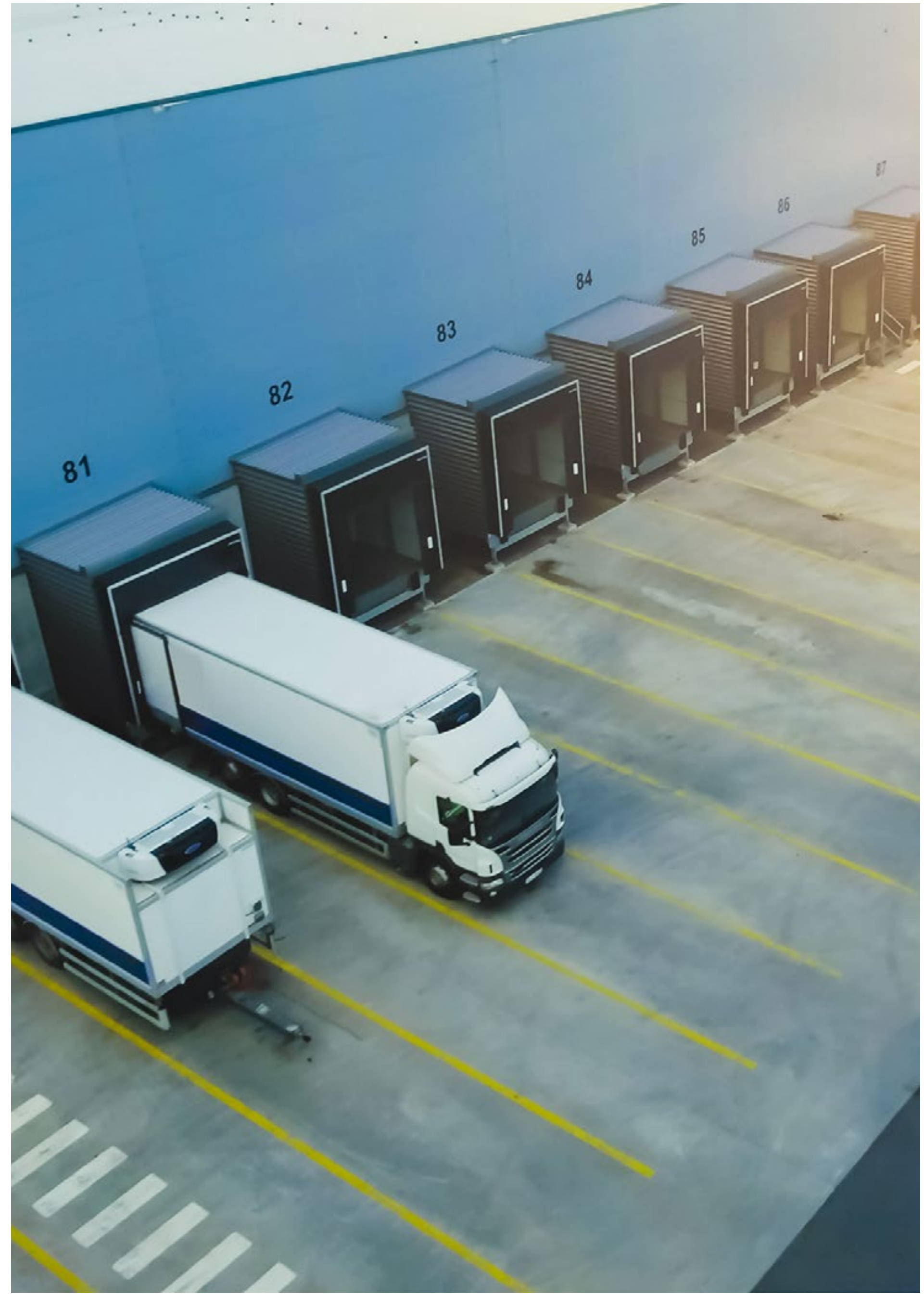
The UK Logistics Confidence Index 2020

Adapting to new realities

BARCLAYS BDO

Contents



Executive summary

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 September and October 2020. Their responses have been compiled to create the UK Logistics Confidence Index 2020.

Survey respondents are drawn from all sectors of the industry, covering road, air and sea, and include: freight forwarders, road hauliers, along with operators in contract logistics, courier and express services, and e-commerce/last mile deliveries. Tracking the head office locations of our respondents shows that half are based in the Midlands and the North of England, Northern Ireland, Scotland and Wales, with the other half based towards the South of the UK.

Confidence at lowest ever level

Our overall Confidence Index has fallen from 49.7 in 2019 to 47.1 this year. This continues the downward trend we have seen in recent years and takes the Index to its lowest level since our survey began in 2012.

These two consecutive Index scores of below 50 indicate that, overall, the sector remains more pessimistic than optimistic about the state of the market. Given the unprecedented impact of Covid-19, perhaps the only surprise here is that this year's fall in confidence has not been more pronounced.

More than two-thirds of logistics companies (67.1%) say trading has been tougher in the past year and almost a quarter (24.2%) say market conditions are much more difficult than last year – the highest proportion since the second half of 2012.

However, logistics continues to be a strong and resilient sector and remains a major contributor to the UK economy – total combined UK revenue for the 100+ companies surveyed is £16.4bn – and, even under the current highly challenging and uncertain economic conditions, nearly half (48.9%) of them say they still expect to see profits increase over the next 12 months.

Impact of Covid-19

The arrival of Covid-19 this year, and its dramatic impact on global and UK economic growth, has added another totally unexpected layer of challenges for the industry on top of the ongoing uncertainty surrounding the UK's future trading relationship with the EU, and the perennial issue of driver shortages.

Covid-19 has clearly had a dramatic and distorting effect on the sector, which has led to something of an industry reset. Our research shows 60.2% of businesses have been negatively impacted by the pandemic; it is worth noting that this response was recorded before the announcement of the second national lockdown in England in November 2020.

Yet there is a high degree of polarisation in the views of operators, with 35.5% saying the pandemic has had a positive impact on their company's performance, despite the economic disruption.

As in so many other industries, Covid-19 has shaken up the logistics sector by rapidly accelerating a number of existing trends – such as the move to e-commerce, manufacturers increasingly going direct to end consumers and new technology adoption – and also by adding unforeseen challenges into the mix, like the positive or negative disruptive effects on demand, as well as on supply chains. This has left some operators in a strong position, while others have struggled, often largely as a result of how their end-user markets have been impacted.

However, having weathered the initial impact of the pandemic, the focus is now shifting to adapting to the new constraints and market conditions, and the opportunities that are emerging. For example, distribution of the recently announced US Covid-19 vaccine presents both a logistical challenge and a great opportunity for the sector to apply and showcase its expertise and ability to deliver solutions. Operators will need to continue to seek new ways to add value across the supply chain. It's likely that the most agile and adaptable businesses will emerge strongest from the crisis, but the period of adjustment facing the sector may be painful for some.

Ongoing challenges

Aside from Covid-19, driver shortages and Brexit transition remain the most pressing issues for the companies in our survey.

The industry seems to be experiencing a mixture of nervousness and calm towards Brexit transition. While operators' attitudes are perhaps slightly more relaxed about – or perhaps simply resigned to – Brexit than last year, possibly because they feel more prepared, nearly half (47.9%) still fear they will be doing less business with EU companies in the event of no trade deal being agreed.

Meanwhile, the ongoing lack of drivers in the sector has been compounded by an emerging shortage of skilled warehouse staff. To alleviate these talent shortages, operators are working hard to attract more young people into the industry, improve pay and conditions and strengthen training. In addition, over half of firms that run wellness programmes for employees are seeing improved staff retention (55.2%), falling absenteeism (79.3%) and greater productivity (56.9%) as a result.

More than ever before, utilising technology is increasingly seen as the key to addressing many of these challenges and to enhancing value-added service offerings to meet new service level norms. In particular, tech is being deployed to help alleviate the talent shortage, with 42.2% of operators saying they've invested in some form of technology to replace human talent in the last year. But there is also a realisation that a different skillset may be required across the workforce to drive change.

However, while companies recognise the need to invest in new technology, automation and robotics, the majority of tech investment continues to involve upgrades of existing systems.

Looking to the future

Despite the impact of Covid-19, more than seven out of 10 operators (72.2%) report continuing investment in 'green' projects connected with sustainability and the environment. This primarily involves introducing alternative-fuel fleets, optimising fuel used by existing vehicles, recycling initiatives and installing new eco-friendly warehousing lighting systems. As well as bringing worthy environmental benefits, many of these projects also deliver long term cost-saving benefits.

Finally, more sector consolidation looks to be on the cards. Our survey shows that 38.9% of operators are considering making acquisitions within the next 12 months – the highest level since 2017 – mainly to achieve economies of scale or to expand their service offering. Furthermore, they are likely to have more opportunities to acquire, as struggling firms are forced to go to market when government Covid-19 support measures are withdrawn.

