearance service," he says.

The pandemic factor
The vast majority of TransGlobal's customers have continued trading through the Covid-19 crisis, but have, of course, faced a huge rise in air and sea freight rates.

"The lack of available flights quickly pushed air transport fees through the roof and severely curtailed capacity. That created a bit of a logistical headache for us, although we're now seeing air freight capacity at last beginning to return and this should lead to a reduction in rates," says Barry.

In contrast, he says the massive hike in sea freight costs took longer to gain momentum but is still having a major impact. "We've had to change the way we work. Securing space today requires a lot more forward planning – previously we could book capacity quickly and easily – now there's a two-week lead in.

"Ironically, higher rates have been good for us commercially, since we don't have fixed contracts with anyone and charge a margin on freight fees. Despite having fewer transactions, we've seen better margins per container for each shipment. The higher sums involved increase our financial risk, so we need more working capital than before but it's manageable."

"For now, we're relatively happy with that situation," adds Barry, but he acknowledges that it is unsustainable longer term and could potentially damage the economy, pushing up inflation and potentially reducing demand for imports and exports.

At the same time, the headline-grabbing lack of HGV drivers has both created a level of operational unpredictability for TransGlobal and driven up costs for customers. However, Barry believes the issue can only be resolved by market forces pushing up salaries and improving working conditions to attract more people into driving.

The personal touch
The company's ability to gain and retain customers facing rising and fluctuating costs, Barry believes, comes down to the relationship-building skills and individual client knowledge of its people.

"Freight forwarding pricing is always short term and has always fluctuated heavily – just not at the current high levels we're seeing today. Ultimately this is a service-driven industry that's not only interested in prices but also reliability and quality of service – customers need to trust you with their business."

Barry highlights TransGlobal's low client turnover, particularly of larger organisations, and says he doesn't see that changing. "Everyone is facing the same issues – essentially lack of freight space and shortages of people – and they want to stick with someone they know will provide them with a good service.

"We know the market and our customers well and the reason clients continue to use us in the current challenging economic environment is because we understand what works for them operationally and in terms of pricing."

TransGlobal provides additional support for clients In the complex Chinese and Indian markets, where it has partners on the ground through a specialist 'liaison' office in Shanghai and six offices in the Sub-continent.

"They're run by local people and expats who really understand the nuances of the local market. Their support and invaluable inside knowledge, on impending port closures, for example, offers added value and comfort for customers."

"Everything is centred around personal contact with customers, so while we're happy to embrace tech that makes administration more efficient and enables our staff to spend more time looking after clients, it's not really a major driving force."

Looking to the future
Although primarily concentrating on freight forwarding and consolidation activities, TransGlobal also has a burgeoning e-commerce function enabling it to capitalise on changing consumer buying habits.

"We work with major express delivery players clearing goods from Europe and provide storage and picking services for their direct-sell websites or for submitting to Amazon.

"E-commerce is proving a strong-performing and growing area, so it's something we will be exploring further."

Summing up, Barry says: "At the end of the day we're reliant on a strong and vibrant global economy. For now at least, consumers and businesses around the world are continuing to spend and I feel fairly confident that as a business we will probably do well in 2021 and 2022. After that, it's much harder to say."

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GXO

Industry insight: GXO

Technology key to powering the sector's transformation

How a global 3PL sees technology transforming supply chain efficiencies

Technology will continue to create opportunities for logistics operators to improve the way they provide services for customers, according to Gavin Williams, Managing Director UK and Ireland for global contract logistics company GXO.

"I can't remember the last proposal we've given to a customer that hasn't involved technology of some sort," says Gavin. "Technology has become more available and more affordable."

Technological innovation goes hand in hand with efficiencies and he points to the example of the 70% improvement in pick productivity that GXO has generated by introducing automated guided vehicles (AGVs) to assist its workforce in servicing one of its major grocery retailer clients.

"Small modular tech like AGVs can have an immediate impact and you can then deploy them somewhere else, so it's not like the heavy automation technology that will cost millions and is immovable. We're seeing return of investment in less than three years, so co-bots and AGVs are at the forefront of every offer we're making these days."