We trust you will find this report informative and helpful.

Ian Cranidge
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A snapshot of current market conditions

Our Logistics Confidence Index has fallen to a new low and now stands at 47.1.

For only the second time since our survey began in 2012 the Logistics Confidence Index is in negative territory below 50, at 47.1. This is its lowest level to date, reflecting the impact of the Covid-19 pandemic, as well as ongoing challenges facing the sector.

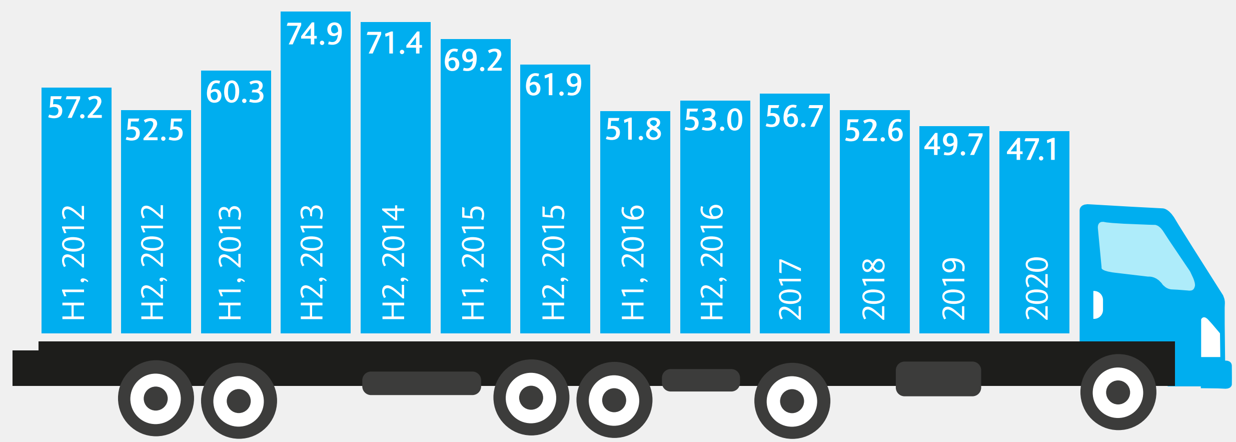
The fall from 49.7 last year, itself the first time the index fell below 50, is a continuation of a downward trend that began in 2017.

Our survey also shows a slight difference in the Confidence Index number between the North and South of the UK, with the North slightly less pessimistic than the South. While the index number for operators in the South has remained consistent with last year, at 45.8, for respondents in the North it has declined slightly, from 52.9 to 48.2.

The fall in overall confidence is unsurprising, given the backdrop of unprecedented domestic and global upheaval created by the pandemic, in addition to ongoing uncertainty over the UK's future relationship with the EU, and the continuing skills shortages.

Indeed, with the overall impact of the Covid-19 crisis on the UK economy leading to a sharp contraction in GDP and the prospect of rising levels of unemployment, we perhaps might have expected an even more pessimistic result.

Logistics Confidence Index



Challenging business conditions

Two-thirds (67.1%) of companies in our survey say that current business conditions have become more difficult than 12 months ago, while a quarter (24.2%) believe they are "much more difficult", the highest such result since the second half of 2012.

Our survey suggests that larger companies have generally found things more difficult than smaller ones, despite being more likely to benefit from a more diverse customer base, as they may have found it harder to adapt quickly to the changing market.

Looking back to last year, there was a general belief among respondents that once greater clarity on Brexit was achieved, confidence would start to improve – but the impact of the pandemic has clearly undermined the sector's optimism.

While there were brighter signs over the summer months as the economy began to pick up after the initial Covid-19 shock, this has clearly been dampened, particularly among operators in struggling end-user markets such as hospitality and leisure, by renewed restrictions on economic activity as the country copes with a second Covid-19 wave.

Given that concerns over future EU trade relations have been resurfacing in the run up to the end of the Brexit transition period, our survey results reflect a wholly unexpected 'double whammy' facing the sector.

Respondent comment

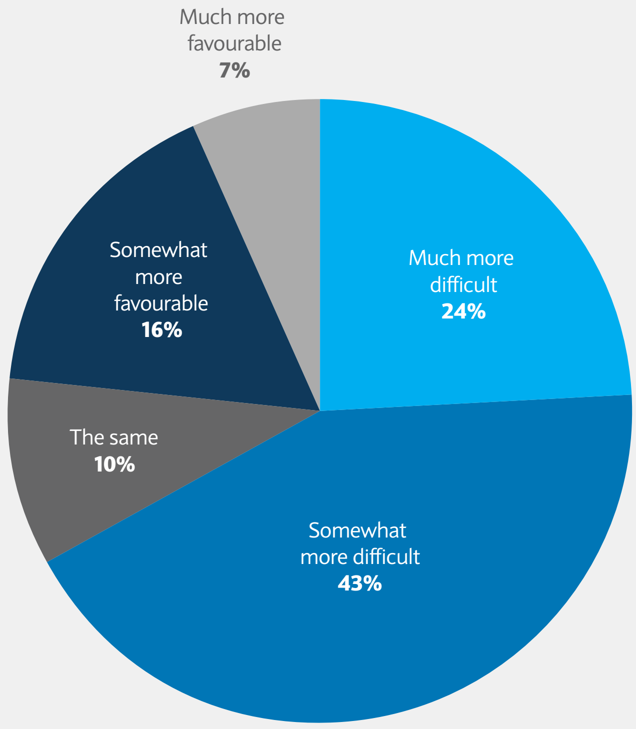
"Margins are tough, rates are low and payment terms are difficult."

Polarising impact

Our survey underlines how the changes in the market as a result of lockdown have polarised the views of operators, depending on how the sectors they are most exposed to have responded to the pandemic. Unsurprisingly, those focused on e-commerce and last-mile deliveries or on pharmaceuticals and healthcare for example, have fared relatively well, while others operating in manufacturing sectors, such as automotive, saw unprecedented levels of disruption.

Changes in the market as a result of lockdown have polarised the views of operators, depending on how the sectors they are most exposed to have responded to the pandemic.

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



Business outlook

Operators' views are mixed on how they will respond to a challenging environment.

Looking at the outlook for the logistics sector over the next 12 months, half (50.6%) of those surveyed say business conditions will become more difficult.

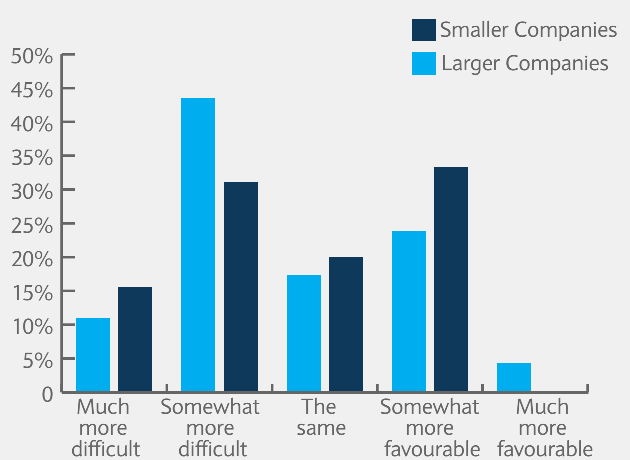
While this is significantly lower than the 62.0% who said this last year, the share of companies expecting future market conditions to be "much more difficult" is close to a historic high, with larger companies generally expecting things to be tougher in the next 12 months compared to smaller operators.

However, the 30.8% of respondents who think business conditions will be more favourable is a fifth higher than in 2019, reflecting the polarising impact of the current environment on the sector.

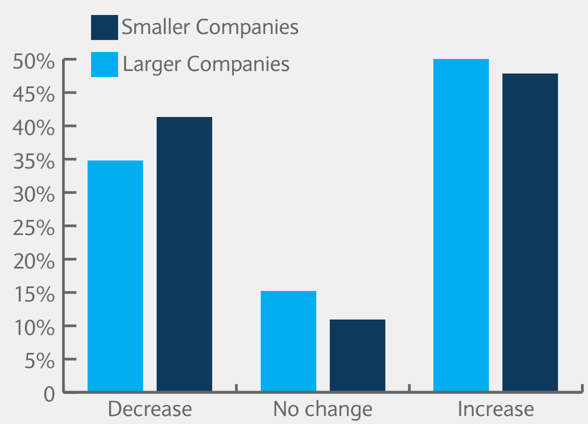
In terms of the impact on turnover, just over half (50.5%) forecast an increase. This is an all-time low and significantly below last year. The 42.9% of respondents predicting their turnover will fall is more than a quarter higher than last year.

Operators are more cautious around expected profitability than turnover. Overall, the number of companies expecting profits to decrease is at an unprecedented level compared to our surveys over the last eight years, likely reflecting their exposure to struggling end-user markets as a result of the impact of Covid-19. In contrast to their more positive views on future market conditions, smaller companies also generally expect a bigger negative impact on profit than larger businesses.

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



Do you expect an increase or decrease in profitability in 12 months' time compared to pre-Covid-19 levels?



The 30.8% of respondents who think business conditions will be more favourable is a fifth higher than in 2019, reflecting the polarising impact of the current environment on the sector.

Of those operators expecting increased profits, the majority only anticipate an increase of 2% to 5%, and the number expecting to see profits increase by 10% or more is significantly down on last year, suggesting that even the more optimistic will see slower growth in profitability following the challenges this year.

Investment and headcount

Respondents' views on likely capital expenditure reflect a greater degree of caution, with those likely or very likely to invest down by 5.6% this year.

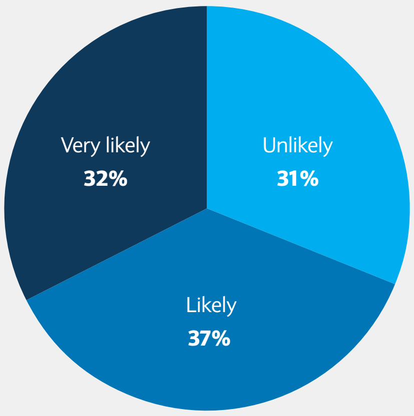
Meanwhile, the number of companies that say they expect to reduce headcount is at an unprecedented level. More than four out of ten respondents (43.0%) expect to cut their headcount in the next 12 months. However, it is noteworthy that a majority are predicting a small decrease in headcount rather than mass redundancies.

These findings most likely reflect generally lower business volumes, staff reductions through natural wastage and recruitment freezes, rather than productivity gains and may also indicate greater use of short-term contracts and self-employed drivers operating in the gig economy.

Perhaps unsurprisingly, changes in headcount are expected to be felt more by larger companies, whether negative or positive, and some of the larger operators are certainly actively recruiting, especially to support B2C related e-commerce activities.

Despite rising UK unemployment as a result of the pandemic, many firms, particularly in the south, are anecdotally facing severe driver shortages, especially for last-mile work, in part due to a perceived lack of available EU workers.

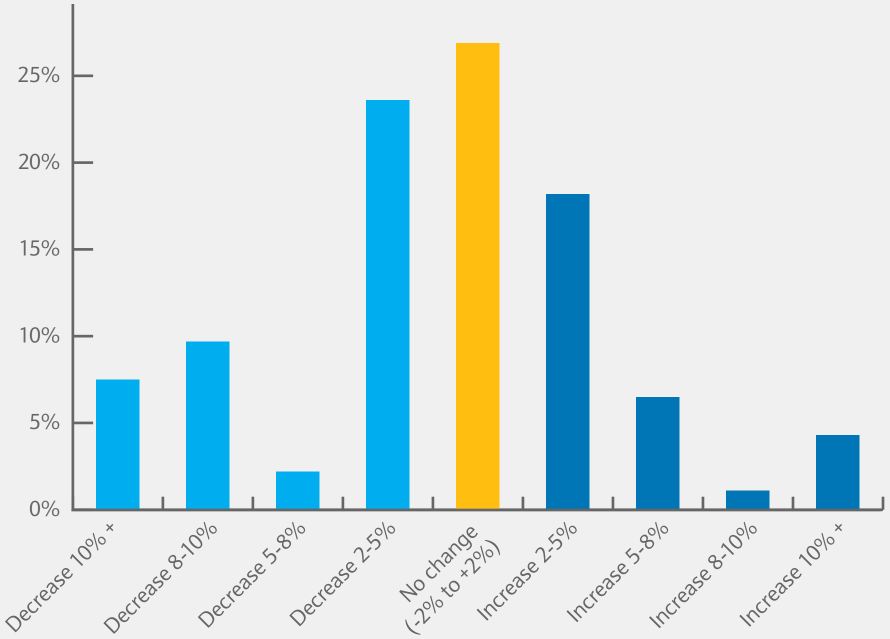
How likely is it that your company will make significant capital expenditure over the next 12 months?



Respondent comment

"We face unknown changes in 2021 but reduced demand is the biggest challenge."

Do you expect an increase or decrease in headcount in 12 months' time compared to Pre-Covid-19 levels?



Covid-19 impact

Businesses are adapting rapidly to the unprecedented challenges created by the pandemic.

The Covid-19 crisis is undoubtedly the single most significant factor affecting how operators performed in 2020, in one way or another.

Around three-fifths (60.2%) of respondents believe it has had a negative effect on their businesses, while just over a third (35.5%) suggest that the impact has been positive. Once again, these findings most likely reflect the varying fortunes of operators' end-user markets.

The vast majority of our respondents (94.4%) have taken advantage of government-funded job retention schemes and staff furloughs to help them through the Covid-19 crisis, while some four out of 10 (43.8%) have made redundancies.

However, they have made relatively limited use of the government's CBILS and CLBILs business continuation loans compared to other sectors, with many companies reluctant to take on additional debt.

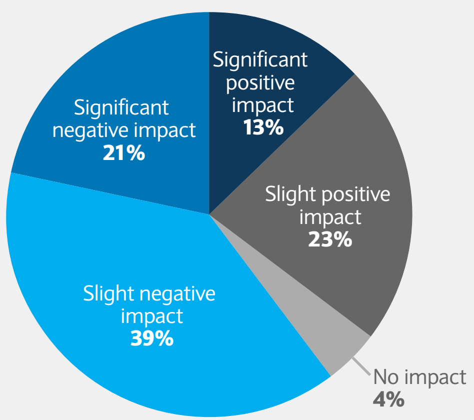
Half of survey respondents (49.4%) have made use of VAT deferrals, underlining the importance of preserving cash during the pandemic.

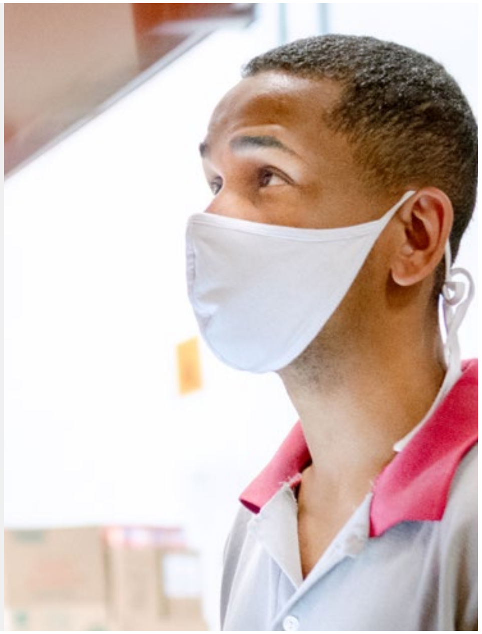
The single greatest challenge raised by the pandemic, identified by eight out of 10 companies (80.6%), has been managing changing levels of customer demand. A significant 71.0% have faced challenges in dealing with labour and personnel issues, and 47.3% had to tackle the disruption to their customer's supply chains, while almost a third (32.3%) of respondents highlighted disruption to shipping lines and air freight.

Regardless of any financial support they have utilised so far, these challenges are likely to be exacerbated when furlough schemes are eventually wound down and it remains to be seen throughout 2021 how operators will adapt to the government's revised support measures, raising the spectre of further redundancies and possible business closures.

Operators have made relatively limited use of the government's CBILS and CLBILs business continuation loans compared to other sectors, with many companies reluctant to take on additional debt.

To what extent is Covid-19 likely to impact your company's performance in 2020?





Future focus

While many of our respondents indicate that they are finding the present environment very demanding, they also appear to be adapting rapidly to the 'new normal'.

Asked about how they will adapt to the post-Covid future, three-fifths (58.7%) of those surveyed said they will focus on greater use of investment in technology to drive efficiency, and nearly half (47.8%) said they will be looking to extend their service offering.