Of course, the pandemic has greatly accelerated the adoption of new technologies. Gavin says: "In e-commerce, we provide manual services for smaller clients, then mechanised solutions like conveyers and AGVs as clients grow, before moving to automated solutions for our really big clients. What we've seen, because of the pandemic, is customers either going from stage one to stage two or stage two to stage three much quicker than they thought they would."

Using data to drive efficiencies

Looking further ahead, Gavin believes it is the use of data, coupled with AI, that can make the biggest transformative change for logistics operators. "Our industry creates a huge amount of data and I think in a world where labour costs are increasing and supply chains becoming more complex, the winners will be those able to use that data to create actionable information to improve efficiencies. That will be like gold dust."

GXO, which was officially launched as a standalone spin-off from the major US freight transportation business XPO Logistics in August, prides itself on being proactive in this area, with its own labour management tool that uses predictive analytics to deploy staff and track performance through the supply chain.

More familiar technology like solar panels and LED lighting is a part of what GXO offers to help their clients meet increasingly important ESG goals. Gavin says: "The ESG agenda is now a top three priority in customer tenders, so we're working with customers to provide smart warehousing, using energy more efficiently.

We're also helping customers move from plastic to paper-based products in packaging solutions – something that has always been on offer but now has a far higher level of focus on it."

Returns management is another GXO service that has environmental benefits. Gavin explains: 'We operate a 'white room' for a multi-channel clothing retailer where our team, who are all experts in garment manufacturing and repair, check returned clothing. They've been able to bring about a 90% reduction in wastage or items going to outlet stores because we are able to repair garments, which is phenomenal."

Among other key industry trends that Gavin foresees is an ongoing increase in the number of companies taking the decision to stop running their supply chains in-house and outsource instead. He says: "As supply chains have become more complex and more expensive, consumers still have the same expectations around price and delivery speed. Companies see that complexity and they want experts to manage their problems for them."

Tapping into a more diverse talent pool

Gavin predicts the trend for consolidation within the logistic industry will continue, creating operators with greater scale and global reach but, whatever their size, he believes companies will need to focus on rethinking their strategy for staff recruitment.

"We're finding that the people we bring into the business at all levels have to be able to embrace the changes being driven by new technologies. For example, we're recruiting at one of our facilities, which is state of the art and automated, and the job description is 'digital partner' rather than warehouse operative."

This new recruitment ethos means GXO is hiring people who don't have a traditional warehousing background and tapping into a more diverse talent pool. "I think logistics is becoming a more exciting place to be, but we have to sell our story more to attract more recruits," says Gavin.

Although he acknowledges the industry has a big short-term labour and skills shortage, he is confident the industry can resolve the challenges it faces and is upbeat about the future. "The global economy looks strong in the medium term, and I see healthy growth with our customers and our business so, for me, the outlook for logistics is positive."

Reflecting on GXO's ambitions for the future, Gavin says: "We're a company that's been acquisition led in the past, but our focus at the moment is on organic growth because there's enough in our business to grow organically from a sales perspective. However, if an acquisition opportunity came along, we would certainly consider it if it brings added value or expertise to our business."

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Key takeaways

- Our Logistics Confidence Index has risen to 62.5, its highest level since H1 2015.
- 40% of operators foresee business conditions getting more difficult in the year ahead, but an encouraging share of respondents, 60%, expect conditions to stay the same or be more favourable.
- More than three quarters of operators predict turnover will rise in the next 12 months, and they're optimistic about profitability, too, with 62% expecting increased profits, up 13% on 2020.
- Post-Brexit, 39% of companies believe they will do less business with EU customers in the next 12 months. At the same time, half of companies expect to do more business in the UK.
- In line with a broader economic recovery, more than a quarter of operators say their biggest source of new business is current customers expanding, a 7% rise on the results from our pre-pandemic survey in 2019.
- An all-time high 42% of respondents say they are likely to make acquisitions over the next 12 months with economies of scale and expansion of service offer the main drivers.
- Eight out of 10 survey respondents feel confident enough to say they are likely to make significant capital expenditure over the next 12 months.
- Almost all respondents believe staff shortages and increased labour costs are the greatest business challenge they face in the next year.
- As the industry's driver crisis gets even worse, 96% of logistics operators say they have had to improve staff pay and conditions in the last 12 months.
- There is an expectation of increased prices across the global supply chain.

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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