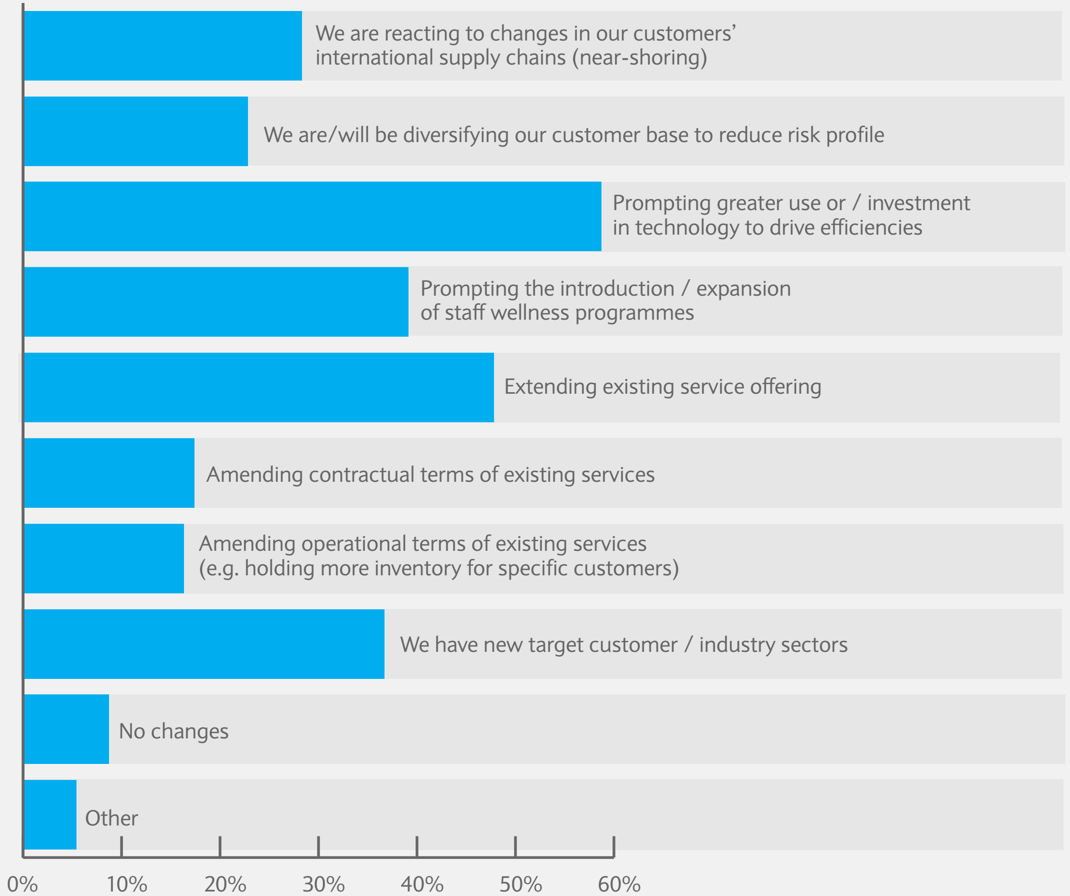
Implementing social distancing measures has forced many operators to re-examine their operations and systems in detail and in many cases have highlighted the need for positive, sustainable improvements in efficiency.

Our survey responses show that, during the course of the pandemic, technology has emerged as a key investment priority, for example to support increased automation and more sophisticated warehousing management and tracking systems as companies strive to meet changing customer expectations.

Smart technology is also regarded as key to enabling companies to differentiate themselves in the market and to delivering both extended and new service offerings, particularly when diversifying into alternative industry sectors or customer bases.

There are also indications that operators are increasingly making investments that generate eco-friendly benefits, such as LED lighting systems and introducing more eco-friendly fuels and vehicles to their fleets, that both improve efficiency and potentially deliver a relatively rapid return on investment.

How will your business adapt to the post-Covid-19 environment?



Percentage of respondents selecting each option

Respondent comments

"The biggest challenge is managing the costs and consequences of operating with safe social distancing and PPE."

"The Covid-19 crisis has had a significant impact on many sectors – automotive and aerospace have suffered, but pharmaceuticals are performing well and have a positive outlook."

"The supply chain is so fractured that demand for logistics solutions has increased."

"Business has grown as we were lucky enough to have a customer involved in PPE."

Challenges and opportunities

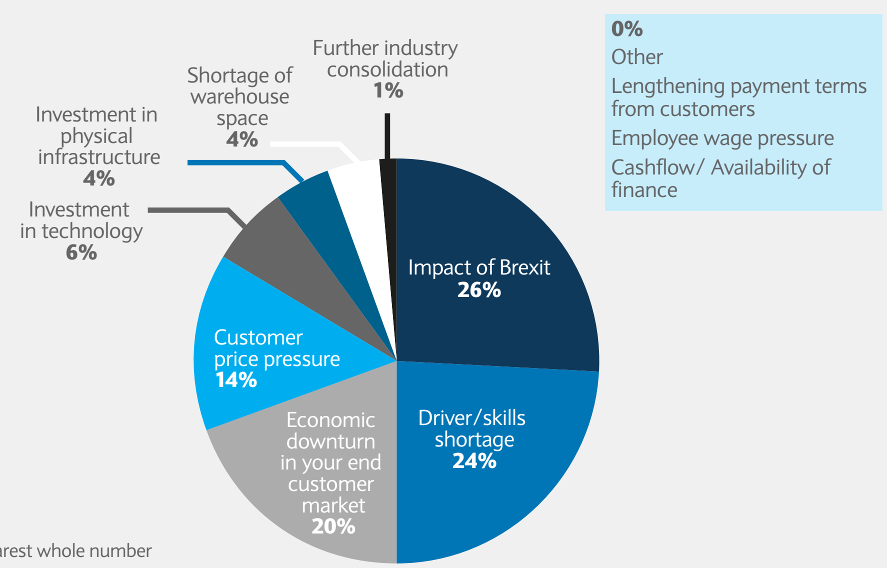
Operators are focusing on Brexit, skills shortages and cost control, while eyeing new opportunities emerging from the pandemic.

Asked to identify the most important issue facing their business in the next 12 months, over a quarter of operators (26.1%) said the impact of Brexit, closely followed by the 23.9% who prioritised driver and skills shortages, with 19.6% most concerned over the economic impact on their end customer market. Of course, it remains to be seen what the longer term impact of the pandemic will be on the UK economy as government financial support for business is gradually wound down, quite apart from how the government responds in the face of mounting public borrowing.

Perhaps surprisingly, managing lengthening payment terms from customers was not flagged up as a key concern, although coping with customer price pressure was rated the biggest issue by 14.1% of respondents. This may simply reflect the relative scale of the overall Covid-19 and Brexit challenges facing the sector.

Respondents' priorities reflect the pressing need to tackle the ongoing threat of Covid-19, rather than business as usual concerns.

What will be the single most important issue facing your business in the next 12 months?



Percentages given to nearest whole number

Perhaps surprisingly, managing lengthening payment terms from customers was not flagged up as a key concern.

Cost control

Looking to the more immediate areas of focus for operators over the next year, respondents' priorities reflect the pressing need to tackle the ongoing threat of Covid-19, rather than business as usual concerns.

Here, the majority ranked cost control as their number one focus, again reflecting the need to preserve cashflow in the short to medium term, and to build their business resilience.

Notably, maintaining the existing customer base has slipped down the list of operators' priorities from first place last year to number four this year, behind winning new customers and entering new industry sectors, which reflects intentions by many operators to diversify their customer bases.

> The majority ranked cost control as their number one focus.

> Maintaining the existing customer base has slipped down the list of operators' priorities from first place last year to number four this year.

New business opportunities

More than a half of operators (54.8%) say the industry offering the biggest business opportunities in 2021 is online retail. This reflects the continuing changes in consumer buying habits away from bricks and mortar stores to online purchasing, a long-term trend that has been hugely accelerated by Covid-19. Many respondents highlight these changing e-commerce trends and demand for delivery of basic necessities to home-based workers, as well as increased demand for storage space for online deliveries and, specifically, the role of Amazon, as key drivers of new business opportunities in the sector.

Another key opportunity lies in the pharmaceutical/ healthcare market, in part bolstered by additional demand for medicines and medical equipment due to the pandemic. A number of respondents identified the demand for PPE equipment, testing kits and future vaccination programmes as a key driver for new opportunities in this sector.

Food retail is also seen as a key growth area by respondents as it continues to benefit from strengthening demand for home-based consumption of food and drink, particularly via online channels, and the attractions of the relatively recession-proof perishables market.

Many respondents highlight the need for greater flexibility in their business strategies and operations in order to capitalise on changing end-user markets, although clearly this will often be easier for generalist hauliers and 3PLs, than for specialist operators. At the same time, what one respondent describes as a "fractured supply chain", is increasing demand for innovative logistics solutions. Managing the speed of change will be a significant test for many.

Respondent comments

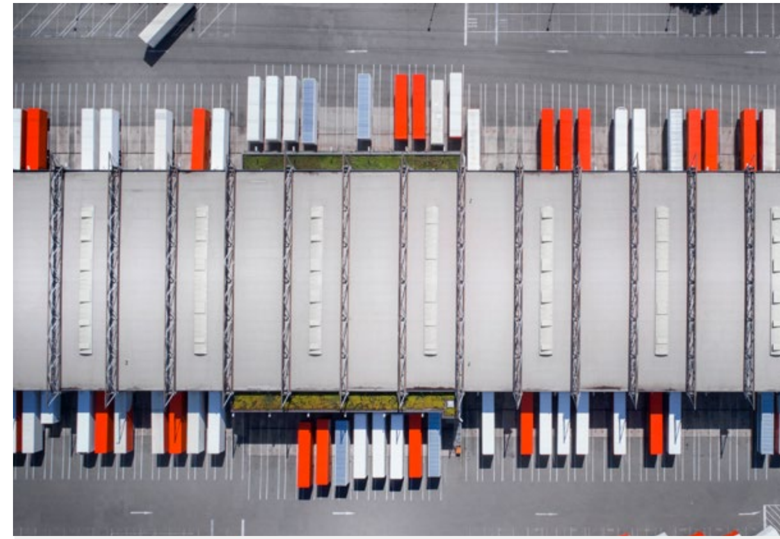
"Customer buying habits have changed."

"High-yielding products that people cannot live without during Covid-19 are booming. Low-yielding products such as automotive are not."

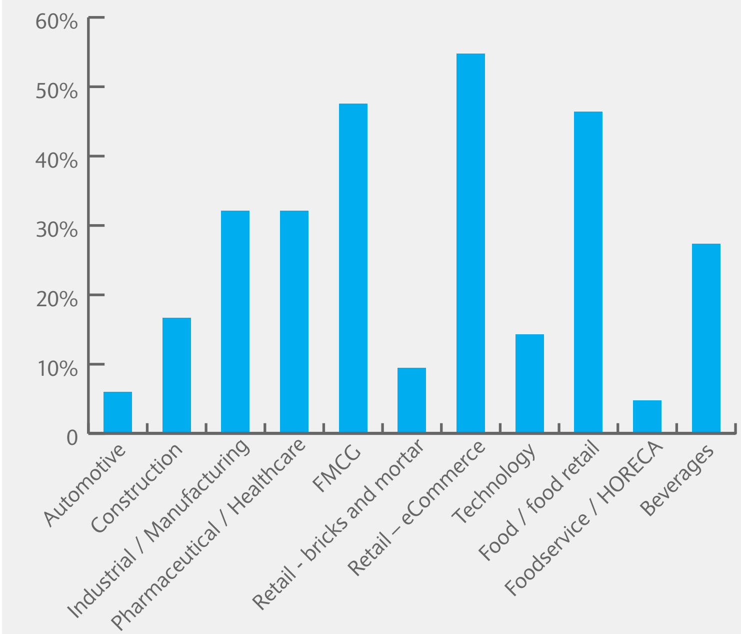
"Building greater flexibility into business operations and capital exposure."

"Customers require higher levels of service, not just talk."

"Food has always been a more resilient sector that we continue to service. The growing trend of online retail and FMCG sectors we have seen continue."



Which industries provide the greatest new business opportunities for the logistics and transport sector in 2021?



Percentage of respondents selecting each option

Brexit – next steps

Continued uncertainty over the terms of the UK's future relationship with the EU is generating both optimism and nervousness.

Unsurprisingly, concerns over the impact of UK/EU trade negotiations and the end of the transition period remain firmly on operators' minds, according to this year's research, but appear to have lessened a little, possibly because more operators are better prepared for no trade deal.

While almost half (47.9%) of respondents say they expect to do less business with EU customers if there is no trade deal (see chart on the following page), that is substantially fewer than the 62.4 % who thought that would be the case last year.

Similarly, only 17.8% of logistics firms believe they will do more business with EU customers if there is no trade deal, but this figure is still an increase on the 10.6% of respondents who felt that would be the case last year.

Around a third (34.3%) felt there would be no change in EU business, again more than the 27.1% who said that in 2019.

Looking at the potential for facilitating trade outside the EU, more than a quarter (25.8%) of respondents believe they will do more business with non-EU customers under a no-deal scenario, 3.1% more than last year, while 12.1% think business with non-EU customers will decline, compared to a fifth (19.7%) of respondents who shared that view a year ago.

In the scenario where a trade deal is in place, broadly speaking, the majority of respondents feel that Brexit will have less impact on their businesses, whether trading with EU, non-EU or UK customers.

Mixed responses

Comments from our survey respondents reflect the tendency of Brexit to polarise views: ranging from predictions of chaos, excessive paperwork and higher prices for vehicles and parts, to potential new opportunities as UK businesses adjust their supply chains and inventory levels and require new logistics operations to serve their customers.

A number of respondents focus on the increased paperwork burden that will impact the sector, as businesses take steps to prepare for new customs requirements.

Again, it seems likely that operators' responses on Brexit are indicative of the sectors they serve, but some see potential opportunities in offering customs, advisory and consultancy services as a result of changes to international trading agreements.

While almost half (47.9%) of respondents say they expect to do less business with EU customers if there is no trade deal, that is substantially fewer than the 62.4 % who thought that would be the case last year.

Brexit – next steps continued

Respondent comments

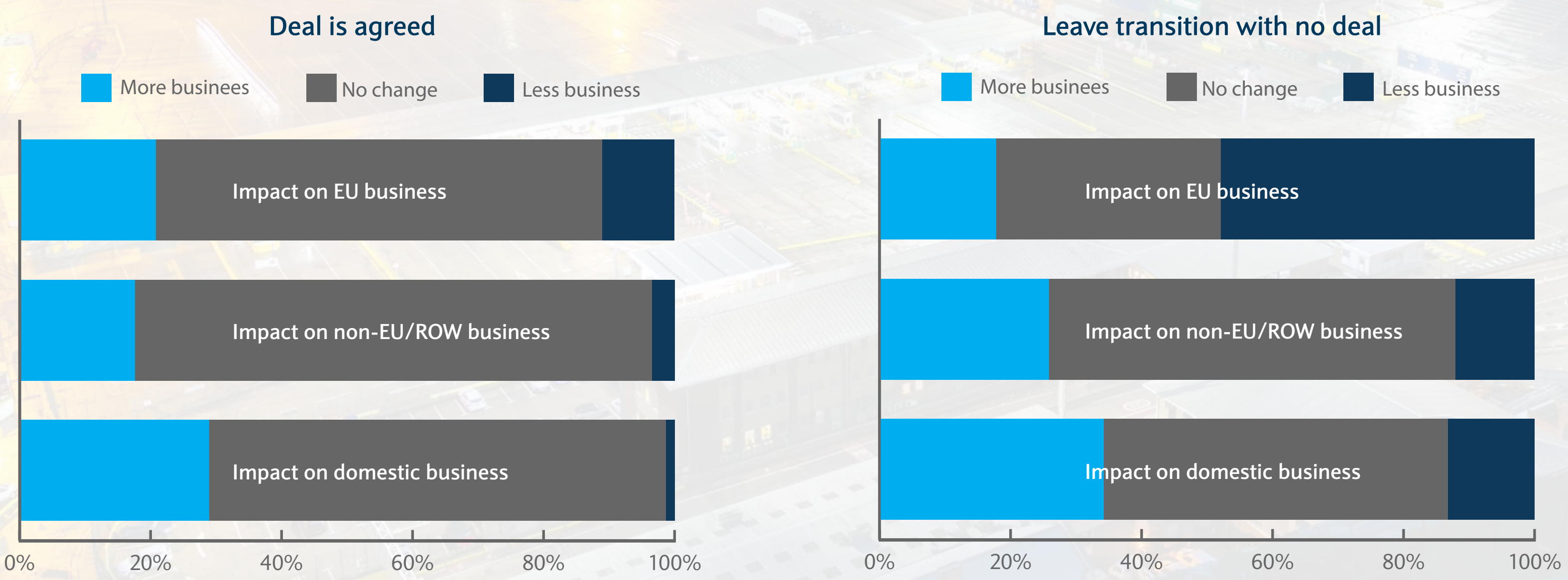
"Customers struggling with understanding the impact on their business is creating a lot more work but also opportunities."

"There is still uncertainty among clients and hauliers as to what is expected from each party."

"It makes no difference. Only VAT/duty levels alter between the scenarios."

"We will lose deferment revenue but gain euro clearances."

Brexit impact: what will be the expected impact to your customer base under the following end-of-transition-period scenarios?



The talent and skills shortage

The longstanding lack of drivers is being compounded by a shortage of warehouse staff.

Talent shortages continue to be a major issue for logistics firms, with the lack of drivers again ranked by survey respondents as one of the issues that will have the greatest impact on their businesses over the next 12 months.

While that was pretty much the position last year, the biggest shift in talent-related challenges in 2020 is a lack of warehouse staff. Perhaps because of the decline in numbers of EU nationals working in the UK, it is now rated as the second most important skills shortage facing operators, having been ranked fourth 12 months ago.

> The biggest shift in talent-related challenges in 2020 is a lack of warehouse staff.

Plugging the skills gap

The most popular response to counteract these shortages, according to our respondents, has been to offer apprenticeships and to work with younger people in a drive to address the ongoing problem of attracting them into the logistics sector. However, despite numerous efforts by the industry and the government's apprenticeships push, there has been a limited take up of apprenticeships to date.

The next most popular course of action to resolve skills shortages among respondents is improving pay and conditions, followed by enhancing the quality and level of training.

Notably, just over four out of ten companies (42.2%) say they have used some form of technology to replace human talent, a significant jump from the 7.0% who said they had done this in 2019, while around a quarter (25.6%) say they have been using more temporary staff and sub-contractors.

Addressing the driver shortage specifically, some respondents indicate that they are diversifying career opportunities for employees by training their own new drivers for 2021, on top of the additional driver training that certain operators already provide to improve safety performance and reduce insurance costs.

Looking at potential technological solutions, 18.0% of respondents say they are actively exploring the use of driverless trucks – or platooning – a significant increase on the 5.0% who said they were thinking about this in 2019, even though it appears the technology is still some way from practical application.

Despite numerous attempts to attract a more diverse talent pool to the industry, this remains a stubbornly difficult issue to crack and one respondent bemoans the fact that the increased recognition for the sector in keeping supermarket shelves filled during the pandemic, and staff being awarded 'key worker' status, seems to have been short-lived.

The wellness factor

Nearly two-thirds of our respondents (63.3%) say they now run wellness programmes for staff and, encouragingly, these appear to be playing some part in addressing the skills and talent shortage.

Of those who offer wellness programmes 79.3% say they have experienced reduced staff absenteeism, 56.9% report higher productivity and performance from employees, and well over half (55.2%) say it has led to people staying in their jobs for longer.

This suggests the value of a focus on wellness as part of improving working conditions in the sector, although it is less clear to what extent drivers may be benefiting from these schemes compared to other employees.

Respondent comment

"For a while, at the peak of the pandemic, the driver shortage was actually less of an issue but the situation deteriorated over the summer and is sluggish recovering."

Technology and innovation

Investing in tech and upgrading systems already in use remains the priority for most firms.

While new technology continues to be increasingly utilised by the logistics sector, updating existing systems and solutions is expected to be the priority for businesses over the next three years.

According to our research, the main focus of some two-thirds of operators (65.2%) is on replacing and upgrading current systems, such as those used for transport management (TMS), warehouse management (WMS) and Enterprise Resource Planning (ERP), alongside investing in new applications. However, overall, two-thirds (67.7%) of respondents say they will consider investing in new or replacement equipment and technology, perhaps automating warehouses to tackle ongoing skills and labour shortages and increase efficiency, or continuing to upgrade vehicle fleets.

Nearly half of respondents surveyed (46.1%) say they intend to utilise the collaborative and sharing economy and customer relationships to introduce new technologies. These could, for example, include online freight exchanges and other platforms that help to manage sub-contractors and determine when and where loads are available.

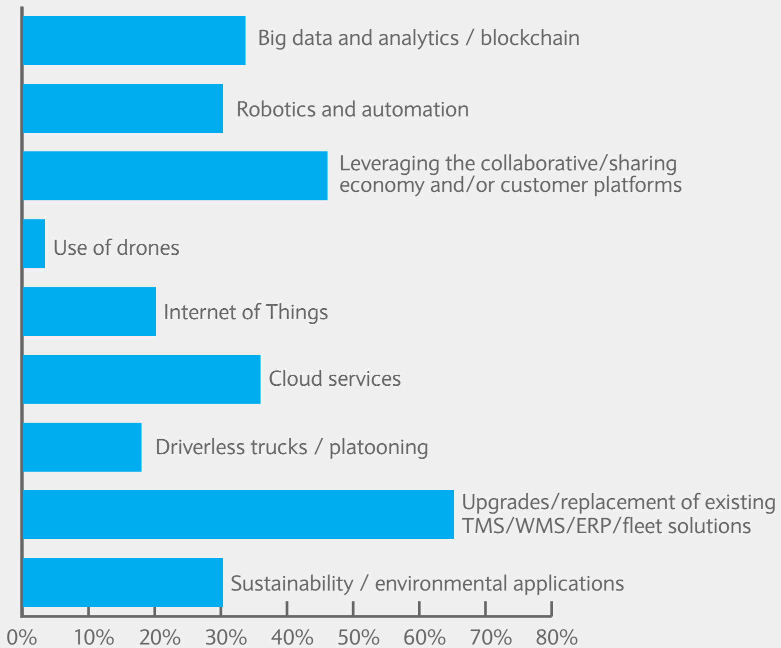
Almost a third (30.3%) of operators say they are looking at robotics technology and automation during the next three years, which has the potential to release lower-skilled employees to carry out higher-value work. However, compared to 2019, slightly fewer operators expect to use technologies to replace operational warehouse staff within the next five years, possibly implying a more realistic view of the pace of change.

There are some small signs of increasing interest in the use of drones in warehouses, perhaps to carry out inventory work using scanning and barcoding, which is anticipated to have an impact by just 3.4% of operators, but nevertheless an increase on the 1.0% predicting a significant impact last year.

Big data, analytics, blockchain and cloud-based services are all expected to be utilised by more than a third of firms, while the number of respondents citing that sustainability and environmental applications will impact their businesses has risen from one in ten last year to 30.3% in 2020.

> Compared to 2019, slightly fewer operators expect to use technologies to replace operational warehouse staff within the next five years.

Which supply chain technology applications will have the biggest impact on your business over the next three years?



Percentage of respondents selecting each option

Respondent comment

"The industry needs to reduce labour and increase its efficiency to e-commerce levels."

Green initiatives

Covid has been a distraction but has not dampened investment in sustainability.

According to this year's study, more than seven out of ten companies (72.2%) will be investing in green-related projects connected with sustainability and the environment over the next 12 months – roughly the same as last year.

The top 'green' focus areas identified by respondents are optimising fuel used by existing fleets, recycling initiatives, warehouse-related improvements such as installing LED lighting, and introducing and expanding alternative energy vehicle fleets in response to increasing numbers of city clean air zones which impose a charge on non-compliant vehicles.

Each of these initiatives – with the possible exception of recycling – has the potential to be a cost-saver in the long term, illustrating that sustainability projects can play a part in helping companies to manage their costs. Green initiatives are likely to be a major driver of capital expenditure going forward.

While there are relatively small numbers of sustainable vehicles operating in fleets currently, changes to vehicle taxation, the phasing out of diesel engines and introduction of new low-emission zones are likely to continue to incentivise operators to replace older, less-sustainable vehicles before they effectively become worthless.

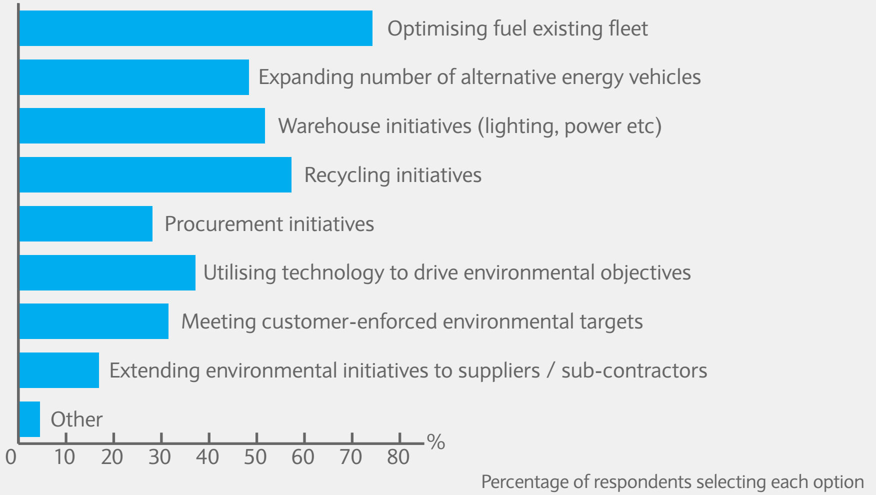
> Our research shows that the pandemic hasn't impacted investment in green projects for the vast majority of companies.

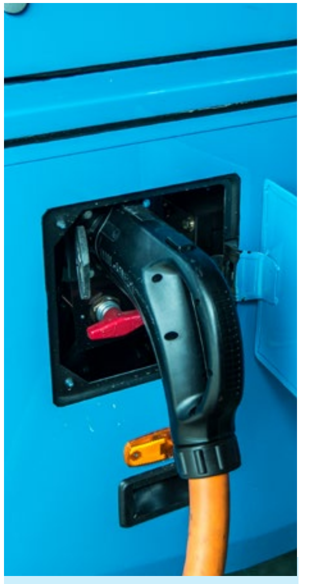
The Covid factor

Turning to the impact of Covid-19 on delivering environmental investment, our research shows that the pandemic hasn't impacted investment in green projects for the vast majority of companies.

Nevertheless, around a third of respondents (34.8%) say the pandemic has interfered, negatively, with investment in their green agenda, as environmental initiatives have been delayed or budgets cut. This may be perhaps due to difficulties in accessing the necessary expertise and materials to implement environmental projects during the pandemic.

What are the key focus areas for your company's environmental initiatives?





Respondent comment

"Availability of contractors to upgrade lighting etc has been challenging."

Mergers and acquisitions

With predicted M&A activity at its highest level since 2017 further consolidation in the sector looks likely.

This year the number of companies expecting to make acquisitions is close to the all-time high for the index in 2017, with 38.9% of respondents saying they are likely to make an acquisition within the next 12 months.

Reversing the slight dip in predicted acquisitions we saw in 2019 and the recent muted activity due to Covid-19 and the economic uncertainty, this year's increase appears to reflect the ambitions of well-financed companies seeking economies of scale and the chance to make opportunistic buys in a tough environment.

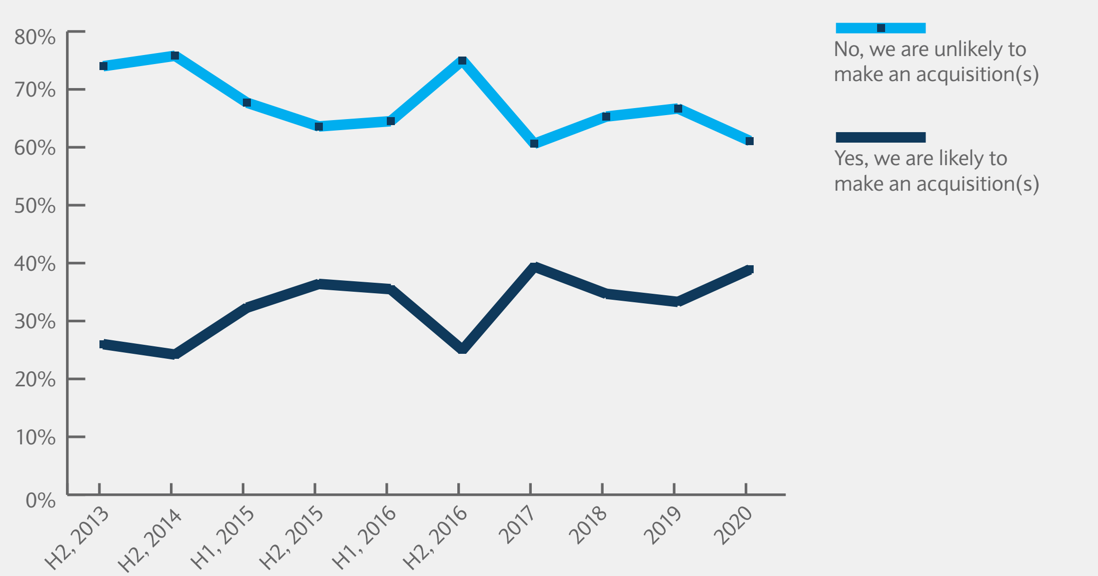
As operators look to reduce costs and drive up margins, other drivers for deal activity include expanding service offerings to reflect the changes to both consumer spending behaviour and end-user markets that have been accelerated by Covid-19. Companies may look to bolt on more value-added services to improve margins, such as product assembly, processing reverse logistics, product reconditioning and end-of-life waste management.

Refinancing of over-leveraged operators that are struggling in the current tough environment seems likely, and there is an expectation that more distressed assets will come to market, given mounting pressure as furloughing and other government financial support ends.

Recent examples of deal activity include XPO's proposed acquisition of Kuehne+Nagel Drinksflow Logistics (subject to regulatory approval), Culina's Purchase of Fowler Welch, and the disposal of Tufnells by Connect group in H1 2020, all of which highlight the value of consolidation, scale and market leadership. Meanwhile, the acquisition of Hermes Parcelnet and Hermes Germany by Advent International highlights the availability and appetite of investment capital to seek out value and growth.

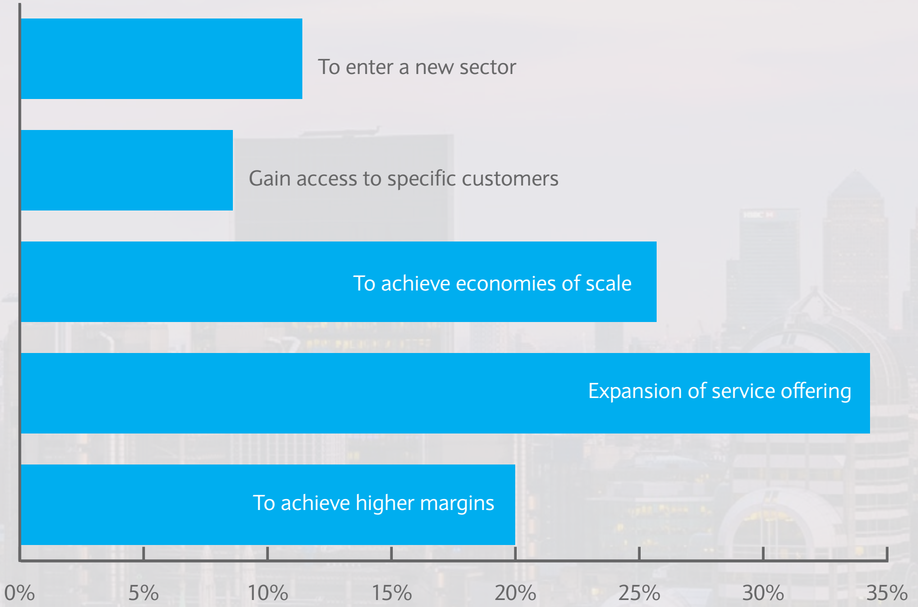
Companies may look to bolt on more value-added services to improve margins.

Are you likely to make any acquisitions over the next 12 months and what is the main drive behind this?



This year's increase appears to reflect the ambitions of well-financed companies seeking economies of scale and the chance to make opportunistic buys in a tough environment.

For those undertaking M&A activity, what are the drivers?



Industry insight: Finding the right solutions to adapt and grow

John Stubbings, Chairman of Woodland Group and current Chair of BIFA, reflects on a rapidly changing supply chain industry.

The logistics sector is experiencing a significant shift: in how business is being done, in demand, capacity, routing and means of transportation. Trade lanes have been shaken by the extreme pressures placed on them, but there are also great opportunities for supply chain companies with vision to adapt, develop and grow in this new environment.

We expect continued growth in freight volumes in 2021 as production of goods continues to improve. High demand and low capacity is likely to drive increased costs, while regulatory issues and the challenges surrounding UK/EU and US/China trade lanes will remain. E-commerce and last mile consumer delivery expectations will continue to impact freight costs, availability and drive demand for logistics facilities. Service levels will be more and more important, with expertise, local knowledge, global reach and a personal approach being paramount.

Responding to the pandemic

At Woodland Group we've seen a number of challenges impact the supply chain industry worldwide as a result of the pandemic.

With FCL shipping having proved a concern to businesses due to the economic climate over the last 10 months, we've seen increased demand for bespoke LCL solutions and have put in place an Express LCL solution.

We've also seen a huge impact on airfreight, putting increased pressure on rates, and on freighter capacity between Europe and the US, and outbound from China. As a result, we've rerouted some airfreight to alternative airports or offered air/sea (and rail) combination options further afield.

With warehousing facilities at or near full utilisation levels due to lack of movement of freight, we've provided services such as "Delay In Transit" solutions for goods at or near the point of manufacture, as well as providing overflow storage arrangements.

This is on top of the challenges of shortages of drivers and essential workers due to COVID-19, especially in the US; changes to import tariffs; container shortages and congestion at ports across the world; the need to adjust to the vast array of new guidelines and regulations globally, particularly around importing PPE; and new trade agreements and models currently being implemented and/or prepared for.

Staff welfare

At Woodland Group, we have also had to quickly adapt our IT systems to remote working, while keeping customer data protected, and implementing new 'Covid-19 secure' working policies and procedures to keep our teams safe.

We've focused on developing alternative internal communication tools and platforms to counteract the lack of interaction of teams due to remote working. We now host regular company-wide video conferences to bring all staff together globally, which is a key learning for the future in terms of interaction and motivation across the business.

We've also increased the number of in-house training courses to better prepare staff to cope with the challenges of the current climate, including on mental health awareness, and we're working hard to put support structures in place to aid our staff and their families through these challenges.

Future opportunities

Digitisation is continuing to transform the supply chain industry, which has traditionally been built on personal interaction and relationships. Woodland Group have been investing in a number of digital solutions over the years to provide agile, trackable and carbon conscious solutions to our clients.

From reducing inefficiencies and the industry's undeniable environmental impact to highlighting supply chain deficiencies and opportunities, delivering a better customer experience, communication flow and increased transparency of the entire supply chain, our digital development and focus on data analysis are key. They enable us to better forecast and protect our customers' supply chains and support our expert teams in meeting our clients' needs.

Dealing with Brexit

We put a lot of work into preparing for and quickly adapting to political and economic shifts that impact the movement of goods, whether nationally or internationally. This has included implementing steps to prepare and guide our clients through the new regulations that need to be considered around the UK transition.

Our dedicated customs specialists are part of BIFA's Customs Policy Group and Customs Practitioners Group and have been guiding our business in providing support solutions to our clients.

We've created dedicated Brexit newsreels communicating the information received from BIFA, the government and our contacts in Brussels, including simplified literature to help customers become Brexit ready. Through our IT solutions we're able to load-bear all our clearance needs across the company within the UK on a 24/7 basis.

We continue to provide training for all staff on changes from 1 January 2021 onwards and on how to best support our clients, and have key partners across Europe that can aid us and our clients with any problems that may arise whilst in transit from 1 January 2021 onwards.

We're working with all of our hauliers to make sure they're up to speed with the new regulations and processes for travelling across the UK/EU border and to make sure all drivers carrying our goods have the correct paperwork.

Wider challenges

Our industry needs to be more innovative in addressing the driver shortage. We need to consider training talent from within our existing warehouse teams – after all, today's FLT operator could be tomorrow's LGV or HGV driver. We also need to improve the sector's image, working hours and the quality of driver facilities.

The industry undeniably has a significant impact on the environment and is one of the leading industries shaping the use of technology and digital advancement. Providing solutions to reduce environmental impact has been a key focus for us and will continue to grow in importance in the future.

It's fantastic to see the development of greener and more carbon conscious solutions across ports, some carriers and fellow freight forwarders. The key to this is a collective, industry-wide approach and agreement on some of the key issues affecting our environmental impact and we're already working with a number of our partners on this.

Meanwhile, globalisation will continue to drive consolidation. Demand for fully integrated service providers and global coverage, and increasing competition, will continue to push organisations towards consolidation.

John Stubbings
Chairman of Woodland Group
www.woodlandgroup.com

> We put a lot of work into preparing for and quickly adapting to political and economic shifts that impact the movement of goods, whether nationally or internationally.

Industry insight: Opportunities opening up for agile operators

Claire Webb, Managing Director of global logistics solutions provider Advanced Supply Chain Group (ASCG), discusses how agility is key to thriving in today's demanding environment.

It's fair to say that supply chain management has changed forever thanks to Covid-19 and its effect on logistics operators and their customers.

Ensuring the wellbeing of employees and establishing Covid-safe work practices has been a priority of course, but so has overcoming operational challenges to deliver business continuity for customers.

The arrival of the pandemic and an unrelenting shift towards online purchasing has been challenging but also created opportunities, particularly in e-commerce and multi-channel markets.

Understandably, retailers are looking to build resilience, flexibility and intelligence into their supply chains. This creates openings for agile logistics operators with a focus on technology that can give customers real-time visibility and insights into how their supply chain is working, and enable them to scale up or down in line with demand.

Understanding changing customer – and consumer – needs and being nimble enough to respond are absolutely key to thriving in this hostile environment. Operators who are heavily automated, with cumbersome legacy infrastructure, will struggle to evolve against such a fast-moving backdrop.

Software solutions

As a company, we offer a comprehensive range of specialist supply chain services, at both origin and destination through a global network of wholly owned sites in the UK, Europe and Asia, and through established partnerships in other geographies.

For more than a decade we've been investing in designing and developing our own bespoke, technology-led logistics solutions that proved invaluable when Covid-19 hit. Our Vector modular warehouse management software system connects all our UK sites and a number overseas to offer seamless links with our customers' own systems, giving them a 'control tower view' of stock and end visibility of orders.

Given the Covid-accelerated changes to shopping behaviours, investing in intelligent technology like this potentially offers great opportunities for operators and their customers.

Understanding customer needs

Of course, with the pandemic, operators have needed to take steps to understand the challenges their customers face, not least the heavy increases in freight forwarding charges. That's why we recently carried out a survey of 200 senior retail professionals for a white paper looking at the key drivers of change for the sector.

It revealed the pandemic caused stock management issues for 92% of retailers and has undermined confidence in Just In Time (JIT) because it doesn't provide enough agility to cope with increasing unpredictability.

Disruption meant two thirds of retailers received stock late and a similar number experienced shortages of goods. Retailers identified balancing stock flow and stockpiling as the biggest supply chain challenge as a result of the pandemic, with 57% investing in stock availability solutions, and a substantial proportion recognising that real time visibility plays a vital part in enhancing supply chain resilience.

Take managing returns, for example; we know consumers want returns to be as effortless and painless as possible, which means reverse logistics is now a pivotal part of the supply chain and an investment that will pay off.

Logistics operators therefore need to be looking to utilise user-friendly technologies – such as paperless returns – that provide intelligent return solutions with good visibility of what's coming in to help customers maximise their availability of stock, keep write-offs low and get products back into available stock as margins come under pressure.

It’s worth noting there’s a growing level of talent emerging from troubled sectors like hospitality and leisure and looking to retrain. So, with a strong development and training plan it should be possible to bridge any gaps.

Technology and talent

Investment in new tech across the sector has tended to focus on increased automation, which makes sense for ‘big box’ single-use sites, but operators of multi-user sites actually need people, rather than rigid automation, to enable them to provide retailers and suppliers with more flexible services and scale up or down with demand.

We believe the way to achieve greater agility is to use intelligent, user-friendly technology that enables people to become competent more quickly, do their jobs faster and more efficiently – rather than replace them.

And while it seems the sector is facing talent shortages, particularly in warehouses, this hasn’t been our experience and it’s worth noting there’s a growing level of talent emerging from troubled sectors like hospitality and leisure and looking to retrain. So, with a strong development and training plan it should be possible to bridge any gaps.

The near future

As we near the end of the Brexit transition period, it’s difficult to ascertain what impact the final outcome will have on the sector.

However, we’ll be making transition through customs as simple as possible for our customers, enabling them to ‘fast-track’ through the system. This will be achieved with the Authorised Economic Operator (AEO) status we already have, by introducing Customs Freight Simplified Procedures (CSFP) and designating warehouses with External Temporary Storage Facility (ETSF) status to effectively act as a port for customs purposes. We have also established operations in the Czech Republic and Middle East to offer customers alternate supply lines.

Irrespective of Brexit, it seems further consolidation in the industry is inevitable. Businesses will need to keep ahead of the curve and acquire the expertise they don’t have in-house to enhance their flexibility, cover more sectors and channels, and position themselves for growth.

This could well be through acquisition, as there will be distressed businesses up for sale, but also just as likely through partnerships and collaboration.

Over the coming year logistics is going to be a very interesting and demanding sector that will undoubtedly see operators investing in a range of different solutions to give their customers a competitive advantage as we all adapt to the evolving landscape.

Claire Webb
Managing Director of global logistics solutions provider Advanced Supply Chain Group (ASCG)

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Key takeaways

- Our Confidence Index has fallen from 49.7 in 2019 to 47.1 this year, its lowest-ever level and the second year running it has dipped below 50.
- Two-thirds (67.1%) of respondents say current business conditions have become tougher in the past 12 months.
- While half of respondents (50.6%) think business conditions will get more difficult in the year ahead, and fewer than half (48.9%) think profits will be up, many still see opportunities to grow revenues by focusing on the changing supply chain, the growth of e-commerce and delivering value-added services.
- Three-fifths (60.2%) of those surveyed say Covid-19 had a negative effect on their business in 2020 – a dramatic and distorting factor as businesses enter a period of adjustment and adapt to new service lines and end markets.
- There is a high degree of polarisation in the views of operators, with 35.5% saying the pandemic has had a positive impact on their company's performance, despite the economic disruption.
- In addition to the pandemic, operators think the biggest challenges over the next 12 months will be driver shortages, Brexit and cost control.
- The long-standing shortage of drivers is being compounded by a lack of warehouse staff but employers also report that their wellness programmes are having positive effects on overall staff productivity, retention and absenteeism.
- System upgrades remain the main technology focus, but the sector has a growing appetite for investing in automation and other enabling technologies.
- More than 7 out of 10 businesses (72.2%) say they will be investing in sustainable, environmental or 'green' projects in the next 12 months.
- Predicted M&A activity over the next 12 months is at a level only just below the all-time high for the index in 2017.

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.

The total combined revenue of the companies included in our survey this year is £16.4bn, according to the latest company accounts available.

We would like to thank our 100-plus survey respondents for their greatly valued insight and loyalty. Half of them have now participated in 10 or more of our 13 reports, providing us with valuable consistency of participation.

About the authors

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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.

He has more than 20 years' experience leading corporate finance transactions and a successful track record in completing numerous mid-market deals, including MBOs, sale mandates, acquisitions, private equity, debt fund raising, and strategic advice across a wide range of end markets.

Jason has worked with a broad client base, both UK-based and global, across a wide range of sector businesses, including road haulage, warehousing, fulfilment, palletised freight, freight forwarding, courier transport, and logistics technology and automation.

Jason produces regular updates and reports for the sector, providing analysis of the key trends that are driving value in the market.

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He provides clients with access to the bank's full suite of products and solutions, including but not limited to cash management, debt financing, foreign exchange and investment banking.

Ian has been with Barclays since 2002, joining originally as a Local Relationship manager in East London.

In his 18-plus years with the bank his career has included roles in Large Corporate Banking covering power utilities and infrastructure, leveraged finance, asset-based lending and offshore banking in London and New York.

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